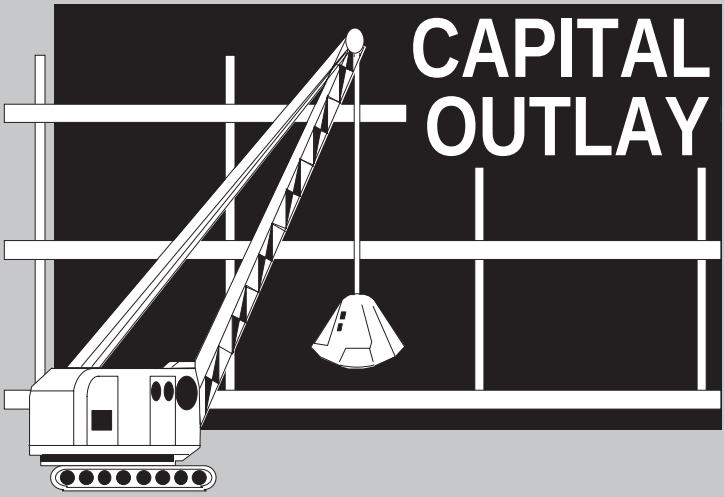

CAPITAL OUTLAY

LAO

60 YEARS OF SERVICE

2004-05 Analysis

MAJOR ISSUES

Capital Outlay

☑ **Utilization of Higher Education Facilities**

- As in previous years, we recommend the Legislature provide funding for higher education capital outlay based on utilization of existing instructional facilities year-round in accordance with state utilization standards, and based on our recommended construction cost guidelines (please see page G-60 and 62).

☑ **UC Research Facilities**

- The University of California (UC) receives billions of dollars a year from faculty research contracts and grants (primarily with the federal government and private companies and organizations). Included in this revenue is hundreds of millions of dollars that the university charges for the use of facilities for this research. Because UC has the ability to recover these costs, we recommend the construction of new faculty research facilities be funded from this nonstate revenue (please see page G-64).

☑ **Community Colleges**

- Enrollment projections used to justify needed facilities for specific community college campuses in many cases appear to overstate likely student demand. We recommend the Legislature direct the chancellor's office to examine the methods it uses to prepare these projections and report back to the Legislature about any improvements that it might adopt to make these projections more realistic (please see page G-86).

☑ **Retention of Project Management Authority**

- The Department of Parks and Recreation's (DPR's) authority to oversee the development and completion of its capital outlay projects will sunset on January 1, 2005. The DPR wants to retain this authority in order to complete the capital outlay projects it currently has in progress, as well as future projects that it will undertake with remaining general obligation bond funds.

- We evaluated the various project management tools and processes used by DPR in order to assess its ability to properly manage its capital outlay projects. We also compared DPR's program to the Department of General Service's project management program. Based on our review, we recommend the Legislature extend DPR's project management authority over its capital outlay projects from January 1, 2005 to January 1, 2008 (please see page G-41).

☑ **Surplus Property Program**

- The *2004-05 Governor's Budget* indicates a closure commission will be formed to examine potential youth and adult correctional facility closures. Given the current budget situation, there has already been interest expressed in the possible sale of surplus property following such facility closures.

- We describe the state's process of identifying and disposing of unneeded state land, and acknowledge some of the limitations in the revenue generating ability of the surplus property program (please see page G-20).

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OVERVIEW

Capital Outlay

Funding for capital outlay in the budget year totals almost $1.6 billion. This spending is funded almost exclusively (95 percent) from bond proceeds. Over 85 percent of the proposed spending is for higher education facilities.

The *2004-05 Governor's Budget* proposes approximately $1.6 billion for capital outlay programs (excluding highway and rail programs, which are discussed in the "Transportation" chapter of this *Analysis*). This is spending on physical assets—such as college buildings, state parks, prisons, and office space. The Governor's plan would authorize General Fund expenditures of around $33 million and spending of nearly $1.5 billion from general obligation and lease-revenue bonds. Figure 1 summarizes the proposed 2004-05 capital outlay program. The proposed plan represents a decrease of over $600 million (29 percent) from current-year spending.

Figure 1

State Capital Outlay Program
By Major Program Area

2003-04 and 2004-05
(In Millions)

	Estimated 2003-04	Proposed 2004-05	Difference
Legislative, Judicial, and Executive	$0.4	—	-$0.4
State and Consumer Services	219.3	$4.7	-214.6
Business, Transportation, and Housing	22.9	9.2	-13.6
Resources	433.7	65.5	-368.2
Health and Human Services	123.9	0.6	-123.3
Youth and Adult Corrections	288.6	21.6	-267.0
Education	5.6	69.9	64.3
Higher Education	1,055.4	1,375.8	320.4
General Government	45.2	32.9	-12.3
Totals	**$2,194.9**	**$1,580.3**	**-$614.7**

The Governor's budget indicates that the administration is currently evaluating various alternatives to reorganize and streamline existing conservation efforts in the natural resources area. Consequently, the Governor's budget has deferred the appropriation of some general obligation bond funds in the natural resources area until spring. (We discuss issues related to the resources bond in the "Crosscutting Issues" section of the "Resources" chapter of this *Analysis*.)

Funding Sources for Capital Spending

The Governor's budget proposes funding the capital outlay program primarily from general obligation and lease-revenue bonds. Other fund sources include the General Fund, special funds, and federal funds. Figure 2 compares the sources of funds for the 2003-04 capital outlay program to those proposed for 2004-05. The budget proposes increasing the amount for direct appropriations from the General Fund by nearly $9 million and decreasing the amount from special funds by around $59 million. With regard to bond appropriations, the budget includes $1.3 billion from general obligation bonds and $143 million from lease-revenue bonds.

Figure 2

Sources of Funds for Capital Outlay Program

(In Millions)

	Governor's Budget	
Funds	**2003-04**	**2004-05**
General Fund	$23.7	$32.6
General obligation bonds	1,340.2	1,356.8
Lease-revenue bonds	712.4	142.9
Special funds	93.6	34.5
Federal funds	25.1	13.3
Totals	**$2,194.9**	**$1,580.3**

Spending by Department

Figure 3 shows the amounts included in the Governor's budget for each department and the future cost for these projects. As shown in the figure, approximately $1.3 billion will need to be appropriated in the future to complete these proposed projects. Thus, the request before the Legislature represents a total cost of roughly $2.9 billion. Of that total, over three quarters is for higher education—with almost all from general obligation bonds.

Figure 4 (see page 10) displays the proposed spending for each department, by funding source.

Figure 3

2004-05 Capital Outlay Program Budget Year and Future Costs

All Funds (In Thousands)

Department	Proposed 2004-05	Future Cost	Total
State and Consumer Services			
General Services (seismic)	$4,653	—	$4,653
Business, Transportation, and Housing			
Transportation	$100	—	$100
Highway Patrol	250		250
Motor Vehicles	8,863	$30,800	39,663
Resources			
Tahoe Conservancy	$1,192	—	$1,192
Conservation Corps	29	$583	612
Forestry and Fire Protection	9,256	—	9,256
Fish and Game	1,133	—	1133
Wildlife Conservation Board	21,500	—	21,500
Boating and Waterways	2,288	—	2,288
Coastal Conservancy	7,200	—	7,200
Parks and Recreation	22,676	1,599	24,275
Water Resources	270	—	270
Health and Human Services			
Health Services	$200	—	$200
Mental Health	429	$4,832	5,261
Youth and Adult Corrections			
Corrections	$18,840	$412,950	$431,790
Youth Authority	2,750	—	2,750
Education			
Department of Education	$69,948	—	$69,948
Higher Education			
University of California	$394,436	$409,027	$803,463
Hastings College	18,758	—	18,758
California State University	345,000	263,611	608,611
Community Colleges	617,592	202,289	819,881
General Government			
Food and Agriculture	$19,653	—	$19,653
Military	12,251	—	12,251
Unallocated Capital Outlay	1,000	—	1,000
Totals	**$1,580,267**	**$1,325,691**	**$2,905,958**

Figure 4

2004-05 Capital Outlay Program Funding Sources by Department

(In Thousands)

Department	GO Bonds	LR Bonds	General	Special	Federal	Total
State and Consumer Services						
General Services—seismic	$4,653	—	—	—	—	$4,653
Business, Transportation, and Housing						
Transportation	—	—	—	$100	—	$100
Highway Patrol	—	—	—	250	—	250
Motor Vehicles	—	—	—	8,863	—	8,863
Resources						
Tahoe Conservancy	—	—	—	$1,192	—	$1,192
Conservation Corps	—	—	$29	—	—	29
Forestry and Fire Protection	—	$5,150	4,106	—	—	9,256
Fish and Game	$203	—	—	930	—	1,133
Wildlife Conservation Board	21,000	—	—	500	—	21,500
Boating and Waterways	—	—	—	2,288	—	2,288
Coastal Conservancy	1,348	—	—	3,852	$2,000	7,200
Parks and Recreation	8,836	—	—	9,740	4,100	22,676
Water Resources	—	—	270		—	270
Health and Human Services						
Health Services	—	—	$200	—	—	$200
Mental Health	—	—	429	—	—	429
Youth and Adult Corrections						
Corrections	—	—	$18,840	—	—	$18,840
Youth Authority	—	—	2,750	—	—	2,750
Education						
Department of Education	—	$69,948	—	—	—	$69,948
Higher Education						
University of California	$339,436	$55,000	—	—	—	$394,436
Hastings College	18,758	—	—	—	—	18,758
California State University	345,000	—	—	—	—	345,000
Community Colleges	617,592	—	—	—	—	617,592
General Government						
Food and Agriculture	—	$12,824	—	$6,829		$19,653
Military	—	—	$5,004	—	$7,247	12,251
Unallocated CO	—	—	1,000	—	—	1,000
Totals	**$1,356,826**	**$142,922**	**$32,628**	**$34,544**	**$13,347**	**$1,580,267**

BOND FUNDING AND DEBT-SERVICE PAYMENTS

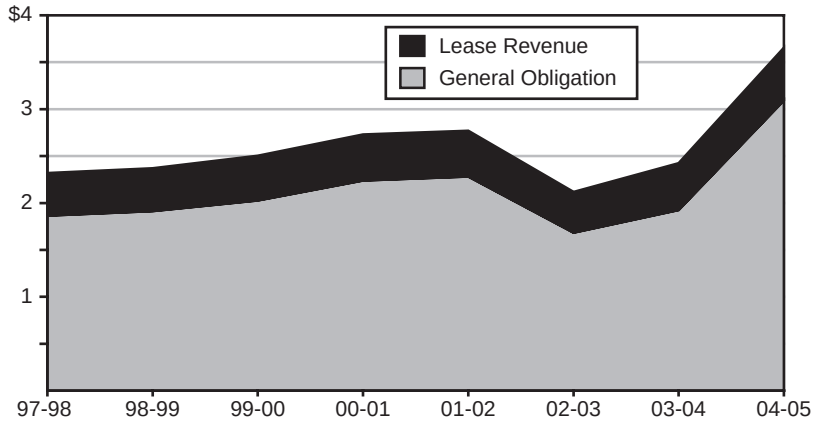
Debt Costs to Increase for Traditional Capital Outlays

As shown in Figure 5, the state's General Fund debt-service expenditures for bonds that support traditional capital outlay projects are projected to total $3.6 billion in 2004-05. This is up about $1.2 billion from the current-year level. Most of the increase is related not to more outstanding bonds, but to the deferral of roughly $900 million in annual debt-service principal payments in both 2002-03 and 2003-04 to help deal with the state's budget shortfall. The budget-year debt-service total consists of $3.1 billion related to general obligation bonds, and about $520 million related to lease-revenue bonds.

Figure 5

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

1997-98 Through 2004-05
(In Billions)



[a]Amounts for 2004-05 based on *2004-05 Governor's Budget* proposal.

Budget-Related Borrowing to Impose Additional Costs

The Governor's 2004-05 spending plan contains an additional $1.25 billion in debt-service costs related to the $15 billion economic recovery bond authorized by Proposition 57, under the assumption that it will be approved by the voters in March 2004. This annual debt-service amount increases moderately in subsequent years. In 2005-06, the state

would also incur $56 million in debt-service costs related to the budget's proposed pension obligation bond sale.

Debt-Service Ratio to Rise

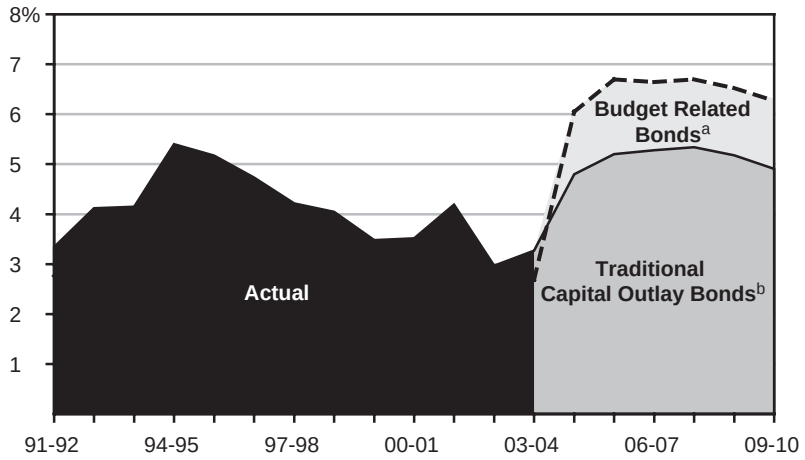
In evaluating a state's capacity for bonded indebtedness and the impact of debt-service costs on its budget, one of the many factors that bond raters and potential investors look at is the state's debt-service ratio (DSR). This ratio is defined as the share of annual General Fund revenues that are devoted to principal and interest payments on General Fund-backed debt. There is no agreed-upon single ratio that fits all states, and the appropriate ratio for an individual state can vary depending on such factors as its need and preference for new infrastructure. As a general rule, however, a ratio in the general range of 6 percent or less has been recognized as a reasonable level for states.

As shown in Figure 6, California's DSR peaked in the mid-1990s at about 5.4 percent. It then declined through the second half of the decade. The ratio fell to about 3 percent in 2002-03 reflecting the deferral of debt payments discussed above.

Figure 6

California's Projected Debt-Service Ratio[a]

1991-92 Through 2009-10



[a]Assumes passage of economic recovery bond (Proposition 57) on the March 2004 ballot and sale of proposed pension obligation bond.
[b]Assumes passage of educational bond act (Proposition 55) on the March 2004 ballot.

Assuming approval of the education bonds on the March 2004 ballot, we estimate that the DSR would increase to about 5.3 percent in 2006-07 as authorized bonds are sold off, and then start to decline. If the annual General Fund costs associated with the economic recovery bond (Proposition 57, also on the March 2004 ballot) and the proposed pension obligation bond are included, the ratio would increase to about 7 percent in 2005-06 and remain at that level for the subsequent two years before starting to drift downward.

Bottom-Line Implications

If debt service related to budgetary borrowing is included, the state's DSR will rise significantly above its historical levels in the next year. The ratio will also be above the 6 percent general guideline noted above. Although we believe California would still have access to the credit markets, this could make it somewhat more costly for the state to undertake additional borrowing for traditional infrastructure needs in the near future. Regardless of the DSR's level, it is important to emphasize that the principal concern of the investment community and bond rating agencies at this time is not California's debt ratio per se. Rather, the state's continued budget difficulties are the primary factors cited in recent rating downgrades. Thus, the main concern amongst investors is the underlying need for California's budgetary borrowing in the first place—namely, its persistent budget deficit. California's progress toward eliminating its projected budget shortfall will be the main factor affecting the state's bond ratings and ability to market additional debt at reasonable costs in the future.

CROSSCUTTING ISSUES

Capital Outlay

CALIFORNIA INFRASTRUCTURE PLAN

Existing law requires the Governor to annually submit to the Legislature a five-year infrastructure plan in January of each year in conjunction with submission of the Governor's budget. The second infrastructure plan was submitted in April 2003—after publication of our *Analysis of the 2003-04 Budget Bill*. The administration has indicated that the 2004 infrastructure plan will be deferred one year, allowing it "the opportunity to comprehensively review final budgetary decisions and propose a meaningful plan to reflect those decisions."

The information contained in the infrastructure plan is important to the Legislature in making budget-year funding decisions. The plan provides the context for how particular projects fit into a larger scheme for addressing a department's capital needs. For this reason, we are providing in this *Analysis* information from *2003 California's Five Year Infrastructure Plan* for several departments. We recognize that the 2003 infrastructure plan was prepared by an earlier administration; however, we believe the information in the 2003 infrastructure plan—particularly with regard to needs identified by departments—is similar to that which would have been contained in a 2004 plan. This is because identified facility needs do not change significantly from year-to-year and are therefore relatively independent of policy positions of different administrations.

In the remainder of this piece, we review the 2003 plan from a statewide perspective. In many of the individual departmental write-ups which follow, we identify the funding for projects the departments indicate are "needed." Some of these projects, however, may not warrant fund-

ing—in the judgment of either the administration or the Legislature—because they may be inconsistent with its priorities or lack sufficient justification. We also identify significant projects which the Legislature may be asked to fund in the near future.

Background on State Infrastructure

Infrastructure funding is an increasingly important issue. The state has hundreds of billions of dollars invested in infrastructure such as highways, parks, water resources, college buildings, prisons, and state offices. In addition to funding capital development to support various departmental missions, the state has also historically provided funds for local infrastructure in the areas of K-12 school construction, community college construction, local streets and roads, local parks, wastewater treatment, flood control, and jails.

During the 20th century, the state built roads, water projects, schools, prisons, and other facilities to accommodate population growth—without much need to maintain and renovate an aging infrastructure stock. This has changed. Much of the state's infrastructure now must be renovated, adapted, and improved to meet current and future needs. However, the need to build new infrastructure to accommodate population growth will continue unabated. This dual challenge—to develop new infrastructure while extending the life of existing facilities—requires that the state address capital investment in a comprehensive way.

The 2003 California Infrastructure Plan

Most infrastructure planning information is developed by state agencies. In the past, however, this information was not consolidated into a statewide plan. As a result, the Legislature did not have a coordinated picture of the state's capital investment needs. Chapter 606, Statutes of 1999 (AB 1473, Hertzberg), requires a comprehensive long-term plan for California's infrastructure development programs. Specifically, the act directed the Governor, beginning in January 2002, to annually submit a five-year infrastructure plan for state agencies, K-12 schools, and higher education institutions, and a proposal for its funding. The information contained in the 2003 plan follows the format and content from the first plan. The individual departments generated five-year capital development plans based on their needs. The Department of Finance (DOF) reviews the infrastructure plans proposed by departments and makes recommendations to the Governor's office concerning the justification for proposed projects. Those considered justified are approved in concept for funding.

The 2003 Plan Overview

State departments identified $66.5 billion of capital outlay projects to the DOF to consider for funding in the five-year period 2003-04 through 2007-08. Of these, $55.2 billion (about 81 percent) were included in the 2003 plan (see Figure 1). The $11.5 billion of projects that were not included in the plan were deleted for various reasons: they were not justified, they were deferred for consideration to later years, or they were deleted for policy reasons. In some cases, projects were deferred for consideration in later years on the basis that funding for these projects was considered unlikely to be available in the five-year period covered by the plan.

Figure 1 shows how the $55 billion of identified expenditures was distributed among major program areas of the state budget. As the figure indicates, proposed spending is concentrated in the areas of transportation and K-12 education. These two areas account for about 70 percent of total spending. Proposed funding of these expenditures relies heavily on bonds (primarily for education), and on federal and special funds (almost exclusively for transportation).

Figure 1

2003 Infrastructure Plan
Proposed Spending

2003-04 Through 2007-08
(In Billions)

Program Area	Bond Funds	Special Funds	Federal Funds	General Fund	Other	Totals
Transportation	$0.2	$14.2	$14.1	—	—	$28.5
K-12 schools	10.4	—	—	—	—	10.4
Higher education	5.4	—	—	—	—	5.4
Water supply and quality	0.1	—	—	$0.2	$2.9	3.2
Resources[a]	1.3	0.2	—	0.2	0.1	1.8
Public safety	0.6	0.2	—	0.3	—	1.1
Other	1.8	0.3	0.1	1.4	0.2	3.8
Totals[b]	**$20.8**	**$14.9**	**$14.2**	**$2.1**	**$3.2**	**$55.2**

a Includes projects in both the Resources and Environmental Protection Agencies.

b Detail may not add to total due to rounding.

Project Categories

In the infrastructure plan the administration has categorized projects as to their general nature. For *existing* facilities and infrastructure, these categories are:

- ***Critical Infrastructure Deficiencies.*** Condition of existing facilities impairs program delivery or results in an unsafe environment. (Such projects would correct conditions that significantly limit the efficiency and effectiveness of program delivery or are hazardous to employees and the public.)
- ***Facility/Infrastructure Modernization.*** Facility is structurally sound but modernization will result in an upgrade that will enable or enhance program delivery.
- ***Workload Space Deficiencies.*** Additional space required to serve existing programs because of increased workload.
- ***Enrollment/Caseload/Population (E/C/P).*** Changes to E/C/P estimates resulting in a reduction or increase in the amount of space needed or a change in the use of existing space.
- ***Environmental Restoration.*** Land restoration or modification for environmental purposes.
- ***Program Delivery Changes.*** Modifications to existing facilities required by authorized changes to existing programs or newly required programs.

For *new* infrastructure, the categories are:

- ***Workload Space Deficiencies.*** Additional space required to serve existing programs because of increased workload (not E/C/P based).
- ***Environmental Acquisitions and Restoration.*** Land acquisitions and restoration of newly acquired land for the improvement or protection of wildlife habitat.
- ***Public Access and Recreation.*** Acquisitions or projects which facilitate, or allow public access to state resources and land such as coastal and park acquisitions, as well as development of access to beaches for recreation or open space preservation.
- ***Enrollment/Caseload/Population (E/C/P).*** Caseload driven facility requirements which result in a reduction or increase in the amount of space required for program delivery.

- ***Program Delivery Changes.*** Modifications to existing facilities required by authorized changes to existing programs or newly required programs.

We have found this categorization by the administration to be helpful in understanding its priorities.

SURPLUS PROPERTY

The Department of the Youth Authority has closed, or is planning to close, several correctional facilities due to its declining ward population. In addition, the *2004-05 Governor's Budget* indicates a closure commission will be formed to examine potential additional youth and adult correctional facility closures. Given the current budget situation, there has already been interest expressed in the possible sale of surplus property following such facility closures.

In this piece, we describe the state's process of identifying and disposing of unneeded state land, and acknowledge some of the limitations in the revenue generating ability of the surplus property program.

State Surplus Property Program

The surplus property program authorizes the Department of General Services (DGS) to dispose of land that the state no longer needs. Within DGS, the Real Estate Services Division (RESD) is responsible for the surplus property program and two branches within RESD are involved in the disposition of surplus state property.

- The Professional Services Branch is responsible for the sale of surplus property, the development of the annual report on surplus property, and the preparation of the annual surplus property legislation.
- The Asset Planning and Enhancement Branch is responsible for maximizing the value of the state's real estate assets by identifying and implementing value enhancements (such as zoning changes and development permits) for state-owned surplus properties.

Inventory of State-Owned Property. The Government Code requires that every state agency, by July 1 of each year, provide DGS with a record

of each parcel of real property in its possession, and it further requires DGS to maintain a complete and accurate statewide inventory of all real property held by the state. State agencies are required to report the following information to DGS:

- The location and size of the property, including its acreage, and any other relevant property data deemed necessary by DGS.
- The date of the acquisition of the property and its purchase price, if available, and the manner in which the property was acquired.
- A description of the current uses of the property and any projected future uses during the next three years.
- A description of each major structure located on the property.
- The estimated value of any real property declared surplus by the state agency and property where the agency has not identified a current or potential use.

Surplus State Property. In order to determine which properties are no longer needed, the Government Code requires that on or before December 31 of each year, each state agency will: (1) review all proprietary lands under its jurisdiction to determine what, if any, is in excess of its foreseeable needs and (2) report these properties to DGS. Upon request by DGS, the jurisdiction of any land reported as surplus is then transferred to DGS for sale or disposition. Agency identified surplus land is to include the following:

- Land not currently being utilized, or currently being underutilized by the agency for any existing or ongoing program.
- Land for which the state agency has not identified any specific utilization relative to future programmatic needs.
- Land not identified by the state agency within its master plans for facility development.

Do All State Agencies Have to Report Surplus Property to DGS? Only the Department of Transportation (highway property), the State Lands Commission, and the State Coastal Conservancy are statutorily exempt from having to identify surplus property. (In the case of highway property, however, the Department of Transportation has its own program to identify and dispose of surplus property.) All other state agencies are required to comply with Government Code requirements to annually identify and report surplus property.

However, while statutorily required to comply, some agencies do not generally participate in the surplus property inventory, because the properties acquired by these agencies are unlikely to ever be declared as sur-

plus. We understand that the following agencies are not regular participants in the surplus property program:

- Department of Housing and Community Development.
- Department of Fish and Game.
- Department of Parks and Recreation.
- Santa Monica Mountains Conservancy.
- California Tahoe Conservancy.
- San Joaquin River Conservancy.
- Coachella Valley Mountains Conservancy.
- San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy.
- Baldwin Hills Conservancy.
- San Diego River Conservancy.

In the case of the various conservancies, the Department of Parks and Recreation, and the Department of Fish and Game, these agencies have historically acquired property for the purposes of providing recreational opportunities, preserving historical sites and landmarks, and for the preservation of open space, wildlife habitat, and ecological preserves. Such properties are generally intended to remain in state ownership in perpetuity.

In the case of the Department of Housing and Community Development (HCD), it owns a number of residences statewide that consist of affordable housing units that have been taken back by the state through loan defaults. Instead of declaring these properties surplus, HCD sells the properties in order to place them back in private ownership as soon as possible.

Annual Surplus Property Report. The Government Code requires DGS to prepare a report, by January 1 of each year, of all properties declared surplus or which have no identified current or projected use. The DGS is further required to report these properties to the Legislature and request authorization to dispose of these lands by sale or other means.

In response, DGS prepares an annual report on surplus property. This report provides information on (1) surplus property sold in the past year, (2) disposition authority for specified properties rescinded by the Legislature, (3) surplus lands pending disposition, and (4) newly identified surplus lands.

Annual Surplus Property Legislation. Based on properties identified in the surplus property report, DGS annually prepares proposed legislation to obtain approval to dispose of specified surplus state properties. Often, this legislation also seeks to rescind previous authority to dispose of specific properties because the state has identified a new use, or need, for that property.

Disposing of Surplus Property

Before requesting legislative authority to sell surplus state property, DGS must go through a series of steps involving alternative ways of disposing the property. It must first determine whether the Tahoe Conservancy or Coastal Conservancy want any of the identified surplus properties to use in trade for desirable privately held property that would advance the programmatic efforts of either conservancy. If so, the property is transferred to them.

If neither conservancy needs any of the identified surplus properties, then DGS must determine if any of the properties are needed by another state agency. If DGS determines that any property is needed by any other state agency, it can transfer the jurisdiction of that property to the other state agency upon terms and conditions that DGS deems to be in the best interests of the state.

If the surplus property is not needed by any state agency, including the two conservancies, DGS can seek legislative authorization to sell or dispose of excess land upon terms and conditions that DGS deems to be in the best interests of the state. Furthermore, once the land is declared surplus and authorized for sale by the Legislature, DGS must first offer the property to local governments at fair market value. To the extent that no local government wishes to purchase the property, then DGS may sell the property to private buyers.

Is Surplus Property Always Sold at Fair Market Value? Generally, the state always attempts to receive fair market value for property it is selling. However, the Government Code provides that surplus property can be sold to local government for less than fair market value for the following purposes:

- Parks and recreational space.
- Open space.
- Low- and moderate-income housing.
- Schools.

State law requires that the contract for any surplus land sold for less than fair market value must provide for the reversion of the land back to the state if the intended purpose for which the property was sold is not achieved. In addition to the purposes cited above, the Legislature can direct DGS to sell specified properties for less than fair market value in the annual surplus property legislation.

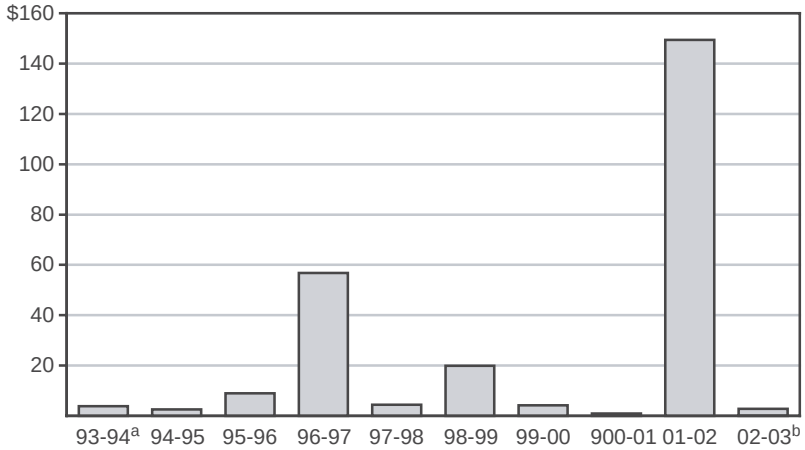
What Happens to the Proceeds of a Sale? Unless the surplus property legislation specifies otherwise, the net proceeds received from disposition of surplus property are paid to the General Fund. "Net proceeds" are gross proceeds less all costs directly related to the completion of the transaction including, but not limited to, selling costs, transfer fees, and commissions. It should be noted that selling costs include any costs incurred by DGS that are related to the property sale, including costs incurred to increase the value of the property being sold.

Revenue From Surplus Property Sales. Over the past ten years, the state has received a total of approximately $254 million from the sale of surplus state property. However, as can be seen in Figure 1, most of the proceeds occurred in just two years: (1) in 1996-97 when the state received $53 million for the Agnews Developmental Center East property and (2) in 2001-02 when the Agnews West property was sold for $149 million.

Figure 1

Revenue From State Surplus Property Sales

(In Millions)



[a]Average of 1993 and 1994 calendar year totals, as reported by DGS. Prior to 1994-95, surplus property sales were reported on a calendar year basis.
[b]Preliminary estimate by DGS.

We would note that the Governor's budget anticipates two large property sales in 2003-04: (1) prison property at Chino (discussed further below) and (2) property on the University of California (UC) Riverside campus valued at $55 million (see the UC write-up later in this chapter).

Efforts to Maximize the Value of Surplus Property

Public agencies traditionally sell property in an "as-is" condition. However, the fair market value of as-is property is usually discounted because the property buyer is taking the risk of securing needed land use approvals. These properties often increase in value once a local jurisdiction changes the approved land uses from public to private use. Consequently, the buyer of the property ultimately enjoys a "windfall" because of the discounted price that was initially paid for the property.

The Asset Planning and Enhancement Branch (APE) within DGS is tasked with maximizing the value of surplus property prior to sale, so that the state shares in the windfall by not selling property at a discounted as-is price. The APE performs an initial assessment of surplus properties to determine which ones have the most potential value. (Many state properties are still sold as-is because the cost to enhance their value would exceed the potential sale price, or it is doubtful their value can be increased.) The initial review by APE identifies the market, planning, economic, entitlement, and legal work that will be needed to enhance the value of the property.

If the APE assessment determines that a property has sufficient value potential, it will begin the necessary work to maximize the sale price for the state. Examples of this work include assessing the necessary remediation work needed for a property, working to get local jurisdictions to change zoning ordinances to allow future development, collaborating with local jurisdictions to include the property in a master use plan, and working with local opposition groups to find acceptable and/or compatible uses for the property.

The two most significant tasks undertaken by APE appear to be determining the best use for the property that will support the highest land value, and getting the necessary "entitlements" (such as zoning designations) from local jurisdictions. Once APE has performed these tasks, it solicits potential buyers for the property and begins to negotiate a purchase price. Because the buyer knows that the property can be developed for a specified purpose and that it has the necessary entitlements, his/her development risk is greatly diminished. As such, the state is able to demand a higher sales price.

Property Sales That Utilized APE. The APE performed value enhancement work on the Agnews Developmental Center East property, in which the state netted approximately $53 million, and on the Agnews West property, which sold for $149 million. We understand that the Agnews East Property had an as-is appraisal of $18 million to $30 million, and the Agnews West property had an as-is appraisal of roughly $50 million. Based on the as-is values of these two properties, it would appear that APE's efforts increased the sale price of these two properties.

It is our understanding that APE also conducted extensive value enhancement work on the sale of 470 acres located at the California Institution for Men in the City of Chino, San Bernardino County. The sale of this property is currently in escrow, and the Governor's budget anticipates receipt of over $100 million in the current year from the sale of this property.

Conclusion

As described above, the state's surplus property program does not annually produce major General Fund revenue. Surplus property sales exceeded $20 million in only two of the last ten fiscal years. This is because most surplus state property is not highly valued land. Generally, the state is attempting to sell unneeded field offices, laboratories, armories, fire stations, and small parcels adjacent to larger state facilities. That is, these are small, noncontiguous parcels that have little development potential or value.

The surplus property program's ability to generate significant General Fund revenue is limited to those infrequent occasions when a large campus-like facility near a major urban area is closed—like the Agnews Developmental Center. As noted earlier, the potential closure of various correctional facilities may provide further opportunities for significant General Fund revenue from the sale of such assets. As we describe above, however, even after facilities are closed and properties declared surplus, there is a long and involved process in disposing of surplus property. In other words, it takes time to actually realize General Fund revenues from the sale of such property.

DEPARTMENTAL ISSUES

Capital Outlay

JUDICIAL COUNCIL (0250)

Responsibility for funding the construction of trial court facilities was transferred from the counties to the state by the Trial Court Facilities Act of 2002, Chapter 1082, Statutes of 2002 (SB 1732, Escutia). The enabling legislation provided that certain court fees, fines, and penalties are to be imposed to provide funds for the construction of trial court facilities, but these are estimated to provide only a small fraction of the amount identified by the Judicial Council as being needed. Funding for construction of trial court facilities is projected to be one of the state's largest—if not *the* largest—capital outlay programs. The effect this program would have on the state General Fund is discussed below. The Governor's budget does not include any capital outlay funding for the council.

Infrastructure Plan

The *2003 California Five Year Infrastructure Plan* shows that the council identified a need for only $2.7 million of capital outlay between 2003-04 and 2007-08, specifically, for an expansion of its office space (see Figure 1 next page).

More significantly, the 2003 plan recognized that funding trial court facilities was going to become a major capital outlay program. The plan notes that at the time it was prepared the magnitude of the need was not known but it put a "placeholder" of $1 billion in the plan until better information was available. Of this amount, the plan projects $713 million

will be needed from the General Fund. We discuss the issue of trial court facilities further below.

Figure 1

Judicial Council
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Council						
Critical infrastructure deficiencies	$229	$2,481	—	—	—	$2,710
Totals	**$229**	**$2,481**	**—**	**—**	**—**	**$2,710**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	—	—	$348,600	$348,600	$348,600	$1,045,800
Totals	**—**	**—**	**$348,600**	**$348,600**	**$348,600**	**$1,045,800**
General Fund						*$712,800*
Special funds						*333,000*
Approved in 2003-04 and Proposed in 2004-05						
Totals	—	—				

Trial Court Facilities: Funding Is Huge

There are currently about 450 trial court facilities in the state comprising about 10.1 million usable square feet. For comparison purposes, this is about the same amount as all of the academic space (classrooms, teaching laboratories and research laboratories) at the University of California's eight general campuses. To determine the cost of needed new construction, renovation, and remodeling of this large number of buildings, the Judicial Council established a task force, which estimated the cost of renovating existing buildings and constructing new ones would be between about $4.9 billion and $5.5 billion over the next ten years. Figure 2 details these costs.

As the administration acknowledged in the 2003 infrastructure plan, the $1 billion included in the plan is a placeholder, which represents only about one-fifth of the need over the next ten years.

Figure 2

Judicial Council Facilities Task Force
Estimated Need for Trial Court Facilities[a]

Usable Square Feet (In Thousands)

	Maximum Reuse	Reduced Reuse
Current Need		
Existing facilities	10,138	10,138
Less obsolete facilities	-1,399	-3,057
Plus new facilities	3,887	6,993
Subtotals	(12,626)	(14,074)
New Facilities[b]	5,800	5,800
Total Facilities Need	**18,426**	**19,874**
Cost	**$4.9 billion**	**$5.5 billion**

a Source: *State of California Task Force on Court Facilities Final Report*.

b Estimated amount of new space needed over next decade.

General Fund Likely "On the Hook" for Most Costs

Chapter 1082 provides for the imposition of various fees, fines, and penalties on court proceedings to be deposited in a State Court Facilities Construction Fund (SCFCF). It provides that it is the intent of the Legislature that construction of trial court facilities "…be funded by money in the State Court Facilities Construction Fund *and additional money as necessary from the state*." There is an implication in the language that the SCFCF will be the dominant source of funds for the program. It is questionable, however, that the fees, fines, and penalties that the courts will generate and deposit in the SCFCF will fund more than a small fraction of the council task force's estimated need. The past administration acknowledged this in its 2003 plan. Of the $1 billion in court costs the administration proposed to fund through 2007-08, it showed fee revenues contributing less than one-third of the total. Absent the provision of other financing sources, the General Fund will be on the hook for the remaining costs.

OFFICE OF EMERGENCY SERVICES (0690)

The Office of Emergency Services (OES) is headquartered in a state-of-the-art command and control center in Sacramento County that was constructed in 2002. It also operates a Coastal Region Operations Center in Oakland, a Southern Region Coordination Center at Los Alamitos, a Specialized Training Institute at San Luis Obispo, and small field offices at other locations. The Governor's budget does not include any capital outlay funding for the office.

Although we have no issues with the budget, the 2003 infrastructure plan for the office includes two projects about which we have concerns. The OES infrastructure plan and these projects are discussed below.

Infrastructure Plan

The 2003 California Five Year Infrastructure Plan shows the OES identified almost $50 million in infrastructure needs (see Figure 1). Of this total, $40 million would replace two- operations centers. This figure also shows the capital outlay approved in the *2003-04 Budget Act* and proposed by the current administration in the Governor's 2004-05 budget.

Need for and Scope of Planned Operations Centers Unclear

We recommend that the office report at budget hearings on its current plans for replacing two operations centers.

Two projects identified by the department in its infrastructure plan need better definition of their programmatic need and the scope of the facilities required. These are:

- ***Coastal Region Coordination Center.*** The existing coastal region operations center is located in leased space in Oakland that does not meet the requirements of the state Essential Services Building Act. The prior administration did not support funding in the

Figure 1

Office of Emergency Services
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by OES						
Critical infrastructure deficiencies	$1,631	$1,396	—	—	—	$3,027
Workload space deficiencies	1,291	5,937	$7,230	$28,490	$3,750	46,698
Totals	**$2,922**	**$7,333**	**$7,230**	**$28,490**	**$3,750**	**$49,725**
Project's Scheduled for Funding						
Critical infrastructure deficiencies	$235	$1,396	—	—	—	$1,631
Workload space deficiencies	—	—	$3,000	$1,830	$22,095	$26,925
Totals	**$235**	**$1,396**	**$3,000**	**$1,830**	**$22,095**	**$28,556**
Approved in 2003-04 and Proposed in 2004-05						
Totals	**$235**	**—**	**—**	**—**	**—**	**$235**

infrastructure plan for a replacement facility because OES has not evaluated its programmatic and facility needs in light of a reduction in staff at the coastal region office.

- ***Southern Region Coordination Center.*** The existing southern region coordination center is located at the Los Alamitos airfield in two modular buildings that do not meet the standards required by the Essential Services Building Act. The infrastructure report indicates the prior administration supported $27 million primarily for replacement facilities but noted that OES has not yet determined what services need to be delivered in southern California or developed a strategy for delivering them.

At this time, we are unable to evaluate the need for, and scope and cost of, either proposal. We recommend that the office report at budget hearings on its current plans for replacing these operations centers.

DEPARTMENT OF JUSTICE (0820)

The Department of Justice (DOJ) operates 12 criminalistic laboratories throughout the state. In addition to its regional crime labs, the department also operates a statewide DNA analysis laboratory in Richmond. The laboratories provide analysis of physical evidence and controlled substances and, when requested, assist local law enforcement agencies in processing and analyzing crime scenes.

No capital outlay proposals are included in the 2004-05 budget for the department. The department included one project in the 2003 Infrastructure Plan about which we have concerns. This project and the DOJ infrastructure plan are discussed below.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, DOJ identified $83 million in infrastructure needs over the period (see Figure 1). This figure also shows the capital outlay approved in the *2003-04 Budget Act* and proposed by the current administration in the Governor's 2004-05 budget.

FUTURE PROJECTS AND ISSUES

The department's main need for facilities is for its criminalistics program. That program requires laboratory space, the amount of which is driven by workload growth and program delivery changes. Workload growth is influenced by laws which require crime scenes, suspects, and evidence to be subject to specific forensic testing. Along with forensic testing growth, the need for space is also driven by requirements associated with analysis, storage, and preservation of evidence. This work is currently undertaken at laboratories located in Berkeley, Chico, Eureka, Fresno, Redding, Richmond, Ripon, Riverside, Sacramento, Santa Barbara, Santa Rosa, and Watsonville. The main capital outlay issue for the department involves the possible replacement of the existing DNA laboratory at Richmond.

Figure 1

Department of Justice
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by DOJ						
Facility infrastructure modernization	—	$2,300	—	—	—	$2,300
Program delivery changes	$5,400	1,600	$2,700	$71,000	—	80,700
Totals	**$5,400**	**$3,900**	**$2,700**	**$71,000**	**—**	**$83,000**
Project Scheduled for Funding						
Critical infrastructure deficiencies	—	—	—	—	—	—
Program delivery changes	—	$5,000	$1,600	$2,700	$71,000	$80,300
Totals	**—**	**$5,000**	**$1,600**	**$2,700**	**$71,000**	**$80,300**
Approved in 2003-04 and Proposed in 2004-05						
Totals	—	—				

New DNA Laboratory

We recommend the department report at budget hearings on how capital outlay funds appropriated for a planned statewide DNA laboratory were instead used to offset state operations reductions. Furthermore, we recommend the department report at budget hearings regarding the status of planning efforts for the new DNA lab. This information should include available scope and cost information, and available workload projections for the DNA program.

The existing $18 million 68,000 square foot Richmond laboratory is located in a leased facility. The department has a firm-term lease which runs through June 2006. The Richmond lab currently has a staff of around 150 scientists and support staff. The Richmond lab replaced a laboratory in Berkeley that housed the state DNA and sex-offender data banks, and the missing persons DNA program. The DOJ also operates a research and development program to develop new DNA and criminalistics analy-

sis techniques. In view of the new DNA laboratory identified in last year's plan, the future of the leased Richmond facility is unclear.

The department plans to develop a new $80 million 240,000 square foot statewide DNA laboratory to replace the existing Richmond facility. The new lab, to be located in the I-80 corridor between Davis and Fairfield, is planned to be nearly four times the size of the existing lab. The department indicates its proposal is based on assumed future workload and staff growth. The planned facility would be a major expansion of the department's program space, and will require close scrutiny by the Legislature when a specific proposal is made. In view of the department's plan to construct a new DNA laboratory, we recommend the department report at budget hearings regarding the status of planning efforts. This information should include available scope and cost documents, and available workload projections for the DNA program.

The Legislature did appropriate $2 million in the 2001-02 budget for site acquisition for a new statewide DNA lab. Provisional language provided that this capital outlay appropriation was to be available for site search, planning, and a site purchase option. The department indicates that these funds were not spent for their intended purpose but were instead used to satisfy various unallocated state operations cuts to the department's operating budget. It is unclear what authority the department used to take this action. We recommend the department explain at budget hearings why its capital outlay funds were not used for the purposes the Legislature designated.

CALIFORNIA SCIENCE CENTER (1100)

The California Science Center is a science and technology education facility owned and operated by the state. A nine-member board of directors appointed by the Governor administers the center. The center consists of a number of facilities located south of downtown Los Angeles. In 2002, the Legislature approved funding for a second phase of development to expand the center in accordance with its master plan for capital development. The Phase II expansion is planned to be funded by a combination of state and donor funds, and will provide a 170,000 gross square feet (gsf) facility containing 120,000 gsf for exhibitions and support services, and 50,000 gsf for staff offices. The project also includes exterior exhibit and service areas. Live animal exhibits include a rain forest, a desert exhibit, and a two-story reef tank. No capital outlay proposals are included in the 2004-05 budget for the center. Below, we discuss the department's infrastructure plan, and future projects and issues. The 2004-05 budget does not include any capital outlay funding for the center. However, below we raise informational issues for legislative consideration.

Infrastructure Plan

The *2003 California's Five Year Infrastructure Plan* shows the center identified $4.4 million in infrastructure needs during the 2003-04 through 2007-08 period. The bulk of this total—$3.5 million—is for preliminary plans to design and construct a third phase of development to expand the center. The prior administration did not support any funding for the center in the infrastructure plan because the Phase III expansion was only conceptual in nature. Figure 1 (see next page) shows the amounts identified by the center in the plan.

Figure 1

California Science Center (CSC)
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by CSC						
Critical infrastructure deficiencies	$328	—	$589	—	—	$917
Program delivery changes	—	$3,500	—	—	—	$3,500
Totals	**$328**	**$3,500**	**$589**	—	—	**$4,417**
Projects Scheduled for Funding						
Totals	—	—	—	—	—	—
Approved in 2003-04 and Proposed in 2004-05						
Totals	—	—				

Future Projects and Issues

We recommend the center report at budget hearings on the status of raising the necessary nonstate funds for construction of the Phase II expansion project.

In the *2002-03 Budget Act*, the Legislature provided $19 million of lease revenue bond funding for the state's share of construction costs for a $97 million Phase II expansion project. As a condition of receiving these funds, the center agreed to raise nearly $78 million from nonstate sources to complete the project. As of January 2004, the center reported it had raised around $53 million (55 percent) of the nonstate funds.

Construction of the Phase II expansion was to have started in April 2003, but has not yet begun. Also, as noted above, the center has raised only about 55 percent of the necessary nonstate funds. We recommend the center report at budget hearings on the status of raising the necessary nonstate funds for construction of the Phase II expansion project.

DEPARTMENT OF GENERAL SERVICES (1760)

The budget includes requests totaling $3.3 million of general obligation bond funds for the Department of General Services (DGS) capital outlay program. This amount includes:

- $0.1 million for management of design and construction for previously funded seismic retrofit projects to improve the earthquake safety of state buildings.
- $815,000 to evaluate seismic risk associated with various state buildings. These studies may identify future costs for which bond funding may or may not be available to complete the project. In order for these projects to be constructed, an unknown amount of funding from the General Fund would be required in the future.
- $3.1 million for design and construction of one seismic retrofit project.

Infrastructure Plan

For the *2003 California Five Year Infrastructure Plan*, DGS identified $2.3 billion of infrastructure needs for the five-year period 2003-04 through 2007-08 (see Figure 1 next page). This amount includes $2.1 billion for the renovation or construction of 20 state office buildings, $160 million to upgrade the central plant in Sacramento, $107 million for structural seismic retrofits to 16 state facilities, and $44 million for a new public safety radio system.

State Building Construction Program

The State Building Program is based on regional facility plans that outline the most appropriate means for housing state office operations in a defined area. The DGS, through the regional facilities plans, identifies current and future space demand for state agencies and ensures that facilities adequately meet the programmatic needs of the agencies. In determining the space needs of the various state agencies, DGS considers

changes to the number of employees in an agency, benefits of consolidating fragmented agencies, and location requirements necessary to best meet program delivery needs.

Figure 1

Department of General Services
2003 Infrastructure Plan

(In Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by General Services						
Seismic retrofit program	$42.2	$40.2	$9.6	$14.9	—	$107.0
State building program	581.3	918.7	243.8	445.0	—	2,188.9
Totals	**$623.6**	**$959.0**	**$253.5**	**$460.0**	**—**	**$2,295.9**
Projects Scheduled for Funding						
Seismic retrofit program	$2.9	$42.6	$48.7	$14.9	—	$109.3
State building program	376.3	428.0	398.4	114.3	$330.7	1,647.6
Totals	**$379.3**	**$470.6**	**$447.0**	**$129.3**	**330.7**	**1,756.9**
Appropriated in 2003-04 and Proposed in 2004-05						
Total	**$219.3**	**$4.7**				

Many state agencies currently occupy expensive leased space, and the State Building Program encourages the construction of new state office buildings and the renovation of existing state-owned buildings, with the understanding that state-ownership of a building, as opposed to long-term leases, will ultimately result in savings to the state through the avoidance of ongoing lease payments. While state office building projects are not critical fire, life safety projects, they do result in state agencies being consolidated into single buildings to achieve operational efficiencies and cost savings.

Budget Request. The *2004-05 Governor's Budget* does not propose any new office building projects in 2004-05. According to the *2004-05 Governor's Budget Summary*, the administration is evaluating various alternatives to reorganize and streamline state government. As such, it would be pre-

mature to propose new projects at this time. However, it should be noted that seven authorized office building projects, and a renovation of the central heating and cooling plant in Sacramento, are currently in progress.

State Building Seismic Retrofit Program

The DGS administers the state's building seismic retrofit program in order to decrease the risk to life resulting from major earthquakes by rehabilitating state-owned buildings. In June 1990, the voters passed Proposition 122—the Earthquake Safety and Public Buildings Rehabilitation Bond Act—that provided $300 million in general obligation bonds for the purpose of constructing earthquake safety improvements. The act allocated $250 million for state buildings (excluding higher education programs) and $50 million for matching grants for local government buildings. Provisions of the bond act specify purposes for which the proceeds can be used—including the retrofit, reconstruction, repair, replacement, and relocation of state and local buildings found to be seismically deficient.

Seismic Retrofit Project Selection. Projects are selected for funding based on consideration of seismic stability and risk-to-life issues, building occupancy, and seismic activity characteristics for the building site. In the past, projects have been assigned a risk level between I (lowest risk) and VII (highest risk). Historically, projects with a seismic risk level V have been completed before risk level IV projects because they pose a greater risk to life.

Budget Request. The funding included in the budget would provide funding to (1) continue administration of currently authorized retrofit projects, (2) fund one new retrofit project, and (3) study additional facilities for future retrofit projects.

DEPARTMENT OF PARKS AND RECREATION (3790)

The budget proposes $22.7 million for capital outlay for the Department of Parks and Recreation (DPR). This amount includes $3.3 million from the California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Bond Act of 2002 (Proposition 40); $5.5 million from the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000 (Proposition 12); $3.7 million from federal funds; $9.1 million from the Off-Highway Vehicle Trust Fund; and $1 million from the Habitat Conservation Fund.

The budget includes funding for the following previously funded projects:

- $1.1 million for construction and equipment for wastewater system improvements at Big Basin Redwoods State Park (Santa Cruz County).
- $5.5 million for construction and equipment for the El Morro mobile home park conversion at Crystal Cove State Park (Orange County).
- $1.1 million for construction of water system improvements at Fort Ross State Historic Park (Sonoma County).
- $6.5 million for working drawings and construction for improvement projects at Prairie City State Vehicle Recreation Area (Sacramento County).

The budget proposes funding of only one new proposal:

- $199,000 for preliminary plans to install new concrete water reservoirs at Samuel P. Taylor State Park (Marin County).

While we have no issues with these requests, we note that the *2003 California Five Year Infrastructure Plan* (2003 Infrastructure Plan), prepared

by the Department of Finance, indicated that significantly more DPR projects would be forthcoming in 2004-05 as discussed in detail below.

INFRASTRUCTURE PLAN

For the 2003 Infrastructure Plan, DPR identified $608.7 million of infrastructure needs for the five-year period of 2003-04 through 2007-08 (see Figure 1 next page). This figure also shows the amount of capital outlay appropriated in the *2003-04 Budget Act* and proposed in the *2004-05 Governor's Budget*.

As shown in Figure 1, the administration's budget-year proposal of $22.7 million is only about one-fourth of the total DPR infrastructure needs approved in the 2003 Infrastructure Plan for 2004-05. According to the *2004-05 Governor's Budget Summary*, the administration is evaluating various alternatives to reorganize and streamline existing resource conservation efforts. As such, the Governor's budget is deferring the appropriation of bond funds in 2004-05 until the spring Finance Letter process. (Please see the "Crosscutting Issues" section of the "Resources" chapter of this *Analysis* for a discussion of various issues related to resources bonds.) In any case, the administration's spring Finance Letter proposal should ensure that bond funds are available to complete those projects previously approved by the Legislature. We note that roughly $37 million is needed for subsequent phases of 15 bond-funded projects that were initiated in the 2003-04 budget.

RETENTION OF PROJECT MANAGEMENT AUTHORITY

We recommend the Legislature extend the Department of Parks and Recreation's project management authority over its capital outlay projects for three more years. This authority is scheduled to sunset on January 1, 2005, unless a later enacted statute extends or repeals the sunset date. Based on a review of current and projected capital outlay workload, we recommend a three-year extension of the sunset date.

What Is Project Management?

In the area of capital outlay, the term project management generally refers to the responsibility of overseeing the design, construction, schedule, and budget of a capital outlay project. Project management responsibilities begin with the initial design phase of a potential capital outlay

Figure 1

Department of Parks and Recreation
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
DPR Identified Five-Year Infrastructure Needs						
Critical infrastructure deficiencies	$29,962	$33,366	$22,969	$42,105	$21,065	$149,467
Environmental acquisitions and restorations	3,319	3,536	3,725	13,650	9,700	33,930
Facility/infrastructure modernization	9,701	8,066	8,897	9,244	19,556	55,554
Public access and recreation	73,359	89,203	72,894	63,250	63,088	361,794
Workload Space Deficiencies	-	-	-	1,858	6,089	7,947
Totals	**$116,341**	**$134,171**	**$108,575**	**$130,107**	**$119,498**	**$608,692**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$29,464	$24,974	$13,471	$20,218	$3,000	$91,127
Environmental acquisitions and restorations	2,719	3,536	2,600	3,150	2,500	14,505
Facility/infrastructure modernization	9,701	7,214	6,923	800	-	24,638
Public access and recreation	66,059	48,639	23,465	18,200	12,200	168,563
Workload space deficiencies	-	-	-	-	-	-
Totals	**$107,943**	**$84,363**	**$46,459**	**$42,368**	**$17,700**	**$298,833**
Approved in 2003-04 and Proposed in 2004-05						
Totals	**$141,523**	**$22,676**				

project, and grow once a project has received an appropriation in the budget act. Figure 2 shows the various tasks or responsibilities that make up capital outlay project management.

DPR's History With Project Management

Previous Project Management Authority. During the 1994-95 through 1999-00 fiscal years, the DPR was a participant in the state's pilot program on performance based budgeting. The purpose of performance based budgeting was to provide departments greater operational flexibility in

order to improve the efficiency and effectiveness of service delivery. During the six-year period that DPR participated in this program, it entered into an annual Memorandum of Understanding (MOU) with the Legislature that specified the scope of operational flexibility and authority granted to it. With regard to capital outlay needs at state parks, DPR was allowed to exercise the same authority granted to the Division of the State Architect and the Real Estate Services Division of the Department of General Services (DGS). In other words, DPR was authorized to plan, design, construct, and administer contracts and professional services relative to the development and completion of its capital outlay projects.

Figure 2

Capital Outlay Project Management Responsibilities

- Development and review of preschematic documents
- Development and review of environmental documents
- Development, review, and administration of architectural and engineering service contracts
- Project cost estimating
- Development and review of preliminary plans (design documents)
- Development and review of working drawings (construction documents)
- Development, review, and administration of construction contracts
- Coordination of designers, special consultants, contractors, and inspectors
- Change order analysis and estimating
- Manage project schedules, costs, and scope
- Oversee on-site construction operations
- Preparation of project progress reports
- Analysis and settlement of construction claims and disputes
- Preparation of project completion reports

Project Management Reverts to DGS. Beginning with the 2000-01 fiscal year, DPR opted to not participate in the performance based budgeting program. As a result, the MOU with the Legislature expired, along with DPR's authority to manage its capital outlay projects. Consequently, project management authority for DPR capital outlay projects reverted to DGS, the state entity generally responsible for managing state capital outlay projects. With the exception of the higher education segments, the Department of Transportation (highway construction), the Department of Water Resources (flood control and water supply), and the Department of Corrections (new prison construction), all other state agencies

use DGS capital outlay project managers to oversee the completion of their capital outlay projects.

However, following the passage of Proposition 12, which provided $525 million in general obligation bond funds to DPR for various capital improvements at state parks, DPR requested statutory authority to once again manage the development and construction of its capital outlay projects. The DPR reasoned that restoration of its project management authority was reasonable because it had successfully managed its capital outlay projects under the performance based budgeting program and it already had the necessary personnel on its staff to manage capital outlay projects.

Current DPR Project Management Authority. Chapter 993, Statutes of 2000 (AB 553, Cardenas), authorized the Department of Finance (DOF) to delegate to DPR the same authority granted to DGS to plan, design, construct, and administer contracts and professional services for legislatively approved DPR capital outlay projects. As a result of Chapter 993, DPR submitted a project management proposal to DOF, and in July 2001 DOF and DPR entered into an MOU that set forth the terms and conditions under which DPR would manage and oversee its capital outlay projects. Basically, DPR must comply with the same laws, regulations, and administrative requirements as DGS project management.

The department's project management authority under Chapter 993, however, will sunset on January 1, 2005 unless a later enacted statute deletes or extends that date. The DPR believes that it should retain its project management authority in order to complete the capital outlay projects it currently has in progress, as well as future projects that it will undertake with the remaining general obligation bond funds. Based on the foregoing, we understand that DPR is sponsoring legislation in 2004 to remove the sunset date, allowing DOF to continue to delegate project management authority to DPR.

Evaluation of DPR's Project Management Program

As stated earlier, under the provisions of the project management MOU, DPR must comply with the same laws, regulations, and administrative requirements as DGS project management. In order to assist the Legislature in deciding whether to extend DPR's project management authority, we have evaluated the various project management tools and processes used by DPR to assess its ability to properly manage its capital outlay projects. Furthermore, in order to measure the competence of DPR's project management program, we have used the DGS project management program as a comparison.

Project Management Tools and Processes

The DPR employs the project management tools and processes shown in Figure 3. These tools and processes are generally the same ones used by DGS project managers. There are, however, some differences, which we highlight below.

Figure 3

DPR Capital Outlay Project Management Tools and Processes

- ✓ Capital outlay project managers
- ✓ Consultant and construction contracts with enhanced provisions regarding roles and commitments of consultants and contractors
- ✓ Formal written project agreements for each project to coordinate roles and responsibilities of multidisciplinary project teams
- ✓ Integrated project-tracking database for:
  - Project status
  - Project schedule
  - Project budget
  - Contract monitoring
  - Geographical information system for site location and topography
- ✓ Electronic project estimating system to develop:
  - Conceptual estimates for initial budget development
  - Intermediate estimates to monitor project costs through design and development phases
  - Confirming estimates for a final check of project costs before requesting construction bids
- ✓ Parks Project Revolving Fund
- ✓ Quarterly progress reports on all capital outlay projects

Capital Outlay Project Managers. Both DPR and DGS employ project managers to oversee the development and completion of capital outlay projects, and to ensure that each project adheres to legislatively approved project scope, cost, and schedule. The ratio of project managers to active

capital outlay projects is roughly the same for the two departments. The DPR has 24 project managers overseeing approximately 75 projects, which amounts to 3.1 projects per project manager. The DGS has 65 project directors overseeing approximately 210 active capital outlay projects, which amounts to 3.2 projects per project director. Thus, the workload of project directors / managers in the two departments appears to be comparable.

Consultant and Construction Contracts. Both DGS and DPR contract for architectural and engineering consultant services, and construction services. The DPR adds the following provisions to the standard contract language used by DGS to better define contractor / consultant commitments and project control mechanisms:

- The DPR contracts require contractors to submit a "schedule of values," which consists of an itemized list of work needed to complete the project, and a projected schedule of payments to the contactor. (The cost of all activities in the schedule of values must equal the contract amount.) Once approved, the schedule of values is used by DPR to monitor the contractor's progress on the project and as the basis for contractor payment requests.
- The DPR contracts require contractors to submit written notice within five days of any event that results in a contractor claim for additional costs. By imposing a time limit on the submission of a claim, DPR believes it is better able to minimize significant unforeseen cost increases.

Contracts issued by DGS do not require a schedule of values, nor do they specify a time limit on when contractor claims can be submitted. We believe the two DPR contract provisions described above provide DPR with enhanced oversight of project costs, schedule, and potential contractor change orders.

Formal Written Project Agreements. A written project agreement (DPR), or management plan (DGS), is a departmental document that sets forth the roles and responsibilities for each member of a project team, including what product each person is responsible for delivering, and the schedule for the delivery of that product. Both DPR and DGS use project agreements / management plans as a way to coordinate the activities and responsibilities of multidisciplinary project teams.

Integrated Database. Both DGS and DPR use project databases to track the current costs, scope, and schedule of capital outlay projects. However, the DPR database has enhancements that do not exist in the DGS database system:

- The DPR project database electronically links a project to: its various contracts for contract monitoring, an automated project cost

estimating system for updated project estimates, and a geographical information system for information on site topography and project location.

- The DPR project database includes a project tracking system to monitor project schedule and costs. However, the DPR system also has a feature that shuts down the project tracking system and notifies DPR project management whenever the projected cost estimate of a project exceeds its authorized budget. According to DPR, this feature requires DPR to make appropriate corrections to bring the project back within legislatively recognized cost and scope as soon as a problem is detected.

Electronic Project Estimating System. The DPR uses an automated project cost estimating system to provide it with a conceptual cost estimate for a new project based on current labor and material costs. In addition, this system allows continuous updating of project costs as the project scope is refined. Moreover, it allows DPR to track the incremental changes to the cost of a project. The DGS has similar capabilities in the area of project cost estimating.

Park Project Revolving Fund. Capital outlay revolving funds are used by both DPR and DGS in order to expend project funds over several years. The DPR established the Park Project Revolving Fund (PPRF), into which it deposits all money received or appropriated for expenditure on capital outlay projects. Moneys deposited in the PPRF are available for all legislatively approved capital outlay purposes without regard to fiscal years. The PPRF is needed because the completion of capital outlay projects usually spans several fiscal years following an appropriation. Without a revolving fund, DPR would be unable to pay for its own staff costs after the first year of an appropriation and would therefore have to expend the total budget act appropriation within the fiscal year the appropriation was made. The PPRF is equivalent to DGS's Architectural Revolving Fund. However, the PPRF will sunset on January 1, 2005.

Quarterly Progress Reports. The requirement to submit quarterly reports is set forth in the State Administrative Manual. These reports, which are due on April 15, July 15, October 15, and January 15, provide information regarding project appropriations, status of the current phase, summary of any scope changes, original and revised project schedule dates, and information of construction change orders. Both DPR and DGS submit quarterly reports to DOF on all active capital outlay projects under their management.

Conclusion. The DPR project management tools and processes appear to be the equivalent to the tools and processes used by DGS. How-

ever, as noted earlier, DPR has developed and implemented several improvements that enhance its overall project management ability.

How Has DPR Managed Its Capital Outlay Projects?

The State Public Works Board (SPWB) is responsible for the review and approval process for all capital outlay projects to ensure they adhere to legislatively approved scope and budget. This responsibility includes reviewing and approving project cost augmentations and changes to project scope. Frequently, the need to augment project costs or to change project scope can be indicative of inadequate project planning, cost estimation, and / or construction management.

In order to assess how DPR has performed its project management function, we reviewed the minutes from SPWB meetings and notification letters to the Joint Legislative Budget Committee for DPR requests to approve project cost increases and / or changes to project scope. In addition, we also examined executive orders issued by DOF for project augmentations. For the period July 2001 through November 2003, we found ten project cost increases—all for minor amounts—and three requested changes to project scope. The department is managing approximately 75 major capital outlay projects, along with a significant number of smaller projects (minor capital outlay). The percentage of DPR project augmentations and scope changes appears to be comparable to DGS-managed projects. Thus, our review of DPR's project management outcomes—in terms of complying with legislatively approved project scope and cost—indicates no concerns when compared to DGS' performance.

Should the Sunset Date Be Repealed or Extended?

Although DPR is currently managing approximately 75 major capital outlay projects, by the end of 2004 it will have completed 33 of the projects. Figure 4 shows the year in which the remaining DPR projects are scheduled for completion. These projects will still be in progress after DPR's project management authority has sunset pursuant to Chapter 993.

Given DPR's familiarity with the planning, design, and scope of the projects currently underway, it would make operational sense to have DPR complete its project management oversight on these projects. If DPR's project management authority were to sunset, the remaining 42 projects would be transferred to DGS for completion. We believe that such a transfer would likely result in delayed completion of the projects and increased costs because: (1) the projects would stop while DGS familiarized itself with them and (2) DGS would likely need to augment its staff to accommodate the increased workload.

Figure 4

Completion Schedule for DPR Projects[a]

Scheduled Year of Completion	Number of Projects
2005	27
2006	13
2007	2

[a] Those projects scheduled to be completed after January 1, 2005, the sunset date for DPR's project management authority.

Given the benefits of DPR completing the numerous projects already underway and DPR's project management record to date, we recommend the Legislature extend DPR's project management authority (and related revolving fund) to January 1, 2008. Such a three-year extension would provide DPR with sufficient time to complete the construction phase of its current capital outlay projects and to prepare and submit final project financial statements to DOF upon construction completion.

Depending on such factors as whether DPR receives additional capital outlay funding through a new general obligation bond, the Legislature can make a future determination on whether to continue DPR's project management authority beyond January 1, 2008.

DEPARTMENT OF CORRECTIONS (5240)

The California Department of Corrections (CDC) operates 32 prisons and 38 fire and conservation camps throughout the state. The prison system also includes 16 community correctional facilities (it is planned that this number will be reduced to 10 by July 2004) operated by private firms, cities, and counties under contract. CDC's total inmate population increased by approximately 1,000 between November 2002 and November 2003. The number of inmates housed in community correctional facilities declined by about 1,300 in the same period. The budget includes requests totaling $18.8 million from the General Fund. Proposed expenditures include:

- $7.3 million to fund previously approved projects.
- $5.5 million for new projects.
- $6 million for minor capital outlay, advance planning, budget packages, and studies.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, the department identified a need for $1.1 billion of capital outlay between 2003-04 and 2007-08 (see Figure 1 next page). Of this amount, $282 million was approved in the *2003-04 Budget Act* and $18.8 million is proposed in the *2004-05 Governor's Budget*.

Projects Recommended for Approval Contingent On Completion of Preliminary Plans

We recommend the Legislature approve $7.3 million for working drawings and construction of three projects, contingent on receipt and review of substantially complete preliminary plans, cost estimates and schedules to verify the projects are consistent with prior legislative approval.

Figure 1

Department of Corrections 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Department of Corrections						
Critical infrastructure deficiencies	$278,769	$99,998	$70,719	$6,133	$35,452	$491,071
Enrollment/caseload/ population	36,395	329,000	1,091	7,909	—	374,695
Facility/infrastructure modernization	16,719	50,766	37,393	54,118	6,765	165,761
Program delivery changes	22,680	8,251	7,434	—	4,034	42,399
Workload space deficiencies	556	8,066	12,483	13,930	22,158	57,193
Totals	**$355,419**	**$496,081**	**$129,120**	**$82,000**	**$68,409**	**$1,131,119**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$245,618	$36,926	$83,411	$22,152	$6,000	$394,107
Enrollment/caseload/ population	34,893	330,302	—	—	—	365,195
Facility/infrastructure modernization	1,526	12,039	32,680	30,682	47,636	124,563
Program delivery changes	—	8,365	290	7,434	—	16,089
Totals	**$282,037**	**$387,632**	**$117,672**	**$71,772**	**$71,818**	**$930,931**
General Fund						*$314,709*
General obligation bonds						*7,551*
Lease-revenue bonds						*608,671*
Approved in 2003-04 and Proposed in 2004-05						
Totals	$285,838	$18,840				

The Governor's budget includes $7.3 million for working drawings and/or construction of three projects for which the Legislature has approved preliminary plans funds in prior years. The projects and funding requested in the budget are shown in Figure 2 (see next page). We recommend the Legislature approve the requested amounts subject to verifica-

tion that the projects meet prior legislative intent as to scope and cost. We recommend the department submit substantially complete preliminary plans, cost estimates and current schedules for these projects for review prior to budget hearings.

Figure 2

Department of Corrections
Projects Recommended for Approval
Contingent on Completion of Preliminary Plans

(In Thousands)

Project Description	Phase[a]	Budget Amount
California Institution for Men-East, Chino: electrified fence	C	$5,417
California Institution for Men, Chino: Cell security lighting/ RC central facility-phase II	C	669
Chuckawalla Valley State Prison, Blythe: heating, ventilation, and air conditioning system	WC	1,234
Total		**$7,320**

[a] P = preliminary plans; W = working drawings; C = construction

Use of Planning Funds for Preliminary Plans

We recommend the Legislature delete budget bill language that allows the department to use funds appropriated for budget packages and advance planning—for preparation of project preliminary plans. (Amend Provision 1 of Item 5240-301-0001.)

The budget includes $1 million for working drawings and construction of a 19 station hemodialysis clinic located at the California Substance Abuse Treatment Facility and State Prison at Corcoran. While we have no issues with the merits of this project, we are concerned about the use of planning monies to fund preliminary plans on future projects.

Item 5240-301-0746(1) of the *2003-04 Budget Act* appropriated $1 million to the department for "Statewide: Budget Packages and Advance Planning." Provision 1 of that item provides that these funds may be used for "….budget package development, environmental services, architectural programming, engineering assessments, schematic design, *and pre-*

liminary plans." This same provision has been included in prior budget acts and is included in the *2004-05 Budge Act*.

With one exception, all of the services listed in Provision 1 may be needed in order to provide the administration and the Legislature with sufficient information to make informed decisions about funding a project. The exception involves preliminary plans. Funding the preparation of preliminary plans constitutes a commitment to proceed with a project. Permitting these planning funds to be used for preparation of preliminary plans allows the administration to make a commitment to a project without it first being subjected to legislative consideration. It puts the Legislature in the position—as with this hemodialysis facility at Corcoran—of being asked to fund working drawings and construction of a facility that it has not yet had an opportunity to review.

In order to maintain the Legislature's options when considering capital outlay proposals, we recommend that Provision 1 of Item 5240-301-0001 of the budget bill be amended to delete authorization for funds appropriated under Schedule (1) to be expended for preparation of preliminary plans.

Capital Outlay Program Administration

Recommend the Legislature adopt supplemental report language directing the department to report at budget hearings on the reason for the large number of capital outlay reappropriations that have been required in recent years.

The CDC's annual capital outlay budget has averaged around $140 million over the past five years, ranging from a high of nearly $300 million to as low as $22 million. The current budget proposes a further decline in capital spending to its lowest point in the past five years ($18.8 million). To develop and administer its capital outlay program, the department employs a staff of about 260. In addition, the department has retained a private construction management firm for many years to provide assistance in such areas as program development, consultant selection, contract administration, design management, quality control, design reviews, bid and construction phase services. Since July 2000, this construction management firm has been awarded about $14 million in contract work and it has about five technical staff dedicated full-time to CDC projects.

In light of what appears to be substantial capital outlay resources for design and project management, we are concerned with the ability of

CDC to complete its projects in a timely manner. In the last five years there have been 111 capital outlay reappropriations for the department's projects, a number of them being projects that have been reappropriated more than once. This is evidence that projects are not proceeding on schedule and is symptomatic of problems in the capital outlay program management. We believe this problem is of sufficient importance that the department should report at budget hearings and explain why such a large number of reappropriations have been needed, what improvements to its management processes and structure may be needed, and its plans for implementing those improvements.

DEPARTMENT OF THE YOUTH AUTHORITY (5460)

The Department of the Youth Authority currently operates ten institutions throughout the state, but it is in the process of closing various institutions and camps in response to legislative direction. The department also houses wards at four conservation camps operated by the Department of Forestry and Fire Protection. Around 4,500 youthful offenders (wards) are currently housed in Youth Authority institutions, down from over 10,000 in 1996. The population is expected to decline to about 3,700 in 2006-07.

The budget includes $2.75 million from the General Fund for the following capital outlay purposes:

- $250,000 for budget packages and advanced planning.
- $2.5 million for minor capital outlay.

We have no issues with either of these requests. Below, we discuss the 2003 infrastructure plan for the department, and raise two other issues.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, the department identified a need for $244 million of capital outlay between 2003-04 and 2007-08, including:

- Critical Infrastructure Deficiencies—$ 187,342.
- Facility / Infrastructure Modernization—$4,132.
- Program Delivery Changes—$42,210.
- Workload Space Deficiencies—$10,642.

Figure 1

Department of the Youth Authority
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Department						
Critical infrastructure deficiencies	$16,593	$85,120	$35,760	$30,010	$19,859	$187,342
Facility/infrastructure modernization	—	195	1,961	1,000	976	4,132
Program delivery changes	840	9,942	17,649	4,653	9,126	42,210
Workload space deficiencies	—	—	—	1,014	9,628	10,642
Totals	**$17,433**	**$95,257**	**$55,370**	**$36,677**	**$39,589**	**$244,326**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$2,750	$13,103	$18,542	$5,723	$2,750	$34,868
Program delivery changes	—	8,255	—	—	—	8,255
Totals	**$2,750**	**$13,358**	**$18,542**	**$5,723**	**$2,750**	**$43,123**
General Fund						*$34,868*
Lease-revenue bonds						*8,255*
Approved in 2003-04 and Proposed in 2004-05						
General Fund	$2,750	$2,750				

Required Reports Have Not Been Submitted

We recommend the Legislature defer action on the Youth Authority's 2004-05 capital outlay budget until two required reports and a complete set of the department's facility standards are made available for legislative review.

The *Supplemental Report of the 2003-04 Budget Act* directed the Youth Authority to prepare and submit two reports to the Legislature by November 1, 2003. These reports are:

- ***Facility Condition Report.*** This analysis is to detail the condition of its facilities (including identification of needed corrections and improvements), preliminary cost estimates, and a plan for their implementation.

- ***Mental Health Treatment Facilities Plan.*** This report is to include the types of mental health services to be offered, the estimated number of wards requiring these services, and the necessary service delivery and treatment protocols. It is also to include new facility needs these programs will create, opportunities for reuse of existing facilities, and facility guidelines that are flexible enough to accommodate programmatic changes.

Neither of these reports has been submitted as of yet. We recommend the Legislature withhold action on the department's capital outlay budget until these reports have been submitted and reviewed.

Use of Planning Monies to Fund Preliminary Plans

We recommend the Legislature delete budget bill language that allows the department to use funds appropriated for budget packages and advance planning for preparation of project preliminary plans.

Item 5460-301-0001(1) of the *2004-05 Budget Act* appropriates $250,000 to the department for "Pre-Schematic / Master Planning Budget Packages and Advanced Planning." Provision 1 of that item provides that these funds may be used for "budget package development, architectural programming, engineering assessments, schematic design, and preliminary plans." This same provision has been included in prior budget acts as well.

With one exception, we believe that all of these services may be needed to provide the administration and the Legislature with sufficient information to make informed decisions about funding a project. The exception involves preliminary plans. Funding the preparation of preliminary plans constitutes a commitment to proceed with a project. Permitting these planning funds to be used for preparation of preliminary plans allows the administration to make a commitment to a project without it first being subjected to legislative consideration. It puts the Legislature in the position of being asked to fund working drawings and construction of a facility that it has not had an opportunity to review.

In order to maintain the Legislature's options when considering capital outlay proposals, we recommend that Provision 1 of Item 5460-301-0001 of the budget bill be amended to delete authorization for funds appropriated under Schedule (1) to be expended for preparation of preliminary plans.

EDUCATION
(6110)

The Department of Education's State Special Schools and Services Division (division) operates three schools for students with exceptional needs—two for the deaf at Riverside and Fremont, and one for the blind at Fremont. The budget includes only one capital outlay request, which is for $69.9 million from lease-revenue bonds for preliminary plans, working drawings, construction, and equipment to construct 13 replacement dormitories and three apartment facilities, and to provide a central chiller plant to air-condition the Riverside school.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, the division identified a need for 13 projects at a cost of $70 million, primarily to modernize existing infrastructure. Figure 1 (see next page) shows the amounts identified by the division for 2003-04 through 2007-08.

2004-05 Proposal Not Previously Identified as a Priority

We recommend the division report at budget hearings on the reason its proposal in the Governor's budget had not previously been identified as a priority project.

As noted above, the department identified in the 2003 infrastructure plan a need for $70 million over the next five years for 13 different projects with individual project costs ranging from less than $1 million to $14.5 million. The Governor's budget, however, proposes to spend almost $70 million in 2004-05 on a single project that has not been previously identified as a priority in prior infrastructure plans. This is not to say that under certain circumstances major new projects will not sometimes emerge that are of high priority. These situations, however, should be rare. If the state's long-run infrastructure plans are to have meaning, they need to be comprehensive. That is, departments should identify all

Figure 1

Department of Education, State Special Schools and Services Division 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Division						
Workload space deficiencies	—	$1,007	$8,391	$807	$3,907	$14,112
Facility infrastructure modernization	$1,967	18,139	14,361	3,016	12,651	50,134
Critical infrastructure deficiencies	597	4,949	54	—	—	5,600
Totals	**$2,564**	**$24,095**	**$22,806**	**$3,823**	**$16,558**	**$69,846**
Projects Scheduled for Funding						
Workload space deficiencies	—	—	—	$500	$4,914	$5,414
Facility/infrastructure modernization	—	$20,928	$1,027	10,499	17,546	$50,000
Program delivery changes	—	—	—	—	—	—
Critical infrastructure deficiencies	$5,600	—	—	—	—	5,600
Totals	**$5,600**	**$20,928**	**$1,027**	**$10,999**	**$22,460**	**$61,014**
General Fund						*$34,486*
Special funds						*26,528*
Approved in 2003-04 and Proposed in 2004-05						
Totals	**$5,600**	**$69,948**				**$75,548**

possible projects which address high priority needs. Accordingly, we recommend that the division report at budget hearings on why the project proposed for funding in the budget had not previously been identified as a priority project.

UNIVERSITY OF CALIFORNIA (6440)

The Governor proposes $339.4 million from the Higher Education Capital Outlay Bond Fund of 2004 (on the March 2004 ballot) for 34 projects and $55 million from lease revenue bonds for one project. The Governor's proposal provides $274 million to fund 19 continuing projects and $120.4 million for 16 new projects.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, the University of California (UC) identified a need for $3.4 billion of capital outlay between 2003-04 and 2007-08 (see Figure 1). Of this amount, $323 million was approved in the *2003-04 Budget Act* and $394 million has been proposed in the *2004-05 Governor's Budget*.

GENERAL ISSUES REGARDING UC CAPITAL OUTLAY

The UC has one of the state's most expensive capital outlay programs. As such, it is important that such a program be managed in a cost-effective way. To help achieve this, we recommend existing facilities be utilized more efficiently, construction costs be controlled, and faculty research facilities can be funded from reimbursements—such as UC's research overhead revenue. These issues are discussed below, and our general findings are then applied in our analysis of specific projects proposed for funding in 2004-05.

UC Instructional Facilities Continue to Be Underutilized

We recommend the Legislature direct the University of California to base its state-funded capital outlay plans on utilization of instructional facilities year-round in accordance with state utilization standards.

Figure 1

University of California 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by UC						
Critical infrastructure deficiencies	$74,857	$76,067	$68,000	$95,600	$95,600	$410,124
Enrollment/ caseload/population	192,222	592,710	394,052	428,157	443,436	2,050,577
Facility/infrastructure modernization	19,097	201,100	204,225	204,225	190,000	818,647
Program delivery changes	35,714	35,598	—	—	—	71,312
Totals	**$321,890**	**$905,475**	**$666,277**	**$727,982**	**$729,036**	**$3,350,660**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$74,501	$23,967	$31,892	$42,000	$41,000	$213,360
Enrollment/caseload/ population	192,222	257,689	202,911	200,457	215,736	1,069,015
Facility/infrastructure modernization	19,097	21,500	104,222	96,225	82,000	323,047
Program delivery changes	35,714	35,598	—	—	—	71,312
Totals	**$321,534**	**$338,754**	**$339,028**	**$338,682**	**$338,736**	**$1,676,734**
Approved in 2003-04 and Proposed in 2004-05						
General obligation bonds	$311,701	$339,436				
Lease-revenue bonds	11,000	55,000				
Totals	**$322,701**	**$394,436**				

Existing state utilization standards for higher education require classroom stations (typically, a student's desk) to be occupied and in use 35 hours per week and teaching laboratory stations about 20 hours per week. The UC's overall utilization is below these standards. The university reports that, segmentwide, its classroom stations are being utilized about 28 hours per week (80 percent of the standard) and teaching laboratory

stations about 18 hours per week (90 percent of the standard). All general campuses except Riverside use their facilities less than the state's utilization standards. For example, Berkeley utilizes its classrooms 72 percent as much as required by the state's standards and Davis and Santa Cruz use their teaching laboratories about 82 percent as much as called for by the standards. This means, overall, UC might be able to accommodate as many as 25 percent more students in existing classrooms and 10 percent more in existing teaching laboratories just by utilizing them as required by the state's standards.

In addition to underutilization of its instructional facilities in terms of hours-per-week, UC's classrooms and teaching laboratories are also underutilized during the summer. The UC recently reported about 20,000 full-time equivalent (FTE) students were enrolled at general campuses during summer term 2002. However, the campuses accommodate about 170,000 FTE students during each of its other terms, so up to 150,000 additional FTE students could be accommodated in summer term at all campuses. This means that by enrolling as many students in summer as in other terms, as many as 38,000 more students could obtain a full academic year of instruction than UC campuses are currently serving. This would be a 23 percent increase in the number of students served using UC's existing physical capacity.

Increasing UC's utilization of its facilities is a cost-effective option for increasing the segment's instructional capacity while minimizing the need to construct new instructional facilities to accommodate enrollment growth. We recommend the Legislature take into account the segment's underutilized capacity when considering university proposals to construct new instructional facilities. We also recommend the Legislature make clear its interest in efficient utilization of instructional facilities by adoption of appropriate supplemental report language.

Construction Cost Guidelines Are Recommended

We recommend the Legislature fund construction of new University of California (UC) buildings based on construction cost guidelines similar to those used by the California State University (CSU) and the community colleges.

The California State University and community colleges have used reasonable construction cost guidelines in implementing their capital outlay programs. The CSU and community colleges have done this for many years, while consistently constructing attractive, durable, and functional buildings.

The UC, however, does not adhere to construction cost guidelines. The UC's construction costs have consistently been much higher than those at CSU and the community colleges. They are also high when compared to similar buildings constructed elsewhere in the country (after adjustment for geographical differences in construction costs). For example, the five projects with which we raise issues below have construction contract unit costs that range from $507 to $734 per assignable square foot (asf) (see Figure 2).

Figure 2

University of California Construction Contract Costs

Building	Unit Cost (Dollars per asf)
Irvine: Engineering Unit 3	$507
Los Angeles: Life Sciences Replacement Building	734
Riverside: Materials Science and Engineering Building	535
San Diego: Music Building	651
Santa Cruz: Digital Arts Facility	522

For comparison, CSU and California Community College construction contract cost guidelines for similar buildings are shown in Figure 3. The figures illustrate that UC's costs are considerably higher than those for CSU and the community colleges.

Figure 3

CSU and CCC Construction Contract Cost Guidelines

(Dollars per asf)

Building Type	CSU	CCC
Engineering	$335	$292
Science	466	398
Music	361	321
Audio-visual arts	357	412

Accordingly, we recommend that the Legislature use construction cost guidelines for UC based on the cost of constructing similar buildings at peer institutions nationwide (adjusted for inflation and geographical differences in construction costs). As discussed in more detail in our *2000-01 Analysis* (page G-68), we recommend that costs be based on the 75th percentile of costs of these comparable buildings. This means 75 percent of the buildings in our data base of comparable buildings cost less than the UC guideline we recommend. Our recommended construction cost guidelines for UC are shown in Figure 4. Although we show a cost guideline for research, we recommend UC research space be funded from nonstate sources—as discussed below.

Figure 4

University of California
LAO Recommended Construction Cost Guidelines

Building Type	Dollars per asf
Classrooms	$326
Teaching laboratories	476
Offices	301
Research	497

Faculty Research Facilities Can Be Funded by Reimbursements

Faculty research facilities can be funded from reimbursements—such as research overhead revenue. Since these facilities can be self-financed, we recommend that the Legislature reserve state bond funds for other higher education facilities.

Historically, the state has not funded construction of UC facilities that generate sufficient revenue for them to be "self-financing." Frequently, this is done through UC's issuance of revenue bonds. For example, the state does not fund student housing and parking garages because they generate enough revenue to pay for themselves. Another major example is teaching hospitals, which generate hospital services revenue.

The UC research facilities also generate revenue for the university, and are capable of being self-financed. The revenue comes from research contracts and grants. Over half of UC's research revenue comes from the federal government, and the rest from for- and not-for-profit private companies and foundations and from the state. In 2002 UC received about

$3.2 billion from contracts and grants. Included in this amount are "overhead" revenues which UC charges to recover the costs of facilities and other indirect costs. In effect, UC recovers each year from the sponsored research that takes place in its research facilities enough funds to pay for the amortized cost of the facility.

Given that UC has the ability to finance its research from this revenue source, we believe that state funding should be reserved for other facilities—such as classrooms and teaching laboratories. Accordingly, in the project-specific discussions that follow, we are recommending no direct state funding of research space. It should be stressed that we are not recommending deletion of proposed research space—only that it be funded from research overhead revenue (or other nonstate sources—such as gifts).

PROJECTS RECOMMENDED FOR PARTIAL REIMBURSEMENT FUNDING

Irvine: Engineering Unit 3

We recommend the Legislature shift partial funding for the Engineering Unit 3 facility at the Irvine campus from state bonds to reimbursements because faculty research space can be funded from reimbursements and estimated construction costs are high. (Delete $2,426,000 from Item 6640-302-6041[5] and add $2,426,000 from reimbursements for preliminary plans and working drawings, and recognize a shift of $31,629,000 of future costs from state funding to reimbursements.)

The budget includes $3,440,000 for funding of development of preliminary plans and working drawings for an 86,895 asf engineering building at Irvine. The budget proposes 74,195 asf of the project be funded from state sources and 12,700 asf from nonstate sources. The portion of the building proposed for state funding has future costs of $44,853,000 for construction and $3,150,000 for equipment. Figure 5 (see next page) shows how the budget proposes that the state portion of the project be funded.

Figure 6 (see next page) shows the proposed uses of the space in the building. While the university indicates the state-funded part of the proposed building is needed to accommodate enrollment growth, only 21 percent of it will be instructional space (classrooms plus teaching laboratories) while 59 percent will be for faculty research.

Figure 5

Irvine: Engineering Unit 3
Proposed State Funding

(In Thousands)

Phase	General Obligation Bonds
Preliminary plans	$2,218
Working drawings	1,222
Construction	44,853
Equipment	3,150
Total	**$51,443**

Figure 6

Irvine: Engineering Unit 3
Use of Space

Type	Asf	Percent of Total
Research	43,950	59%
Offices	14,775	20
Teaching laboratories	10,070	14
Classrooms	5,400	7
Totals	**74,195**	**100%**

We have the following concerns with this project:

- ***Research Space Can Be Self-Financed.*** As discussed above, we recommend the faculty research space be funded by reimbursements. The university should be able to recover from overhead funds dedicated for facilities costs adequate monies to finance this space.
- ***Construction Costs Are High.*** The estimated unit construction contracts cost for the building is high—$507 per asf—and the estimated total project cost is $727 per asf. As discussed earlier, we recommend faculty research space be funded at not more than our recommended construction cost guidelines. Figure 7 shows

our recommended unit construction cost guidelines applied to this project.

Figure 7

Irvine: Engineering Unit 3
LAO Recommended State Building Construction Contracts Cost

Type of Space	Amount (asf)	LAO Recommendation	
		Cost Guideline (Dollars per asf)	State Cost (Dollars in Thousands)
Classrooms	5,400	$341	$1,841
Teaching laboratories	10,070	476	4,793
Offices	14,775	301	4,448
Research	43,950	Reimbursements	—
Totals	**74,195**		**$11,082**

Recommended Funding. For these reasons, we recommend the Legislature approve funding the faculty research space from reimbursements—such as research overhead revenue—and fund the other space in the project based on our recommended construction cost guidelines. When other project costs not directly related to construction contracts are included, our recommended funding from general obligation bonds (the Higher Education Capital Outlay Bond Fund of 2004) and reimbursements is shown in Figure 8.

Figure 8

Irvine: Engineering Unit 3
LAO Recommended Sources of Funds

(In Thousands)

Phase	General Obligation Bonds	Reimbursements	Total
Preliminary plans	$654	$1,564	$2,218
Working drawings	360	862	1,222
Construction	13,224	31,629	44,853
Equipment	3,150	—	3,150
Totals	**$17,388**	**$34,055**	**$51,443**

Applying our recommendation reduces the impact of the project on the Higher Education Capital Outlay Bond Fund of 2004 by $2.4 million in the budget year and future costs by almost $32 million. This will make over $34 million available to fund other high priority projects in higher education.

Los Angeles: Life Sciences Replacement Building

We recommend the Legislature shift partial funding for the Life Sciences Building at the Los Angeles campus from state bonds to reimbursements because faculty research space should be funded from reimbursements and the estimated construction costs are high. (Delete $1,970,000 from Item 6640-301-6041[5] and add $1,970,000 from reimbursements for preliminary plans, and recognize a shift of $58,028,000 of future costs from state funding to reimbursements.)

The budget includes $2,200,000 for funding of the development of preliminary plans for an 87,238 asf building to replace the existing 115,846 asf Life Sciences Building at Los Angeles. The building is proposed to be partially funded from nonstate sources. The budget proposes a total project cost of $87,029,000, with $66,733,000 coming from state funds and $20,296,000 of nonstate funds. The state-funded portion of the project consists of construction of the Life Sciences Replacement Building. (The portion of the project to be funded with nonstate funds consists of the renovation of Hershey Hall.) Figure 9 shows how the cost of the state-funded portion of the project is proposed to be funded.

Figure 9

Los Angeles: Life Sciences Replacement Building Proposed State Funding

(In Thousands)

Phase	General Obligation Bonds
Preliminary plans	$2,200
Working drawings	3,873
Construction	60,660
Totals	**$66,733**

Figure 10 shows the proposed uses for the spaces in the state-funded replacement building. It shows that the building will contain over 72,000 asf of faculty research space—83 percent of the building total.

Figure 10

Los Angeles: Life Sciences Building Replacement Use of Space

Type	Asf	Percent of Total
Research	72,584	83%
Offices	8,839	10
Teaching laboratories	4,584	5
Other	1,231	2
Totals	**87,238**	**100%**

We have two basic concerns with the proposed funding level for this project:

- ***Research Space Can Be Self-Financed.*** As discussed above, we recommend faculty research facilities be funded from reimbursements such as overhead revenue the university receives from faculty research contracts and grants.
- ***Estimated Construction Costs Are High.*** The estimated unit construction contracts cost for the building is $734 per asf and the estimated total project cost is $983 per asf. These are extremely high. Figure 11 (see next page) shows the funding we recommend for the building based on our recommended construction cost guidelines.

Recommended Funding. When other costs not directly related to construction are included, our recommended funding from general obligation bonds (the Higher Education Capital Outlay Bond Fund of 2004) and reimbursements is shown in Figure 12 (see next page).

Compared to the funding proposed in the budget, this will free up almost $60 million of the Higher Education Bond Fund of 2004 for higher priority projects elsewhere in higher education.

Figure 11

Los Angeles: Life Sciences Building Replacement
LAO Recommended State Building Construction Contracts Cost

Type of Space	Amount (asf)	LAO Recommendation	
		Cost Guideline (Dollars per asf)	State Cost (Dollars in Thousands)
Research	72,584	Reimbursements	—
Offices	8,839	$301	$2,660
Teaching laboratories	4,584	476	2,182
Other	1,231	301	371
Totals	**87,238**	—	**$5,213**

Figure 12

Los Angeles: Life Sciences Building Replacement
LAO Recommended Sources of Funds

(In Thousands)

Phase	General Obligation Bonds	Reimbursements	Total
Preliminary plans	$230	$1,970	$2,200
Working drawings	406	3,467	3,873
Construction	6,099	54,561	60,660
Totals	**$6,735**	**$59,998**	**$66,733**

Riverside: Materials Science and Engineering Building

We recommend the Legislature shift partial funding for the Materials Science and Engineering Building at the Riverside campus from state bonds to reimbursements because proposed construction costs are high and faculty research space should be funded from nonstate sources. (Delete $2,971,000 from Item 6640-302-6041[9] and add $2,971,000 from reimbursements for preliminary plans and working drawings, and recognize a shift of $37,954,000 of future costs from state funding to reimbursements.)

The budget includes $3,749,000 for development of preliminary plans and working drawings for a 76,940 asf building with future costs of $52,220,000 for construction and equipment, for the Materials Science and Engineering Building for the College of Natural and Agricultural Sciences (CNAS) and the Bournes College of Engineering (BCOE) at Riverside. The CNAS will occupy 23,625 asf in the proposed building, BCOE will occupy 25,275 asf, and the building will include 18,370 asf of general assignment classrooms, and a 9,670 asf nanofabrication core facility.

We are concerned with this project because the construction cost is high and the majority of the building is proposed to be devoted to space for faculty research rather than student instruction or other necessary uses.

- ***Faculty Research Space.*** As discussed above in this chapter, faculty research has consistently generated billions of dollars in revenue for UC. Two-thirds of this building is proposed to be used for faculty research and only 26 percent for classrooms and teaching laboratories for student instruction and 8 percent for offices. The overhead the university charges its research sponsors is available to fund the construction of faculty research space, and we recommend this be done.

- ***Estimated Construction Costs.*** The estimated cost for construction contracts for the building (not including site construction work, the cost to prepare preliminary plans and working drawings, and provide equipment) is $535 per asf. When all other costs are included, the estimated total project cost is $674 per asf. We recommend the Legislature fund the construction of this building applying our recommended cost guidelines, as shown in Figure 13.

Figure 13

Riverside: Materials Science and Engineering Building
LAO Recommended State Building Construction Contracts Cost

		LAO Recommendation	
Type of Space	Amount (asf)	Cost Guideline (Dollars per asf)	State Cost (Dollars in Thousands)
Research	51,070	Reimbursements	—
Classrooms	18,370	$326	$5,989
Teaching laboratories	1,650	476	785
Offices	5,850	301	1,761
Totals	**76,940**	**—**	**$8,535**

Recommended Funding. With research space funded from reimbursements and other spaces funded at the construction cost levels we recommend, our recommended funding for this project from general obligation bonds (the Higher Education Capital Outlay Bond Fund of 2004) and reimbursements is shown in Figure 14.

Figure 14

Riverside: Materials Science and Engineering Building LAO Recommended Sources of Funds

(In Thousands)

Phase	General Obligation Bonds	Reimbursements	Total
Preliminary plans	$332	$1,268	$1,600
Working drawings	446	1,703	2,149
Construction	9,932	37,954	47,886
Equipment	4,334	—	—
Totals	**$14,266**	**$41,703**	**$55,969**

Applying our recommendation reduces the impact of this project on the Higher Education Capital Outlay Bond Fund of 2004 by almost $3 million and future state costs by almost $38 million. This would make almost $41 million available to fund other high priority projects in higher education.

Riverside: Genomics Building

We recommend the Legislature shift partial funding for the Genomics Building at the Riverside campus from state bonds to reimbursements because faculty research space should be funded from reimbursements and construction costs are high. We further recommend that UC revert to the General Fund $44.6 million of proceeds from the sale of surplus land at Riverside. (Delete $55,000,000 from Item 6440-301-0660[1], and add $55,000,000 to Item 6440-301-6041[24] with $17,624,000 from the Higher Education Capital Outlay Bond Fund of 2004 and $37,376,000 from reimbursements for preliminary plans, working drawings, construction, and equipment.)

The budget includes $55 million for development of preliminary plans, working drawings, construction, and equipment for a 63,986 asf Genomics Building at the Riverside campus. The new building will be occupied by the College of Natural and Agricultural Sciences and will

contain 45,004 asf of faculty research space (70 percent), 18,418 asf of offices (29 percent) and 564 asf of other space (1 percent). The budget proposes to fund this project from lease-revenue bonds.

Background. The administration and UC entered into an agreement whereby the $55 million of proceeds from the sale of surplus land the university is planning to sell at the Riverside campus would be reverted to the General Fund in the current year in exchange for the administration agreeing to issue $55 million of lease-revenue bonds to finance the construction of this Genomics Building. (The 2004-05 budget plan includes revenues of $55 million in 2003-04 related to this agreement.) When the now-surplus land was purchased, 81 percent of the purchase price was from the General Fund and the remaining 19 percent from university funds. The issue of disposition of the proceeds from the land sale is separate from that of the merits of the proposed Genomics Building, and we discuss them separately below.

Merits of the Proposed Funding Level for Genomics Building. We have the following concerns with the funding proposed for this project:

- ***Faculty Research Space.*** Seventy percent of the space in the proposed building is for faculty research laboratories. Because UC has a very large and reliable revenue source in its faculty research overhead charges, we recommend faculty research overhead revenue—or other nonstate sources such as gifts—be used to fund the faculty research space in the proposed building. This is consistent with the state's practice of not funding the construction of buildings for higher education if they generate enough revenue to be "self-funding" (such as student housing, parking garages and some teaching hospital buildings).

- ***Construction Costs.*** The estimated cost for construction contracts for the building (not including site construction work, the cost to prepare preliminary plans and working drawings, and provide equipment) is $553 per asf. When these other costs are included, the estimated total project cost is $860 per asf. Using our suggested construction costs guidelines, we recommend the Legislature fund the proposed space as shown in Figure 15 (see next page).

Recommended Funding. With research space funded from reimbursements and other spaces funded at the construction cost levels we recommend, our recommended funding is shown in Figure 16 (see next page). Because of savings to the Higher Education Capital Outlay Bond Fund of 2004 (general obligation bonds) we have recommended on other projects in this chapter, we recommend that state funding come from the Higher Education Capital Outlay Bond Fund of 2004 rather than lease-revenue bonds (the Public Buildings Construction Fund) as proposed by the Governor.

Figure 15

Riverside: Genomics Building
LAO Recommended State Building Construction Contracts Cost

		LAO Recommendation	
Type of Space	Amount (asf)	Cost Guideline (Dollars per asf)	State Cost (Dollars in Thousands)
Research	45,004	Reimbursements	—
Offices	18,418	$301	$5,544
Other	564	301	170
Totals	**63,986**	**—**	**$5,714**

Figure 16

Riverside: Genomics Building
LAO Recommended Sources of Funds

(In Thousands)

Phase	General Obligation Bonds	Reimbursements	Total
Preliminary plans	$252	$1,308	$1,560
Working drawings	324	1,682	2,006
Construction	6,628	34,386	41,014
Equipment	10,420	—	10,420
Totals	**$17,624**	**$37,376**	**$55,000**

Applying our recommendation reduces the impact of this project on the Higher Education Capital Outlay Bond Fund of 2004 by $37 million. This will make this amount available to fund other high priority projects in higher education.

Disposition of Proceeds From Surplus Land Sale. Since the state provided 81 percent of the purchase price for the now-surplus land at the Riverside campus, we recommend the Legislature acknowledge the state's interest in 81 percent of the $55 million of sale proceeds—that is, $44.6 million. We therefore recommend UC be directed to revert $44.6 million of

the sale proceeds to the General Fund. The remaining $10.4 million which UC retains could be applied by UC to fund the Genomics Building.

PROJECTS RECOMMENDED FOR DELETION

San Diego: Music Building

We recommend the Legislature delete $3,802,000 for preliminary plans and working drawings for the Music Building at the San Diego campus because existing facilities are not utilized year-round at the state's standards and renovation of existing facilities has not been adequately explored. (Delete $3,802,000 from 6640-301-6041[13].)

The budget includes $3,802,000 for development of preliminary plans and working drawings for a 47,000 asf building, with future costs of $36,333,000 for construction and equipment, for a new Music Building at the San Diego campus. The new building would be occupied by the music department and would contain 35,055 asf (75 percent) of teaching laboratories, 10,275 asf (22 percent) of offices, 750 asf (1 percent) of research space and 895 asf (2 percent) of other space. Construction of this building would increase the amount of music department space from about 36,000 to 64,000 asf (a 75 percent increase).

We are concerned about this project because existing music department facilities are not fully utilized, and we question the campus's assertion that acoustic conditions in existing music department facilities in Mandeville Auditorium cannot be corrected to a reasonable level by renovation.

Existing Facilities Not Fully Utilized. The latest enrollment information UC has made available (2001-02) indicates the San Diego campus—which has a capacity to accommodate about 20,000 FTE students—had only about 100 FTE students enrolled during summer term. Therefore, the campus can accommodate about one-third more students if summer term is utilized as fully as other quarters.

Renovation of Existing Facilities Not Considered. One of the two principal facilities currently used at the San Diego campus for music department programs is the 800-seat Mandeville Auditorium. The university says there are acoustic deficiencies at Mandeville (sound reverberation, echo, and insulation) that make it unsuitable for music department needs. As a result, the proposal includes a 400-seat recital hall in the proposed Music Building. The university, however, has provided no information to show that it evaluated acoustic renovation of Mandeville Auditorium as a less costly alternative to constructing a new recital hall. Since acoustic renovation of existing buildings can be successful using

relatively inexpensive wall treatments and architectural modifications, it is not clear if the university has evaluated alternatives which would meet programmatic needs. Given these concerns we recommend the Legislature not approve this project. This would result in budget-year savings of $3.8 million, with future-year savings of $363 million (all state bonds).

If, however, the Legislature elects to fund this project, we recommend it be funded in accordance with our recommended construction cost guidelines, discussed above. The university has proposed an estimated construction contracts cost of $30.6 million—almost $651 per asf—and the estimated total project cost is $40.1 million—$809 per asf. These costs are significantly higher than the $434/asf which results from applying our recommended construction cost guidelines.

Santa Cruz: Digital Arts Facility

We recommend the Legislature delete $1,330,000 for the Digital Arts Facility at the Santa Cruz campus for working drawings, construction, and equipment because existing facilities are not being utilized year-round at the state's standard and research space should be funded from reimbursements. (Delete $1,330,000 from Item 6640-301-6041[22].)

The budget includes $1,330,000 for development of preliminary plans for a new 25,600 asf Digital Arts Facility at the Santa Cruz campus, with future cost of $19,341,000 for working drawings, construction, and equipment. The new building will be occupied by the Arts Division, which includes the visual arts, music and theater arts departments, and the digital arts and new media program. It will contain 14,870 asf (58 percent) of research space, 4,158 asf (16 percent) offices, and 6,565 asf (26 percent) teaching laboratories. The project also includes a 1,140 asf addition to the Theater Arts Complex.

We are concerned with this project because the university has not adequately evaluated using existing facilities to meet programmatic needs, and research space in the proposed facility should be funded from nonstate sources. We also note UC had not previously identified the project as a priority in prior state plans.

Need for New Facility Has Not Been Justified. The state has funded three projects on the Santa Cruz campus for arts programs in the last seven years and the campus now has almost 158,000 asf assigned to the Arts Division. These recently completed projects are summarized in Figure 17.

It is unclear why these recently completed projects—together with an additional 100,000 asf assigned to arts programs elsewhere on campus—are not adequate for programmatic needs of the campus.

Figure 17

Santa Cruz: State-Funded Arts Division Projects In the Last Seven Years

(Dollars in Thousands)

Project	Completion	Amount of Space (asf)	Total Project Cost
Music facility	1996	19,172	$12,300
Improvements to arts facilities	1998	26,206	14,329
Film and digital media renovations	2002	10,998	4,679
Totals		**56,376**	**$31,308**

Facilities Not Utilized Year-Round. The campus is largely unused for instructional purposes during summer term. The latest enrollment information UC has made available shows that in the summer less than 300 FTE students—all graduate students—were enrolled at the campus. If the university used its instructional facilities fully in summer term, it could accommodate almost one-third more students without the need to construct new instructional facilities.

For these reasons, we recommend deletion of the project, for budget-year savings of $1.3 million and future savings of $19.3 (all state funds). If, however, the Legislature elects to fund this project, we recommend that: (1) the research space be funded from reimbursements and (2) the remaining space be funded in accordance with our recommended construction cost guidelines.

CALIFORNIA STATE UNIVERSITY (6610)

The Governor proposes $345 million from the Higher Education Capital Outlay Bond Fund of 2004 (on the March 2004 ballot) for 21 projects. Of this amount, $302 million is for 15 new projects and $43 million is for six previously approved projects. The future cost to complete all proposed projects is $264 million. We recommend the Legislature reduce $11.9 million from one project.

Infrastructure Plan

The *2003 California Five Year Infrastructure Plan* indicates that California State University (CSU) identified a need for $2.8 billion of capital outlay between 2003-04 and 2007-08 (see Figure 1). As the figure shows, $200 million was approved in the *2003-04 Budget Act* and $345 million has been proposed in the *2004-05 Governor's Budget*.

FUTURE PROJECTS AND ISSUES

Our major concern with the CSU capital outlay program is that it is based on underutilization of existing instructional facilities—most of which arises because classrooms and teaching laboratories are not being fully utilized in the summer term. We also note that there may be an opportunity for the state to sell surplus CSU land. These are discussed below.

Utilization of Existing Instructional Facilities

There are two gauges of utilization of instructional facilities—hours-per-week and weeks-per-year. The CSU has made good progress by both measures, but there is room for improvement at all campuses.

Figure 1

California State University 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by CSU						
Critical infrastructure deficiencies	$73,317	—	$2,080	$1,480	—	$76,877
Enrollment/caseload/ population	29,086	$351,531	289,780	162,525	$169,594	1,002,516
Facility/infrastructure modernization	97,092	205,197	670,202	399,408	326,935	1,698,834
Totals	**$199,495**	**$556,728**	**$962,062**	**$563,413**	**$496,529**	**$2,778,227**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$73,317	—	$2,080	$1,480	—	$76,877
Enrollment/caseload/ population	27,785	$215,051	102,000	98,000	$115,000	557,836
Facility/infrastructure modernization	97,092	125,000	236,999	241,000	225,000	925,091
Totals	**$198,194**	**$340,051**	**$341,079**	**$340,480**	**$340,000**	**$1,559,804**
Approved in 2003-04 and Proposed in 2004-05						
Totals	$199,736	$345,000				

Hours-Per-Week. Current state utilization standards address utilization only in terms of hours-per-week. They require classroom stations (typically, a desk) to be occupied 35 hours per week and teaching laboratory stations about 20 hours per week. During the fall-winter-spring terms, only one campus—San Luis Obispo—is meeting the state standard for classroom utilization. The CSU classrooms at all campuses are utilized about 85 percent of the state standard in terms of hours per week. The situation is much better with teaching laboratories—12 campuses meet the state standard. In fact, statewide, teaching laboratories are utilized overall 106 percent of the state standard in terms of hours per week. Figure 2 (see next page) shows campuses with particularly low utilization (less than 80 percent of the state standard).

Figure 2

California State University
Campuses Utilizing Instructional Facilities
Less Than 80 Percent of State Standard

Classrooms	Teaching Laboratories
Chico	Dominguez Hills
Hayward	Monterey Bay
Humboldt	
Monterey Bay	
San Jose	
San Marcos	

Weeks-Per-Year. The number of hours per week that instructional facilities are utilized tells only part of the utilization story; the other gauge is the number of weeks per year they are used. In response to the Legislature's initiatives, CSU has made substantial improvement in utilizing instructional facilities year-round as a way to accommodate enrollment growth without constructing new instructional buildings. In 2002 CSU campuses enrolled almost 45,000 full-time equivalent (FTE) students in summer term. This was about 15 percent of the physical capacity of the campuses (about 290,000 FTE students). Figure 3 shows 2002 campus enrollment in summer term compared to campus capacity.

Although CSU has made good progress in implementing year-round operation, there is still much more unused capacity.

Potential Channel Islands Surplus Property

Agricultural land originally intended to be the site of the California State University (CSU) Channel Islands campus (258 acres) may now be surplus property. We recommend CSU report at budget hearings on the status of this land and its potential for sale.

In anticipation of development of a campus in the Ventura area, the state funded the purchase by CSU of approximately 258 acres of land currently in agricultural use (usually referred to as the "lemon orchard parcel") located about eight miles from the Channel Islands campus. When Camarillo state hospital was closed, it was decided to develop the Channel Islands campus at that location instead, which in essence rendered the lemon orchard parcel surplus. This parcel has been appraised by CSU, and its value is estimated to be about $10.5 million.

Figure 3

California State University 2002 Summer Enrollment

Campus	Summer Enrollment As a Percentage of Capacity
Hayward	44%
Los Angeles	44
Pomona	33
San Bernardino	21
San Francisco	19
Dominguez Hills	18
San Luis Obispo	18
San Marcos	16
Fullerton	15
Long Beach	15
San Jose	14
Stanislaus	13
San Diego	12
Humboldt	9
Bakersfield	7
Sacramento	6
Chico	4
Fresno	3
Northridge	2
Channel Islands	—
Monterey Bay	—
Sonoma	—

Chapter 402, Statutes of 2001 (SB 323, O'Connell), authorized CSU to exchange a portion of the lemon orchard parcel for a specified parcel on Lewis Road adjacent to the Channel Islands campus. Any exchange could be for the Lewis Road land alone, or a combination of the land and money. No such exchange has been consummated.

Given that no exchange has been completed, the lemon grove parcel may be a candidate for sale which in turn would provide revenue to the General Fund. To do this would require enabling legislation modifying the provisions of Chapter 402. So that the Legislature can consider all of its budget options, we recommend CSU report at budget hearings on its

plans for the lemon grove parcel, the status of any negotiations for the Lewis Road property, and the potential marketability of this surplus property

PROJECT RECOMMENDED FOR INCREASED REIMBURSEMENT FUNDING

Fullerton: College of Business and Economics

We recommend the Legislature shift partial funding for the College of Business and Economics at the Fullerton campus from state bonds to reimbursements because the amount of instructional space in the building exceeds state standards and other specialized space is not justified. (Delete $11,871,000 from Item 6640-302-6041[5] and add $11,871,000 from reimbursements for preliminary plans, working drawings and construction.)

The budget includes $47,417,000 for development of preliminary plans, working drawings, and construction for a 123,000 asf building. The university proposes to provide partial funding from nonstate sources as shown in Figure 4.

Figure 4

Fullerton: College of Business and Economics Proposed Funding

(In Thousands)

Phase	State Funds	Non-State Funds	Total
Preliminary plans	$947	$103	$1,050
Working drawings	1,096	137	1,233
Construction	45,374	4,574	49,948
Subtotals	($47,417)	($4,814)	($52,231)
Equipment	6,365	186	6,551
Totals	**$53,782**	**$5,000**	**$58,782**

Figure 5 shows the space breakdown proposed by the university for the building. We are concerned with this project because the amount of classroom space in the building exceeds state space standards and there is substantial additional space that is only loosely defined and not justified.

Figure 5

Fullerton: College of Business and Economics

Assignable Square Feet (In Thousands)

Type	Asf	Percent of Total
Classrooms	31	26%
Faculty offices	31	26
Institutes	24	19
Administrative offices	20	16
Research	9	7
Self-instruction laboratories	8	6
Totals	**123**	**100%**

Classroom Space Exceeds State Standard. The proposed building would provide 1,436 classroom stations (such as desks). Given a state space standard for classrooms of 15 asf per station, the standard indicates a maximum of 21,540 asf of classroom space is justified for that number of stations. As Figure 5 shows, however, the building is proposed to have 31,000 asf of classrooms—10,000 asf more than allowable. This means the building would have about 21 asf per classroom station—about 44 percent more than allowed by the state space standard. The university has provided no justification for exceeding the state space standard, so we recommend the state fund only the amount of classroom space allowed under the standard.

Research and Institutes. The university proposes about 9,000 asf of research space in the building. Although the University of California is designated by law as the state's primary research university, CSU faculty has historically engaged in applied research. Such CSU applied research has typically been conducted in faculty offices and teaching laboratories and the Legislature has not funded construction of space specifically for research at CSU campuses. In light of the high cost of specialized research space, we believe any research space CSU campuses deem necessary should be funded from nonstate sources.

In addition, it is proposed that the building contain about 24,000 asf of space—about 19 percent of the whole building—for 11 "institutes." These institutes consist of faculty members and primarily graduate students who engage in studies and community outreach activities in areas such as insurance and small business. This space is similar to the pro-

posed research space; we therefore recommend it also be funded from nonstate sources.

Recommended Funding. We recommend approval of the project, but with a partial shift of bond funding to reimbursements. We recommend the excess classroom space and space for research and institutes be funded from nonstate sources. We estimate this space to have a construction contracts cost about the same as CSU's construction cost guideline—$299 per asf. Taking all these factors into account, we recommend state funding be reduced by $11.9 million and reimbursements be increased by a like amount.

CALIFORNIA COMMUNITY COLLEGES (6870)

The Governor proposes a total of $617.6 million from general obligation bond funds—$3 million from the Higher Education Capital Outlay Bond Fund of 1998, $38.5 million from the proposed Higher Education Capital Outlay Bond Fund of 2002, and $576.1 million from the Higher Education Capital Outlay Bond Fund of 2004 (on the March 2004 ballot). These would fund 91 projects—69 previously approved and 22 new projects. We recommend the Legislature delete one project. We also recommend the community colleges chancellor's office report to the Legislature on the methods it uses for projecting district enrollment.

Infrastructure Plan

The *2003 California Five Year Infrastructure Plan* indicates the community colleges identified a need for $6.6 billion of capital outlay between 2003-04 and 2007-08 (see Figure 1 next page). Of this amount, $4 billion was for enrollment growth, $2.4 billion for facility modernization, and $0.2 billion for infrastructure deficiencies. The *2003-04 Budget Act* approved $539 million and the *2004-05 Governor's Budget* proposes $618 million for community college infrastructure.

FUTURE PROJECTS AND ISSUES

Community college districts use enrollment projections prepared by the chancellor's office to justify many projects proposed for funding, and the administration and the Legislature rely on them in making funding decisions. Many of the district projections we have examined, however, appear to be overly optimistic. We discuss our concerns below.

Figure 1

Community Colleges
2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Community Colleges						
Critical Infrastructure Deficiencies	$31,164	$42,896	$45,346	$40,000	$40,000	$199,406
Enrollment/Caseload Population	502,492	571,122	657,998	1,250,793	1,053,623	4,036,028
Facility Infrastructure Modernization	28,097	115,976	323,066	1,231,885	709,932	2,408,956
Totals	**$561,753**	**$729,994**	**$1,026,410**	**$2,522,678**	**$1,803,555**	**$6,644,390**
Projects Scheduled for Funding						
Critical Infrastructure Deficiencies	$31,164	$18,711	$21,062	$5,529	$7,700	$84,166
Enrollment/Caseload/ Population	502,983	356,697	306,436	175,497	204,400	1,546,013
Facility/Infrastructure Modernization	28,097	38,491	131,283	168,974	137,900	504,745
Totals	**$562,244**	**$413,899**	**$458,781**	**$350,000**	**$350,000**	**$2,134,924**
Approved in 2003-04 and Proposed in 2004-05						
Totals	$531,914	$617,592				

Enrollment Projections by Chancellor's Office Raise Questions

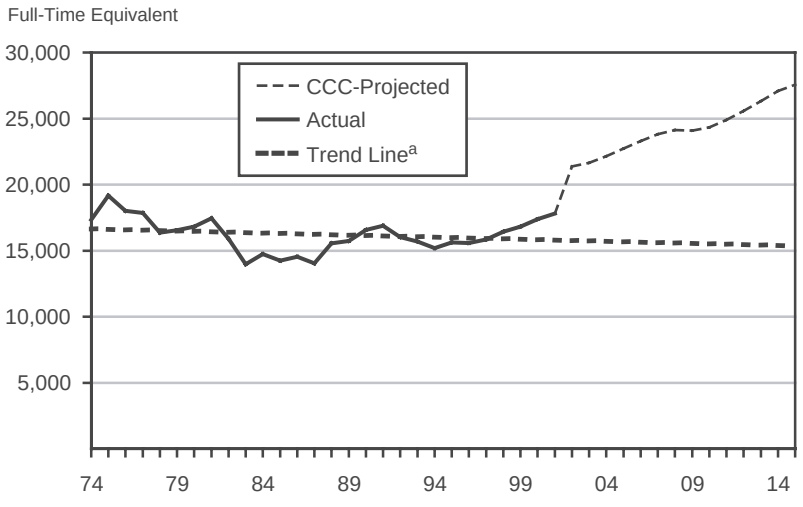
We recommend the Legislature direct the California Community Colleges to review the methods it uses to project enrollment in individual districts and report to the Legislature by November 1, 2004, on its findings and improvements that may be needed.

The community colleges chancellors office prepares projections annually of enrollment trends at each district, and the districts use these projections to justify construction of new buildings. These projections, however, appear to significantly overstate future enrollment in many cases—and therefore may be overstating the need to construct some new facilities. To illustrate, Figures 2 and 3 (see page 88) show enrollment history and projections for two large community college districts. The

solid black line in each figure shows the actual enrollments in the district from 1974 to 2001. The long-dash line shows the enrollment the chancellor's office projected for 2002 through 2015. The short-dash line shows the historical trend line.

Figure 2

Long Beach Community College District
Actual and Projected Enrollment

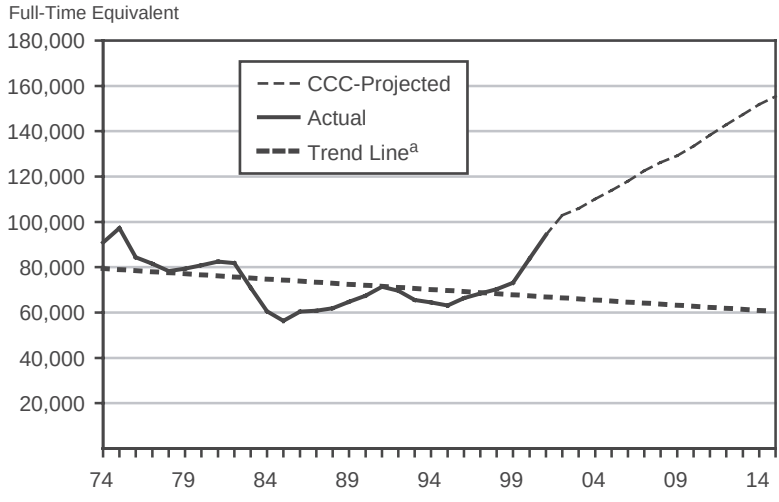


[a]Based on actual enrollment data from 1974 through 2001.

For example, in Figure 2 it can be seen that the Long Beach Community College District (CCD) had its peak enrollment in 1975 of about 19,000 full-time equivalent (FTE) students and has not had enrollment above that level since then. The trend line for the district, based on the actual enrollments between 1974 and 2001, shows a slight declining rate of enrollment, which would result in an enrollment of a little over 15,000 FTE students in 2015 (a 12 percent decline). The chancellor's office, however, projects an enrollment of over 27,000 FTE students in 2015—an increase of almost 55 percent. While there could be social or demographic reasons behind this projection—for example, a rapid increase in the area's high school population—we are not aware of what they could be in this particular case. The chancellor's office projection seems to be based largely on a recent slight uptick in enrollment. As Figure 2 shows, however, this increase can be viewed as a typical short-run fluctuation in the district's long-run "flat" enrollment picture.

Figure 3

Los Angeles Community College District
Actual and Projected Enrollment



[a]Based on actual enrollment data from 1974 through 2001.

There are similarly significant differences between the chancellor's office projections and the trend line for the Los Angeles Community College District—and a number of other districts we have examined. This raises a question whether the chancellor's office is using reasonable methods to project district enrollments. Since it is important for the Legislature to have accurate enrollment projections when making decisions about funding construction of new facilities for community colleges, we recommend the Legislature adopt supplemental report language directing the community colleges chancellor's office to examine enrollment projection methods to see if there are improvements that might be made and to report to the Legislature on its findings and planned improvements by November 1, 2004.

PROJECT RECOMMENDED FOR DELETION

San Francisco CCD: City College of San Francisco, Joint Use Instructional Facility

We recommend the Legislature delete $1,038,000 for development of preliminary plans for the Joint Use Instructional Facility for the City

College of San Francisco campus and recognize a reduction of future costs of $26,355,000 because the enrollment projections used to substantiate the need for the building are not justified, campus instructional facilities are underutilized, and the Legislature needs more information about the district's joint use agreement with California State University, San Francisco. (Delete $1,038,000 from Item 6870-301-6028[43].)

The budget includes $1,038,000 for development of preliminary plans for a 73,155 assignable square feet instructional building at City College of San Francisco (CCSF). The building is proposed to be used by both CCSF and California State University (CSU) San Francisco (CSUSF) for teacher preparation, early childhood education, community health, and other multidisciplinary programs. Figure 4 shows how this $39.1 million project is proposed to be funded by the district and the state. The district proposes to provide $11,695,000 for the project. Although CSUSF is proposed to partially utilize the building, CSU will not provide funds for the project.

Figure 4

San Francisco CCD: City College of San Francisco, Joint Use Instructional Facility State and District Cost Sharing

(In Thousands)

Phase	State	District	Phase Total
Preliminary plans	$1,038	$391	$1,429
Working drawings	982	366	1,348
Construction	24,514	9,738	34,252
Equipment	859	1,200	2,059
Totals	**$27,393**	**$11,695**	**$39,088**

The types of space proposed to be included in the building are shown in Figure 5 (see next page).

Our concerns with this project are that the enrollment projections the district has provided to substantiate the need for the project are not justified, campus instructional facilities are underutilized, and there is insufficient information to show that CSUSF is committed to joint use of the facility. These are discussed below.

Figure 5

San Francisco CCD: City College of San Francisco, Joint Use Instructional Facility Space Uses Proposed

Type	Asf
Teaching laboratories	32,455
Other	14,515
Classrooms	13,100
Offices	8,735
Library	2,900
Audio visual/television	1,450
Total	**73,155**

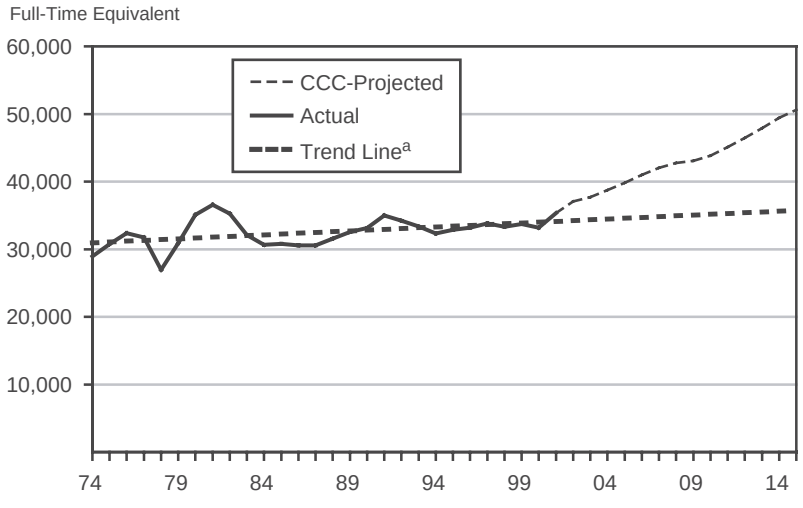
Enrollment Projections Not Justified. The community colleges chancellor's office prepares projections of enrollment trends for all districts. The San Francisco district relies on these projections in explaining why it believes this project is needed. We find these projections to be overly optimistic. The chancellor's office projections show enrollment in the San Francisco Community College District (SFCCD) increasing to almost 51,000 FTE students by 2015—a 43 percent increase over the actual enrollment in 2001. However, enrollment growth of this magnitude is inconsistent with the enrollment trend for the district over the last 25 years—and with population projections for San Francisco County and projections of K-12 enrollment in the county.

In the last 25 years, enrollment in the SFCCD has never exceeded 37,000 FTE students. Figure 6 shows the actual enrollment from 1974 to 2001, and the projection prepared by the chancellor's office indicating enrollment growing rapidly over the next decade. For comparison purposes, we show in Figure 6 the district's enrollment trend line. This shows the average growth rate based on actual experience over the last 25 years, and indicates what enrollment would be in the out-years if that trend persisted. It shows that enrollment would be less than 37,000 FTE students in 2015, much lower than the almost 51,000 FTE students the chancellor's office predicts for the district.

The trend line estimate may even overstate likely future enrollment in the district. There are two key factors that could cause the district's enrollment growth rate to increase substantially: (1) a rapidly growing local population or (2) rapid growth in enrollment in local K-12 schools. But neither of these situations is the case in San Francisco County. As

Figure 6

San Francisco College District
Actual and Projected Enrollment



[a]Based on actual enrollment data from 1974 through 2001.

Figure 7 (see next page) shows, the Department of Finance projects the general population of the county will decline slightly (from 787,500 to 763,880—a difference of about 3 percent) between 2000 and 2015, and that the K-12 student enrollment in the county will decline from about 61,700 to 51,300, a 17 percent decrease. (Adjacent counties have similarly static populations and in any case do not supply many students to the SFCCD). These estimates indicate that the district's enrollment is more likely to *decline* over the next decade.

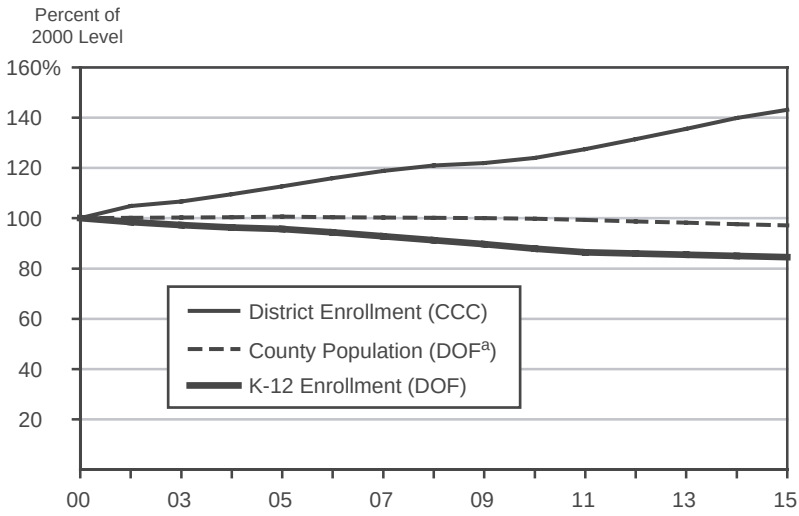
Campus Instructional Facilities Are Underutilized. The campus reports that it only utilizes its classroom stations (typically, a desk) about 81 percent of the number of hours per week required by current state utilization standards, and teaching laboratory stations about 92 percent. This means the campus could accommodate about 10 percent or more students just by utilizing its instructional facilities the number of hours per week required by current state utilization standards. This could allow about 1,700 FTE additional students to be accommodated each year.

In addition to not utilizing its classrooms and teaching laboratories as many hours per week as required by current state utilization standards, campus instructional facilities are underutilized during the summer term. The campus reports it enrolls only about 4,000 FTE students

during summer term, compared to about 17,000 FTE students during fall and spring terms. If campus instructional facilities were utilized year-round at the number of hours per week required by current state utilization standards, several thousand more students might be accommodated without the need to construct new buildings.

Figure 7

San Francisco Community College District Enrollment and Demographic Projections



[a]Department of Finance

Joint Use Agreement Unclear. The information the community college district has provided in support of this project does not demonstrate a commitment by CSUSF to deliver programs in this facility. There is little to explain what specific classes will be offered in the building by the two segments and how much space each will occupy. This is important information for the Legislature to have because if CSUSF is going to deliver courses in a new building at the CCSF campus, it reduces the need to construct instructional space at the CSUSF campus. The SFCCD indicates the joint use nature of the proposed building is part of its justification, but the information provided does not indicate the nature and extent of CSUSF's commitment to use of the building. Without clear commitments from both institutions, the Legislature has no basis to authorize the project as a joint use facility.

Because the project is not justified based on enrollment growth, existing instructional facilities are underutilized, and there is insufficient information about CSUSF's commitment to deliver programs at the proposed building, we recommend the Legislature delete the project. This would result in savings of $1 million from the budget for preliminary plans and recognize a reduction of $27.4 million of future costs. This will make over $28 million available for other high priority projects elsewhere in higher education.

DEPARTMENT OF FOOD AND AGRICULTURE (8570)

The Department of Food and Agriculture (DFA) operates 16 agricultural inspection stations, four veterinary laboratories, a chemistry and plant pest diagnostic laboratory, and an out-of-state pest laboratory in Hawaii. The Governor's budget proposes $19.6 million for two capital outlay projects. This amount includes $12.8 million from lease revenue bonds, $6.4 million from the State Highway Account, and $416,000 from the Department of Agriculture Fund.

Infrastructure Plan

For the *2003 California Five Year Infrastructure Plan*, DFA identified $203.9 million of infrastructure needs for the five-year period of 2003-04 through 2007-08 (see Figure 1). The needs identified by DFA primarily address the replacement and / or renovation of aging facilities, including laboratories, agricultural inspection stations, and office space. This figure also shows the amount of capital outlay appropriated in the *2003-04 Budget Act* and proposed in the *2004-05 Governor's Budget*.

We note that the plan proposed to fund $17.5 million in 2003-04, yet the amount approved totaled $10.9 million. The difference reflects the termination of the Dorris Agricultural Inspection Station (Siskiyou County) because of a lack of local support for the project. In addition, although the plan indicated there would be no projects in 2004-05, the Governor's budget proposes funding for an existing project that seeks a new appropriation because of higher-than-anticipated construction costs, and a project to perform repairs at a DFA facility that was not identified in the administration's infrastructure plan.

Figure 1

Department of Food and Agriculture 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by DFA						
Critical infrastructure deficiencies	$6,253	$58,096	$40,230	$8,300	—	$112,897
Program delivery changes	6,585	—	550	800	$8,300	16,235
Workload space deficiencies	3,036	11,078	700	60,000	—	74,814
Totals	**$15,874**	**$69,174**	**$41,480**	**$69,100**	**$8,300**	**$203,928**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	—	—	—	—	—	—
Program delivery changes	$6,585	—	—	—	—	$6,585
Workload space deficiencies	10,961	—	—	—	—	10,961
Totals	**$17,546**	**—**	**—**	**—**	—	**$17,546**
Approved in 2003-04 and Proposed in 2004-05						
Total	**$10,961**	**$19,652**				

Hawaii Mediterranean Fruit Fly Rearing Facility

We recommend the Legislature delete $416,000 for preliminary plans, working drawings, and construction for "repairs" to the existing Mediterranean Fruit Fly (Medfly) rearing facility in Hawaii, because repairs are funded from a department's annual operating expenses.

The Governor's budget proposes $416,000 from the Department of Agriculture Fund for preliminary plans, working drawings, and construction to repair an existing Medfly rearing facility in Waimanalo, Hawaii. However, repairs to existing facilities are not funded as capital outlay projects but, rather, are funded from a department's operating expenses.

Based on a review of the proposal, the DFA characterizes the tasks to be performed as repairs to the current Medfly facility. Moreover, the project was not identified as a capital outlay need in the 2003 infrastructure plan. Consequently, it does not appear that the proposed project entails facility "modifications and betterments," which would qualify as a capital outlay project.

Accordingly, we recommend the Legislature delete funding for this repair project. To the extent DFA believes this project consists of capital outlay, it should submit justification that establishes the capital outlay components of the project, a detailed description on the full scope of the project, and an explanation on why DFA did not identify this project in the administration's 2003 infrastructure plan.

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 118 armories and 32 maintenance operations throughout the state. Most of these facilities were built before 1960. The Governor's budget proposes $12.2 million of capital outlay expenditures for the department—$5 million from the General Fund and $7.2 million of federal funds. Most of this funding is for the Union Armory in Bakersfield.

We have no issues with the Governor's budget requests and recommend their approval. Below, we discuss the administration's 2003 infrastructure plan for the department and significant projects that may require funding in the future.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan*, the department identified a need for $422 million of capital outlay between 2003-04 and 2007-08 (see Figure 1 next page). The bulk of these funds relate to the renovation or replacement of existing armories. Federal funds are a significant source of funds for the department's capital outlay program.

Impact of the War on Terrorism

We recommend the department provide the Legislature more information about the impact the war on terrorism may have on the department's capital outlay funding needs.

The Military Department manages the Army and Air National Guard. The National Guards' historical roles have been to supplement regular armed forces in the event of foreign conflict, and to provide manpower and equipment to respond to natural and civil emergencies in the state.

Figure 1

Military Department 2003 Infrastructure Plan

(In Thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by Military Department						
Critical infrastructure deficiencies	$9,462	$19,348	$12,334	—	—	$41,144
Enrollment/caseload/ population	1,963	12,055	—	—	—	14,018
Facility/infrastructure modernization	9,099	5,863	—	—	—	14,962
Workload space deficiencies—existing	6,944	22,747	17,830	$25,527	$91,171	155,097
Workload space deficiencies—new	13,334	72,155	62,288	22,104	17,299	187,180
Totals	**$40,802**	**$132,168**	**$92,452**	**$47,631**	**$108,470**	**$421,523**
Projects Scheduled for Funding						
Critical infrastructure deficiencies	$8,262	$12,733	$12,344	—	—	$33,329
Enrollment/caseload/ population	—	—	—	—	—	—
Facility/infrastructure modernization	—	14,962	—	—	—	14,962
Workload space deficiencies—existing	—	8,699	28,862	$30,676	$91,168	159,405
Workload space deficiencies—new	11,274	62,062	28,316	15,987	17,299	134,938
Totals	**$19,536**	**$98,456**	**$69,512**	**$46,663**	**$108,457**	**$342,634**
General Fund						*$138,460*
Federal funds						*204,174*
Approved in 2003-04 and Proposed in 2004-05						
Totals	**$32,820**	**$12,251**				

With the increased specter of terrorism within the United States, it is not clear if or how the National Guards' role might be changed or expanded and if there may be substantial state cost increases for department facili-

ties in the future. We recommend the department brief the Legislature during budget hearings on how it foresees the war on terrorism affecting its activities and facilities, and the capital outlay costs this may impose on the state.

DEPARTMENT OF VETERANS AFFAIRS (8955-8966)

The Department of Veterans Affairs (DVA) provides medical care, rehabilitation, and residential services to California veterans and their dependents, including operation of veterans' homes in Yountville, Barstow, and Chula Vista. The department has received authorization and funding to construct five new veterans' homes—one each in Redding and Fresno, and three in the greater Los Angeles area. The Governor's budget contains no capital outlay funding for the department.

The 2003 infrastructure plan for the department does not address the construction of three legislatively authorized new veterans' homes in the Los Angeles area. This is discussed below.

Infrastructure Plan

In the *2003 California Five Year Infrastructure Plan* the department identified a need for $167 million of capital outlay for various building and infrastructure construction projects for the veterans homes between 2003-04 and 2007-08. The category indicates the type of programmatic need for the capital investment (new and modernized program space, new and modernized infrastructure elements).

Of the $167 million the plan proposes to expend during this 5-year period, $64 million is state funds and $103 million federal funds.

New Veterans Homes

We recommend the department report at budget hearings on its plans to construct three new veterans' homes in Lancaster, Saticoy and West Los Angeles, as well as the status of the Redding and Fresno homes.

The Legislature has previously expressed its intention that three new veterans' homes be constructed in southern California. Legislative action includes:

Figure 1

Department of Veterans Affairs (DVA)
2003 Infrastructure Plan

(In Thousands)

Category	2003-04	2004-05	2005-06	2006-07	2007-08	Total
Needs Identified by DVA						
Enrollment/caseload/ population	$75,358	—	—	—	—	$75,358
Critical infrastructure deficiencies	18,473	$565	$3,684	—	$52,400	75,122
Facility/infrastructure modernization	—	9,462	3,432	$1,056	1,824	15,774
Workload space deficiencies	—	264	1,056	—	—	1,320
Totals	**$93,358**	**$10,291**	**$8,172**	**$1,056**	**$54,224**	**$167,574**

- Chapter 216, Statutes of 2002 (AB 2559, Wesson), which appropriated $31 million from the proceeds of the Veterans' Homes Bond Act of 2000 for construction of new veterans' homes in Lancaster, Saticoy and West Los Angeles.
- Chapter 217, Statutes of 2002 (SB 1234, Johannessen), authorized the sale of up to $62 million of lease revenue bonds for the construction of new veterans' homes in Lancaster, Saticoy and West Los Angeles, as well as for projects at the existing homes at Yountville, Barstow and Chula Vista, and new homes at Redding and Fresno.

It is not clear how the department plans to respond to this legislation. We recommend the department report at budget hearings on its plans for these veterans' homes.

FINDINGS AND RECOMMENDATIONS

Capital Outlay

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Office of Emergency Services

G-30 ■ **Need for and Scope of Planned Operations Centers Unclear.** We recommend the office report at budget hearings regarding its plans for potential relacement of two existing operation centers.

Department of Justice

G-33 ■ **Statewide DNA Laboratory.** We recommend the department explain how funds appropriated for this project were expended instead for general department support purposes. Furthermore, we recommend the department report at budget hearings regarding the status of planning efforts for the new DNA lab. This information should include available scope and cost information, and available workload projections for the DNA program.

California Science Center

G-36 ■ **Science Center Expansion Projects.** Recommend the center report at budget hearings on the status of raising the necessary nonstate funds for construction of the Phase II expansion project.

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Department of Parks and Recreation

G-41 ■ **Retention of Project Management Authority.** Recommend the Legislature extend the Department of Parks and Recreation's project management authority over its capital outlay projects from January 1, 2005 to January 1, 2008.

Corrections

G-50 ■ **Projects Recommended for Approval Subject to Review of Preliminary Plans.** Recommend Item 5240-301-0001, Schedules (4), (5), and (8) be approved, subject to the department submitting substantially complete preliminary plans, cost estimates, and schedules so conformance with the Legislature's approved scope and cost can be verified.

G-52 ■ **Provisional Language.** Recommend the Legislature delete budget bill language that allows the department to use funds appropriated for budget packages and advance planning—for preparation of project preliminary plans. (Amend Provision 1 of Item 5240-301-0001.)

G-53 ■ **Capital Outlay Program Administration.** Recommend the department report at budget hearings adopt on the reason for the large number of capital outlay reappropriations that have been required in recent years.

Department of the Youth Authority

G-56 ■ **Required Reports Not Submitted.** Recommend the Legislature defer action on the department's capital outlay budget until reports on facilities conditions and mental health treatment facilities required by the *Supplemental Report to the 2003-04 Budget Act* are submitted and reviewed.

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G-57 ■ **Preliminary Plans.** Recommend the Legislature amend Provision 1 of Item 5460-301-0001 to delete authorization to expend funds appropriated under Schedule (1) for preparation of preliminary plans.

Education

G-58 ■ **2004-05 Proposal Not Previously Identified as a Priority.** Recommend the State Special Schools and Services Division report at budget hearings on the reason its proposal in the Governor's budget had not previously been identified as a priority project.

University of California

G-60 ■ **Utilization of Facilities.** Recommend the Legislature approve Supplemental Report language directing the University of California (UC) to base its state-funded capital outlay plans on utilization of instructional facilities year-round in accordance with state utilization standards.

G-62 ■ **Construction Cost Guidelines.** Recommend the Legislature fund construction of new UC facilities using construction cost guidelines based on the costs of buildings of peer institutions.

G-64 ■ **Funding Faculty Research Facilities.** Since UC research facilities can be self-financed, we recommend that the Legislature reserve state bond funds for other higher educatin facilities.

G-65 ■ **Irvine: Engineering Unit 3. Reduce Item 6440-302-6041(5) by $2,426,000.** Recommend the Legislature reduce $2,426,000 from the Higher Education Capital

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Outlay Bond Fund of 2004 and add $2,426,000 from reimbursements for preliminary plans and working drawings for Engineering Unit 3 at the Irvine campus, and recognize future costs of $16,374,000 from state funds and $31,629,000 from reimbursements for construction and equipment.

G-68 ■ **Los Angeles: Life Sciences Replacement Building. Reduce Item 6440-301-6041(5) by $1,970,000.** Recommend the Legislature reduce $1,970,000 from the Higher Education Capital Outlay Bond Fund of 2004 and add $1,970,000 from reimbursements for preliminary plans for the Life Sciences Replacement Building at the Los Angeles campus, and recognize future costs of $6,505,000 from state funds and $58,028,000 from reimbursements for working drawings and construction.

G-70 ■ **Riverside: Materials Science and Engineering Building.** Reduce Item 6440-302-6041(9) by $2,971,000. Recommend the Legislature reduce $2,971,000 from the Higher Education Capital Outlay Bond Fund of 2004 and add $2,971,000 from reimbursements for preliminary plans and working drawings for the Materials Science and Engineering Building at the Riverside campus, and recognize future costs of $14,266,000 from state funds and $37,954,000 from reimbursements for construction and equipment.

G-72 ■ **Riverside: Genomics Building. Reduce Item 6440-301-0660(1) by $55,000,000 and Increase Item 6440-301-6041(24) by $17,624,000.** Recommend the Legislature delete $55,000,000 of funding from the Public Buildings Construction Fund and add $17,624,000 from the Higher Education Capital Outlay Bond Fund of 2004 and

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$37,376,000 from reimbursements for preliminary plans, working drawings, construction, and equipment for the Genomics Building at the Riverside campus. Further recommend UC revert $44.6 million of proceeds from the sale of surplus land at the Riverside campus to the General Fund.

G-75 ■ **San Diego: Music Building. Reduce Item 6440-301-6041(13) for Preliminary Plans and Working Drawings for the Music Building at the San Diego Campus by $3,802,000.** Recomment deletion of proposed project.

G-76 ■ **Santa Cruz: Digital Arts Facility. Reduce Item 6440-301-6041(22) for Preliminary Plans for the Digital Arts Facility at the Santa Cruz Campus by $1,330,000.** Recomment deletion of proposed project.

California State University (CSU)

G-80 ■ **Channel Islands Property.** Recommend CSU be directed to report at budget hearings on options the state might have to realize revenue to the General Fund by sale of the "lemon orchard parcel."

G-82 ■ **Fullerton: College of Business and Economics. Reduce Item 6610-302-6041(5) by $11,871,000.** Recommend the Legislature delete $11,871,000 from the Higher Education Capital Outlay Bond Fund of 2004 and add $11,871,000 from reimbursements for preliminary plans, working drawings, and construction.

California Community Colleges

G-86 ■ **Chancellor's Office Enrollment Projections.** Recommend the Legislature adopt supplemental report

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language directing the community colleges chancellor's office to undertake a review of its enrollment projection methods to identify potential improvements and report to the Legislature by November 1, 2004, on its findings and planned improvements.

G-88 ■ **San Francisco Community College District, City College of San Francisco, Joint Use Facility. Reduce Item 6870-301-6028 by $1,038,000.** Recommend the Legislature delete $1,038,000 for development of preliminary plans and recognize a reduction of $27,393,000 of future costs for working drawings, construction, and equipment because the project is not justified on the basis of enrollment growth, existing instructional facilities at the campus are underutilized, and the commitment of California State University San Francisco to use the facility is unclear.

Department of Food and Agriculture

G-95 ■ **Hawaii Mediterranean Fruit Fly Rearing Facility. Delete Item 8570-301-0111**. Recommend the Legislature delete $416,000 for preliminary plans, working drawings, and construction for "repairs" to the existing Mediterranean Fruit Fly (Medfly) rearing facility in Hawaii, because repairs are funded from a department's annual operating expenses.

Military Department

G-97 ■ **Impact of War on Terrorism on Capital Outlay Needs.** Recommend the department be directed to report at budget hearings on the nature and extent of any impact the war on terrorism may have on the department's future capital outlay needs.

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Department of Veterans Affairs

G-100 ■ **New Southern California Veterans' Homes.** Recommend the department report at budget hearings on its plans to construct three new veterans' homes in Lancaster, Saticoy, and West Los Angeles, as well as the status of the Redding and Fresno homes.