



Reprint

FROM *THE ANALYSIS OF THE 1993-94 BUDGET BILL*

DEFERRED MAINTENANCE IN STATE FACILITIES

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DEFERRED MAINTENANCE IN STATE FACILITIES FISCAL ISSUES FOR 1993-94

How Can the Legislature Address the Need for Proper Maintenance of State Facilities and the Elimination of the Huge Backlog of Deferred Maintenance in These Facilities?

Summary

This reprint from our Analysis of the 1993-94 Budget Bill discusses the problem of deferred maintenance in state facilities. State agencies that control significant state assets have developed a deferred maintenance backlog totaling \$820 million. In general, this backlog has occurred due to the underfunding of ongoing maintenance and special repair projects and the redirection of monies budgeted for maintenance to other activities. Failure to address this backlog will shorten the useful life of state facilities and result in more costly expenditures for renovation or replacement. We make recommendations to prevent any further redirection of maintenance funding and to require the state agencies to prepare multi-year strategies to properly address their maintenance and to eliminate deferred maintenance backlogs.

DEFERRED MAINTENANCE IN STATE FACILITIES

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

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

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

State Currently Has a Large Deferred Maintenance Backlog

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

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

Figure 15
Special Repair/Deferred Maintenance Expenditures and Identified Needs for Selected Departments

(In Millions)

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

^a Expenditures do not include \$2.4 million in 1991-92 and \$3.2 million proposed in 1993-94 to reroof Atascadero State Hospital.
^b Amounts undetermined in light of proposed unallocated reductions in Governor's Budget.
^c Expenditures include district matching funds.

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

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

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

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

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

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

Redirection of Maintenance Funding Should Be Stopped

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

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

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

Need to Eliminate Deferred Maintenance and Properly Maintain Facilities

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

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

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

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

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