

CAPITAL OUTLAY SUMMARY

The Legislature is faced with the challenge of financing an ever increasing unmet need for public capital improvements statewide. Currently, planning and financing these improvements is in a state of disarray resulting in a haphazard and ineffective process for meeting the state's needs.

Capital outlay is a program that needs to be considered in the aggregate so that the relative priorities of various needs can be assessed and a comprehensive financing plan established. In this way the necessary public infrastructure can be in place in a timely manner to accommodate program services to be provided now and in the future. Unlike support budgets, however, capital improvements require long lead times for planning, acquiring sites, developing construction documents and constructing the improvement. Thus, if facilities are to be available on a timely basis, the process for determining needs, setting relative priorities and developing a financing plan must take these timeframes into consideration. Moreover, these improvements are built for specific purposes and have long useful lives. Once constructed, there is limited flexibility to make changes. If changes are necessary, it is generally very costly. Consequently, careful planning with regard to identifying needs, setting priorities and determining appropriate financing are essential if the public's infrastructure needs are to be met in an effective manner.

What is the Demand for Public Infrastructure?

There is a large demand for improvement/expansion of the public's infrastructure. For example, in 1984 the Governor's Infrastructure Review Task Force reported that over the ensuing 10-year period approximately \$29 billion would be needed for deferred maintenance and \$49 billion for new infrastructure. Based on current information, \$20 billion will be needed to fund transportation improvements over the next 10 years and \$4.6 billion will be needed over the next five years just to fund projects for those department's that have capital outlay proposals in the 1989-90 Budget Bill. This amount does *not* reflect all potential needs because the five year plans for all departments with budget year requests are not available and some departments are excluded all together. For example, the University of California provides only a partial three-year plan, and the Community Colleges have not aggregated the various district plans into a statewide estimate. Our review of the available plans indicates that there are several major issues and problems concerning capital outlay that are confronting the Legislature.

Capital Outlay Planning Issues Facing the Legislature

A major issue that needs to be addressed is what the state's public facility capital outlay needs are in view of the state's current services and projected population. For example:

- **Prisons.** Over the past eight years, California's state prison population more than tripled (to over 76,000 inmates in January 1989) and is expected to reach 110,000 inmates by mid-1994. Based on the Department of Correction's current prison overcrowding policy, the state will need to spend another *\$1.5 billion to \$2.0 billion* for additional prisons between now and 1994-95 to accommodate this level of growth.

CAPITAL OUTLAY SUMMARY—Continued

- **Higher Education.** Enrollments in higher education are expected to increase dramatically through the turn of the century. Accommodating this enrollment will require the expenditure of several billion dollars to expand existing campuses and perhaps add several campuses throughout the three segments of higher education.
- **State Office Buildings.** Since 1978, the state has increased its leasing activities for office space in order to house state employees. For example, in Sacramento the amount of leased office space has increased from 2.4 million square feet in 1978 to 4.6 million square feet currently (a 92 percent increase). In the same time period the annual cost for leased space has increased more dramatically, increasing by over 400 percent from \$12 million to \$56 million.

Changes Needed to Avert Current Problems. To address these and other capital outlay issues, the state's planning process needs to look forward, beyond the budget year, in a more comprehensive manner. Specifically, the state needs to determine current and future needs, set priorities for development and identify a financing plan for priority projects. Implementation of such changes should avert some of the following problems that have been characteristic of the state's capital program to date:

- Designing buildings when no funds are available to construct them resulting in outdated plans that must be redone at added cost when the building construction is finally financed.
- Leasing state office space when it would be more fiscally prudent to construct state-owned space.
- Developing plans for new facilities, especially in postsecondary education, when there is no known fund source to complete the facilities.
- Sizing bond issues for voter consideration without adequate information on projected program and facility needs, generally resulting in undersized bond proposals.

To assist the Legislature in its review of the state's 1989-90 capital outlay program, we have pulled together the various programs into a separate section in our *Analysis*. In our review of the state's capital outlay program, we have summarized (to the extent information is available) the status of the five-year capital outlay plans for those agencies for which capital outlay funds are included in the budget. A summary of the proposed statewide program is provided below.

Summary of 1989-90 Capital Outlay Program

The Budget Bill includes \$715 million for capital outlay (*excluding* highways and the State Water Project) from all sources. The state's budget year capital outlay program is proposed to be financed almost entirely from special funds and bond funds.

Tidelands Revenues No Longer a Source of Funds. The Budget Bill does *not* include any financing proposals for capital outlay from tidelands oil revenue. The major reason for this is the decline in tidelands oil revenue in both the current and budget years. The 1988 Budget Act appropriations from tidelands oil revenue were based on an estimated 1988-89 revenue of \$115 million while the current estimate for 1988-89 revenue is \$80 million. Because the Special Account for Capital Outlay

(SAFCO) is the last fund to receive tidelands oil revenue, the estimated decline in revenue results in a \$35 million reduction in the amount deposited in SAFCO in 1988-89. This reduction, coupled with an overexpenditure from SAFCO, leaves a deficit of about \$38 million as of June 30, 1989. To compound this problem, the estimated revenue from tidelands oil in 1989-90 is only \$50 million. Consequently, the Governor's Budget proposes to spend the 1989-90 revenues on the State Lands Commission support/operations budget (\$12 million) and to eliminate the SAFCO deficit (\$38 million). For a more detailed discussion of this situation, please see our analysis of Control Section 11.50.

Nearly \$1 Billion Needed to Complete Proposed Projects. Table 1 summarizes the proposed capital program and fund sources, by program area. *As shown in Table 1, the estimated future cost to complete the proposed capital outlay program totals at least \$965 million.* The administration has *not* identified the fund sources necessary to complete this budget year program.

Table 1
1989-90 Capital Outlay Program
(excluding Highways and the State Water Project)
(dollars in millions)

<i>Program Area</i>	<i>Bond Funds</i>	<i>Special Funds</i>	<i>Estimated Future Cost^a</i>
Legislative/Judicial/Executive.....	—	—	—
State and Consumer Services.....	—	\$0.7	—
Business, Transportation and Housing.....	—	6.8	\$5.8
Resources ^b	\$147.0	31.9 ^c	3.7 ^d
Health and Welfare.....	—	17.5	31.2
Youth and Adult Corrections.....	29.0	—	187.1
Postsecondary Education:			
University of California.....	188.0	—	289.2
California State University.....	181.9	—	304.4
California Community Colleges.....	111.1	—	129.7
Maritime Academy.....	0.5	—	—
General Government.....	—	0.8	14.4
Totals.....	\$657.5	\$57.7	\$965.5

^a Departmental estimates to complete projects included in the Budget Bill.

^b Includes funds previously or continuously appropriated that do not appear in the Budget Bill.

^c Includes \$135,000 in federal funds.

^d Estimated costs to develop proposed property acquisitions for park and recreation purposes is *not* available from the responsible departments and therefore is not included in future costs. This future cost, however, will be substantial.

Major Elements. The following is a brief summary of the major elements of the proposed capital outlay program:

- **Business Transportation and Housing.** About 50 percent of this program is to purchase leased facilities for the Department of the California Highway Patrol. The balance is for planning two new Highway Patrol offices and for relatively small projects in the Departments of Motor Vehicles and Transportation.
- **Resources.** Most of the capital outlay proposals in this area are for acquisition of lands to preserve or restore natural habitat, and acquisition and development of lands for recreational purposes.

CAPITAL OUTLAY SUMMARY—Continued

- **Health and Welfare.** Nearly all of this program is to continue various improvements at Atascadero and Metropolitan State Hospitals. Proposed funding for this program is from the Cigarette and Tobacco Products Surtax Fund.
- **Youth and Adult Correctional.** This includes \$21 million for various alterations at *existing prisons* and \$8 million for the Department of the Youth Authority. Most of the latter amount is for property acquisition and planning for a new 1,800-bed institution. These funds are from the 1988 General Obligation Bond program. The Legislature has yet to receive a 1989-90 funding request for any *new* facilities from the Department of Corrections.
- **Postsecondary Education.** The capital outlay program for postsecondary education makes up *66 percent* of the Governor's proposed capital outlay program for 1989-90. This \$482 million proposed program includes over 180 proposals to plan, construct and/or equip a wide range of projects to alter existing or build new facilities. Of the proposed amount, 36 percent is from general obligation bonds approved by the voters in November 1988. The remaining 64 percent is from revenue bonds for which the "revenue" is the state General Fund. In addition to this amount, the Governor proposes \$500,000 in UC's support/operations budget (Item 6440) for planning three new campuses and \$521,000 in CSU's support/operations budget (Item 6610) to initiate the process to turn the San Marcos Center (San Diego County) into a full-service campus.

As discussed in detail below, the financing of the state's capital program is very dependent on bond financing. Recent legislative changes will reduce the amount of funds available for construction in order to pay specified interest costs from this source.

Financing Capital Expenditures

As shown in Table 1, bond funds provide the overwhelming majority of the funding requested for capital outlay in 1989-90. Bond funds also provide state support for local capital outlay projects, such as schools, jails and parks. The state will borrow the money to pay for these expenditures (primarily by selling bonds) and repay the borrowed amounts, including interest, with future tax revenues over roughly the next 20 years.

General Obligation and Lease-Revenue Bonds. The most familiar method of borrowing is by issuing general obligation bonds, which are backed by the state's taxing power, and must be approved by the voters. Debt service payments (principal and interest) on these bonds are continuously appropriated from the General Fund. In addition, the Legislature has authorized the State Public Works Board to issue lease-revenue bonds to finance certain categories of facilities, particularly buildings for the higher education segments and prisons. Like general obligation bonds, lease-revenue bonds are repaid by the General Fund, although they do not pledge the state's taxing power or require voter approval. Instead, the bonds are repaid through the mechanism of lease payments appropriated in individual departmental support budgets each year.

Short-Term Borrowing. Since the passage of the federal Tax Reform Act of 1986 (TRA 86), short-term borrowing has been used to finance most capital outlay expenditures before bonds are sold. This is because

TRA 86 severely restricts the investment of temporarily idle bond proceeds. Violating these requirements could result in the bonds losing their federal tax exemption. Since the precise timing of payments to contractors and other project costs is difficult to predict, the State Treasurer usually sells bonds only after project payments have been made.

Initial bond program expenditures are covered by loans from the Pooled Money Investment Account (PMIA). The loan principal is repaid from the bond proceeds when the bonds are sold. Until recently, the interest on the loans was paid by the General Fund for most general obligation bond programs. Chapter 984, Statutes of 1988, (SB 2172, Campbell) now requires the interest to be paid from the bond proceeds for most programs. Chapter 984, an urgency measure, became effective in September 1988.

Interest Costs Reduce Available Bond Funds. The State Treasurer's Office estimates that a total of about \$155 million of interest on PMIA loans will be charged to bond funds during the current year and 1989-90. Consequently, \$155 million of the proceeds of future bond sales will be used to pay interest to the PMIA rather than for direct program expenditures, such as the construction costs of postsecondary education facilities and prisons. Interest on PMIA loans in future years will reduce available bond funds even further.

General Fund Debt-Service Costs in 1989-90

Table 2 lists the total General Fund costs of debt service in 1989-90 and compares the amounts included in the Governor's Budget estimates with projections of these costs made by the State Treasurer's Office. As shown in the table, the Treasurer's Office projections indicate a total debt-service cost of about \$730 million in 1989-90, which is \$43 million *more* than the budget estimate.

Table 2
1989-90 General Fund Debt Service Costs
Comparison of Governor's Budget with
Treasurer's Office Projections
(dollars in millions)

	<i>Budget Estimates</i>	<i>Treasurer's Projection</i>	<i>Difference</i>
Principal and interest on general obligation bonds..	\$609.8	\$627.8 ^a	\$18.0
General Fund interest on PMIA loans ^b	4.0	14.4	10.4
Revenue bond lease payments ^c	72.4	87.4	15.0
Totals.....	\$686.2	\$729.6	\$43.4

^a Includes accrued interest on bonds sold in the last half of 1988-89.

^b Net interest cost *emdsh* the difference between interest charged on the loans and interest earned on idle loan funds.

^c Only amounts related to debt service are included *emdsh* principal, interest, and trustee fees.

Principal and Interest on General Obligation Bonds. The budget estimate consists of (1) scheduled payments on existing bonds and (2) estimated payments on new bonds that will be sold through 1989-90. For the second component of the estimate, the Department of Finance used a projection of bond sales prepared by the Treasurer's Office, based on spending estimates provided by various departments. The Treasurer's Office projects that bond sales will total \$2.2 billion from January 1, 1989

CAPITAL OUTLAY SUMMARY—Continued

through June 30, 1990. In preparing the budget estimate, however, the Department of Finance reduced the amount of bond sales projected by the Treasurer's Office by \$600 million by assuming that departments would not be able to spend money as quickly as they had estimated. The savings in principal and interest costs assumed in the budget because of the smaller volume of bond sales was partially offset, however, by a timing error that overstated interest charges for the new bonds. The net result is that the cost projected by the Treasurer's Office is \$18 million more than the budget estimate.

General Fund Interest on PMIA Loans. The General Fund continues to pay the interest on PMIA loans for two categories of bond funds. Chapter 984 specifically exempted certain bond funds, such as the park and wildlife bonds authorized by Proposition 70, from paying interest on PMIA loans. Also, some bond acts do not authorize the use of bond proceeds to pay interest, and the General Fund must pay the interest in those cases. The Department of Finance estimates a cost of \$4 million in 1989-90 to pay interest on PMIA loans, which is \$10.4 million less than the Treasurer's projection. The primary reason for the difference is Finance's assumption that bond program spending will be slower than the departmental estimates, and consequently the need for loans will be less than the Treasurer's Office projects.

Revenue Bond Lease Payments Deferred to Future Years. The budget requests a total of \$72.4 million in 1989-90 for lease payments to cover debt service on Public Works Board lease-revenue bonds. Most of this money is for the Department of Corrections (\$53.7 million) and the University of California (\$15 million). The Treasurer's Office estimates that an additional \$15 million would be needed in 1989-90 to make lease payments on revenue bonds that normally would be sold during the last half of the current year to finance recently completed projects. The administration, however, intends to postpone the sale of these bonds in order to defer these lease payments into future years. Meanwhile, the PMIA loans that have been used to finance these projects on an interim basis will accrue additional interest, so that eventually a larger amount of bonds will have to be sold to cover this increased cost. As a result, future lease payments will be larger than they would be if the revenue bonds were sold now.

Our review of the individual capital outlay requests follows.

DEPARTMENT OF CONSUMER AFFAIRS—CAPITAL OUTLAY

Item 1655-301 from the
Consumer Affairs Fund

Budget p. SCS 94

Requested 1989-90	\$568,000
Recommended approval	118,000
Recommended reduction	450,000

OVERVIEW OF THE BUDGET REQUEST

The budget includes funds for the following two capital outlay projects for the Department of Consumer Affairs (DCA):

- a minor capital outlay project (\$118,000) to construct a handicap access ramp into the department's headquarters in Sacramento, and
- \$450,000 for preliminary plans, working drawings and construction to modify restrooms and drinking fountains within DCA's Sacramento office and adjoining annex for handicap access.

Five-Year Capital Outlay Plan. Although the State Administrative Manual requires departments to annually prepare a five-year capital outlay plan, DCA last submitted such a plan to the Legislature in November 1986. This submittal was in response to a specific legislative directive in the 1986 Budget Act. According to that plan, in addition to the projects requested in the budget, DCA was to request funds in 1989-90 to upgrade the electrical system in the headquarters building and annex (estimated cost of \$1.0 million). The budget does not include this request.

ANALYSIS AND RECOMMENDATIONS**Minor Project**

We recommend approval.

The budget includes \$118,000 for construction of a handicap access ramp at DCA's headquarters.

Sacramento Office Building—Handicap Access and Modifications

We recommend deletion of the \$450,000 requested under Item 1655-301-702 for modifications to the DCA Office Building/Annex because the department has not justified the need for the project or the specific scope/cost. (In our analysis of DCA's support budget, we recommend transferring excess Consumer Affairs Fund balances to the General Fund and various special funds, including the \$450,000 savings resulting from this recommendation.)

The budget includes \$450,000 for preliminary plans, working drawings and construction to (1) make restrooms handicap accessible and (2) modify 60 drinking fountains to comply with current code requirements at the department's headquarters building and adjoining annex. At the time this analysis was prepared, the department had not provided the Legislature with any information either (1) identifying which restrooms are to be altered, (2) specifying the extent of alteration to be done or (3) substantiating the cost estimate (\$450,000).

Moreover, the department has not justified the need for the project. Alterations already have been made to provide handicap accessible

DEPARTMENT OF CONSUMER AFFAIRS—CAPITAL OUTLAY—Continued

restrooms on three of the building's six floors, resulting in handicap accessibility comparable to other state buildings. The department has not provided any reason for modifying all 60 drinking fountains in the building other than the fact that modifications are needed to comply with current building codes. The main building and annex were built in 1939 and 1948, respectively. Since codes (which are intended to apply to *new* buildings and major alterations) typically change every several years, it is common for buildings of even moderate age to be out of compliance with many code requirements. The state is not systemically upgrading drinking fountains in other buildings to meet code requirements. It is not clear why it should be necessary in the DCA buildings.

In view of the above, we recommend deletion of the \$450,000 request. The savings resulting from this recommendation (\$450,000), if adopted, would increase the surplus in the Consumer Affairs Fund. In our analysis of DCA's support budget, we recommend transferring excess Consumer Affairs Fund balances to the General Fund and various special funds. The amount recommended for transfer includes the \$450,000 saved by deleting this project.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY

Item 1760-301 from the Service

Revolving Fund

Budget p. SCS 136

Requested 1989-90	\$92,000
Recommended approval	92,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
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1. Financing Plan for Five-Year Capital Outlay Plan. Recommend the department submit to the Legislature, prior to budget hearings, a proposed financing plan to implement the capital improvements identified in the department's five-year capital outlay plan. 1007

GENERAL PROGRAM STATEMENT**Five-Year Capital Outlay Plan**

The major thrust of the Department of General Services' (DGS) capital outlay program includes (1) construction and renovation of state office buildings for use by General Fund-supported agencies, and (2) construction of or addition to other facilities which serve multiple state agencies (such as the Sacramento Central Plant, parking structures, and storage facilities).

Table 1 shows that the department plans design and construction activities totaling \$643 million over the next five years, including state office buildings in Sacramento, state office buildings in other areas, other facilities (parking structures and a Central Plant cogeneration facility), and minor capital outlay. The plan would add 2.4 million net square feet of state-owned office space and 900 to 1,100 parking spaces in Sacramento.

It would also add 246,000 net square feet of state-owned office space in other areas of the state.

Table 1
Department of General Services
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands)

<i>Project Category</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
Sacramento Office Buildings	\$51,600	\$82,850	\$60,780	\$164,530	\$63,630	\$423,390
Other Office Buildings	9,050	71,200	1,950	7,190	63,650	153,040
Other Facilities	51,890	6,750	400	4,600	200	63,840
Minor Capital Outlay	600	600	600	600	600	3,000
Totals	\$113,140	\$161,400	\$63,730	\$176,920	\$128,080	\$643,270

The priority of construction projects in the plan is determined through Office of Project Development and Management (OPDM) facility plans for consolidation of state office space. The OPDM has developed facility plans for 36 planning areas around the state, and updates these plans at least once every five years. While we understand from conversations with department staff that several specific criteria are used in setting priorities for construction proposed in these facility plans, these criteria are not included in the department's five-year plan.

ANALYSIS AND RECOMMENDATIONS

We recommend that, prior to budget hearings, the department submit to the Legislature a proposed financing plan to implement the capital improvements identified in the department's five-year capital outlay plan.

Five-Year Plan Does Not Provide Sufficient Information. As noted above, the department's five-year plan does not include the criteria used by the department in determining the priority order of construction projects. We recommend that the department provide the Legislature with more complete information by including these criteria in its plan, along with a discussion of how each proposed project meets these criteria. The Legislature will then have sufficient information to judge whether the priorities presented in the plan match its own priorities.

The Budget Does Not Support the Department's Capital Outlay Plan. The budget requests \$92,000 for minor alterations at the State Printing Plant. The budget, however, does *not* include funds for DGS major capital outlay projects. In part, this is because there are no funds available for new projects from the Special Account for Capital Outlay (SAFCO), which has in the past supported capital outlay for General Fund-supported agencies. Moreover, the department has historically not proposed construction funding for projects which it has designed.

Consequently, the budget makes no provision of construction funds for five state office building projects which have been in the planning stages for up to 10 years. Table 2 shows that since 1978-79 the Legislature has appropriated \$4.8 million for preliminary planning of these projects.

DEPARTMENT OF GENERAL SERVICES—CAPITAL OUTLAY—Continued

Table 2
Department of General Services
Planning of Major State Office Buildings
1978 through 1988
(dollars in thousands)

Building	Year Preliminary Plans	Amount Appropriated	Year Construction Proposed	Estimated Future Cost ^a
	Funded			
Secretary of State/Archives (Site 7)	1988	\$1,700	1990-91	\$76,000
Franchise Tax Board II	1985	841	1989-90	28,000
Board of Equalization (Site 4)	1978	581		
	1984	500	1991-92	55,000
Waste Board/Lands Commission (Site 1-D)	1978	235		
	1984	87	Not Proposed	^b
State Library (Site 5)	1978	287		
	1984	526	1989-90	21,000
Totals		\$4,757		\$180,000

^a Based on the department's five-year capital outlay plan.

^b The department no longer intends to develop this site.

The State Has Leased Needed Space in Sacramento, Instead of Constructing It. As a result of limited capital outlay spending over the past 10 years, the state has relied increasingly on leased space. For example, the state leased 2.4 million net square feet of office space in Sacramento County in 1978, and currently leases 4.6 million net square feet, an increase of 2.2 million square feet, or 92 percent. Over the same period of time, the amount of state-owned office space in Sacramento County has grown much more slowly, from 3.6 million to 5.3 million net square feet, an increase of 1.7 million square feet, or 47 percent. *Since 1978, the annual cost of state leased office space in Sacramento County has more than quadrupled, rising from \$12.1 million per year to \$55.5 million per year as of July 1988.*

In general, leasing space for long-term occupancy is *more expensive* than constructing and owning the same amount of space. If state government continues to offer its current level of service to the people of California, and continues to require a similar number of employees to support this level of service, continued reliance on leased space to house almost one-half of these employees is not in the best economic interests of the state.

The Department Should Propose a Financing Plan for Securing New State-Owned Office Buildings. In view of the demand for space to house state activities and the rapidly rising cost to the state for annual lease obligations, we recommend that the department develop a financing plan for securing state-owned office buildings. This information is necessary to assist the Legislature in developing its funding strategies to meet these and other statewide capital needs. Moreover, a financing plan would help the Legislature ensure that funds appropriated for planning will result in construction of a new building in a timely fashion. Otherwise, expenditure of the planning funds results in the preparation of design documents that must be revised or completely redesigned to

account for changes in requirements for both the building codes and the building occupants. For example, the projects listed in Table 2, except the Site 7 project, have been delayed for such a long period of time that *additional* appropriations will be required for redesign. Moreover, the department indicates that it no longer intends to develop Site 1-D. Thus, at least \$322,000 and an unknown, but potentially significant, portion of the remaining \$2.7 million previously appropriated for these projects is a sunk and unrecoverable cost.

Finally, timely submittal of the information is particularly important as the Legislature evaluates the need to place bond measures on the ballot in the June 1990 election.

Budget Request

We recommend approval.

The \$92,000 proposed project makes necessary minor alterations to provide more suitable office space for a graphic design unit at the State Printing Plant. The scope and cost of this project appear reasonable.

DEPARTMENT OF VETERANS AFFAIRS—REAPPROPRIATION—CAPITAL OUTLAY

Item 1970-490 from the General
Fund, Special Account for
Capital Outlay, and from the
Federal Trust Fund

Budget p. SCS 166

Requested 1989-90	\$4,817,000
Recommended approval	4,817,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Wing E and Wing AA—Reappropriation. Recommend that, prior to budget hearings, the department provide the Legislature with a plan to finance the cost of design review/revisions that are required before construction can begin at these hospital wings. 1011

GENERAL PROGRAM STATEMENT

Five-Year Capital Outlay Plan

The Department of Veterans Affairs' capital outlay program includes renovation of the California Veterans Home in Yountville, and planning of long-term care facilities for veterans in southern California. The California Veterans Home provides long-term care for qualified veterans, ranging from dormitory living to skilled nursing. A newly constructed acute care hospital also serves members of the Home. As directed by Ch 1240/88 (AB 200), the department is planning facilities that would offer similar services in southern California.

Table 1 shows that the department plans renovation activities of approximately \$19 million in state funds at the Veterans Home in

DEPARTMENT OF VETERANS AFFAIRS—REAPPROPRIATION—CAPITAL OUTLAY—Continued

Yountville over the next five years. With limited exceptions, the cost of proposed renovations are to be shared by the state (35 percent) and the federal government (65 percent). The costs shown in Table 1 reflect only the state's share. Renovation of the Home proceeds according to a Master Plan established in 1979 and modified numerous times since. Table 1 also shows that the department plans to complete renovation of the Home in 1993-94.

Table 1
Department of Veterans Affairs
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands, state funds only)

<i>Project</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
Veterans Home of California:						
Skilled nursing wings	\$1,210	\$1,728	\$1,260		—	\$4,198
Intermediate care wings			1,182	\$1,068	—	2,250
Dormitories	1,155	851			—	2,006
Other	1,314	1,699	375	7,005	—	10,393
Subtotals	(\$3,679)	(\$4,278)	(\$2,817)	(\$8,073)	—	(\$18,847)
Veterans Home of Southern California (Ch 1240/88)	\$783	—	—	—	—	\$783
Totals	\$4,462	\$4,278	\$2,817	\$8,073	—	\$19,630

In addition, the department plans to spend \$783,000 of \$2.2 million appropriated by Ch 1240/88 for planning of long-term care facilities in southern California. The department expects to adopt a spending plan for this appropriation and develop a long range capital outlay plan for these facilities based on a consultant report that will be available in mid-February 1989. The consultant will make recommendations concerning:

- Number of sites
- Bed capacity of sites
- Locations of sites
- Preliminary estimates of construction costs and schedules
- Financing options

OVERVIEW OF THE BUDGET REQUEST

The budget requests reappropriation of \$4.8 million from the Special Account for Capital Outlay (\$1.5 million) and the Federal Trust Fund (\$3.3 million) for renovation of Wings E and AA, two projects which have been delayed from the current year to the budget year. Moreover, the budget does not request funds for any of the California Veterans Home projects that the department's five-year plan proposes for the budget year. The resulting delay of projects in the budget year will delay all projects in the department's plan by one year. In most cases, the beginning of a renovation project at the Home is contingent on the completion of another, because members must be moved temporarily to accommodate construction activity.

This delay could be to the department's advantage. It could provide the department with time for a much needed review of its capital project delivery program which has experienced delays and cost overruns in recent years. The department should use this time to develop and

propose management improvements that will help deliver future projects in a timely manner and within the budget approved by the Legislature.

ANALYSIS AND RECOMMENDATIONS

Department Should Expedite Review of Working Drawings for Wings E and AA

We recommend approval of the proposed reappropriations.

We further recommend that the department provide the Legislature, prior to budget hearings, with a plan to finance the cost of design review/revisions that are required before construction can begin for Wing E and Wing AA at the California Veterans Home.

The Legislature reappropriated construction funds for renovation of Wing E and Wing AA of the Home in the 1988 Budget Act. Moreover, the federal Department of Veterans Affairs approved matching federal construction funds for these projects in October 1988. The Department of Finance, however, has not authorized the department to go to bid on these projects, pending a review of working drawings to assure that the drawings accurately reflect the site and structural conditions of the facilities to be renovated. Consequently, the construction phase of these two projects will not begin in the current year, and the budget requests the reappropriation of construction funds. These projects have been approved previously by the Legislature and we recommend approval of the proposed reappropriations.

We share, however, the Department of Finance's concern about the accuracy of the working drawings for these projects. Errors in the design of projects already under construction at the Home have resulted in numerous augmentations of construction appropriations. For two projects, such augmentations have increased the state's share of construction costs by about 40 percent. Our conversations with department staff, however, indicate that no provisions have been made for funding the required review of working drawings in either the current year or in the budget year.

The department should expedite this review of working drawings. Renovation of Wings E and AA has already been delayed for a year and a half. Moreover, the memorandum of agreement between the department and its federal counterpart specifies that the department enter into a construction contract *immediately* upon receipt of approval for federal matching funds (October 1988, in this case). While federal officials indicate that there is some allowance for delay, they cannot guarantee continued support of a dormant project in the face of competing demands for funds from veterans homes in other states. Consequently, in the interest of moving forward with these projects, the department should, prior to budget hearings, (1) inform the Legislature of what the required design review will cost and (2) present a plan for financing this cost.

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY

Item 2660-311 from the State
 Highway Account, State
 Transportation Fund

Budget p. BTH 88

Requested 1989-90	\$631,000
Recommended approval	631,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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1. Five-Year Capital Outlay Plan. Recommend that the department submit a comprehensive five-year capital outlay plan for its administrative facilities, including a proposed financing plan for any identified capital improvements. 1013

GENERAL PROGRAM STATEMENT

Five-Year Capital Outlay Plan

This analysis addresses the Department of Transportation's (Caltrans) capital outlay program for *administrative* facilities. These facilities include the department's headquarters buildings in Sacramento and its office buildings in 11 districts (the District 12 office building is currently leased by the department).

Table 1 shows that the department plans to spend \$28.7 million over the next five years to construct additional office space in eight districts. In addition, Ch 1472/88 (SB 2381, Deddeh) authorized the department to acquire or construct an office building in District 4 (San Francisco Bay Area). We estimate that this facility, which is to be financed through lease-revenue bonds or other forms of debt obligation, could cost up to \$250 million over a period of 25 years.

Table 1
 Department of Transportation
 Five-Year Capital Outlay Plan
 1989-90 through 1993-94
 (dollars in thousands)

Projects (added office space)	1989-90	1990-91	1991-92	1992-93	1993-94	Totals
District 2 (Redding)	—	\$2,000	—	—	—	\$2,000
District 3 (Marysville)	\$4,500	—	—	—	—	4,500
District 5 (San Luis Obispo)	—	2,000	—	—	—	2,000
District 6 (Fresno)	2,756	—	—	—	—	2,756
District 8 (San Bernardino)	—	2,500	—	—	—	2,500
District 9 (Bishop)	2,100	—	—	—	—	2,100
District 10 (Stockton)	—	2,500	—	—	—	2,500
District 11 (San Diego)	6,662	—	—	—	—	6,662
Minor capital outlay	909	650	\$700	\$700	\$700	3,659
Totals	\$16,927	\$9,650	\$700	\$700	\$700	\$28,677

The five-year plan submitted by the department is unrealistic because it assumes that the department will receive design and construction money for each facility in a single appropriation. The Legislature ordinarily does not provide construction funds for a major capital outlay project until preliminary plans have been funded and reviewed. Thus,

appropriations for each of the projects noted in the department's plan would occur in phases spread over a two- to three-year period. Moreover, the department's plan does not provide any information which links the proposed projects to program-related needs and does not indicate the priority order of these projects.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$631,000 for seven minor capital outlay projects. The budget does not include funds for any of the four major capital outlay projects scheduled for 1989-90 in the department's five-year plan. In allocating limited State Highway Account funds for the budget year, the department considered these office projects a lower priority than state highway projects.

ANALYSIS AND RECOMMENDATIONS

Department Should Present a Revised Five-Year Plan

We recommend that, prior to budget hearings, the department submit to the Legislature a revised, comprehensive five-year capital outlay plan for its administrative facilities.

According to Caltrans, the 1988 Budget Act increased by approximately 990 the number of staff located in headquarters and district office facilities. While the 1989-90 budget requests a net increase of 431 personnel-years for Caltrans, the department has not yet developed an assessment of the effect of this proposal on its district office facilities. In a May 1988 letter to the Joint Legislative Budget Committee, the department indicated two primary strategies for meeting the increased demand on its existing state-owned office space: (1) lease additional space and/or consolidate existing leases into a single, long-term lease, and (2) use state-owned space more effectively by installing modular furnishings. In September 1988, however, the department presented its five-year capital outlay plan, which simply consisted of a table similar to Table 1, proposing the *construction of additional state-owned office space* in the eight districts most severely affected by the increase in positions. As indicated above, however, no funds are included in the budget for the proposed projects.

Consequently, we recommend that Caltrans, prior to budget hearings, provide an updated five-year capital outlay plan for its administrative facilities. The plan should list any proposed projects in priority order, list the criteria used to determine priorities, and include a discussion of how each proposed project meets these criteria. Moreover, the plan should propose alternatives for financing any proposed construction of state-owned office space. This information is necessary to assist the Legislature in developing its funding strategies to meet these and other statewide capital needs. Timely submittal of the information is particularly important as the Legislature evaluates the need to place bond measures on the ballot in the June 1990 election.

Minor Capital Outlay

We recommend approval.

The budget requests \$631,000 to fund seven minor projects. The scope and cost of these projects appear reasonable.

DEPARTMENT OF TRANSPORTATION—CAPITAL OUTLAY—Continued**Supplemental Report Language**

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

**DEPARTMENT OF THE CALIFORNIA HIGHWAY
PATROL—CAPITAL OUTLAY AND CAPITAL
OUTLAY REVERSION**

Items 2720-301 and 2720-495
from the Motor Vehicle
Account, State Transportation
Fund

Budget p. BTH 109

Requested 1989-90	\$5,163,000
Recommended approval	5,070,000
Recommended reduction	93,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *San Francisco Replacement Facility—Preliminary Plans. Reduce Item 2720-301-044(6) by \$93,000.* Recommend deletion of preliminary plans for a new facility, because renovation of an existing facility meets program needs in a more cost-effective manner.

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GENERAL PROGRAM STATEMENT**Five-Year Capital Outlay Plan**

The major thrust of the Department of the California Highway Patrol (CHP) capital outlay program is provision of new and replacement area offices to house traffic officers who carry out the various law enforcement missions of the department. A long-range goal of the program is to provide new facilities for the department's headquarters staff and central logistical operations.

Table 1 shows that the department plans design, construction, and acquisition activities totaling \$84.5 million over the next five years. The department plans to devote over one-half of this amount to construction and acquisition of three new and 29 replacement area offices. In all but two cases, the department proposes lease with option to purchase financing for these facilities. The department proposes to devote the rest of this amount to new headquarters office and logistical facilities in Sacramento, an additional skid facility at the Highway Patrol Academy in Sacramento, and minor capital outlay.

Table 1
Department of the California Highway Patrol
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands)

<i>Projects</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
New area offices	—	—	\$4,412	—	—	\$4,412
Replacement area offices	\$4,006	\$6,287	25,252	\$6,416	\$3,012	44,973
Headquarters	700	1,395	27,326	—	—	29,421
Academy	686	—	—	—	—	686
Minor capital outlay	1,000	1,000	1,000	1,000	1,000	5,000
Totals	\$6,392	\$8,682	\$57,990	\$7,416	\$4,012	\$84,492

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$5,163,000 from the Motor Vehicle Account, State Transportation Fund for the CHP 1989-90 capital outlay program. This includes seven major and 11 minor projects (\$200,000 or less per project). These projects are summarized in Table 2. The budget also requests reversion of \$478,000 appropriated for a major capital outlay project in 1987-1988, but not expended.

Table 2
Department of the California Highway Patrol
1989-90 Capital Outlay Program
Item 2720-301-044
(dollars in thousands)

<i>Sub-Item</i>	<i>Project</i>	<i>Location</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Estimated Future Cost</i>
(1)	Minor projects	Various	c	\$451	—
(2)	Academy skid pan	Sacramento	c	686	—
(3)	Purchase leased facility	Garberville	a	1,001	—
(4)	Purchase leased facility	Redding	a	1,804	—
(5)	Purchase leased facility	Red Bluff	a	1,015	—
(6)	Replace field office	San Francisco	p	93	Unknown
(7)	Replace field office	Central Los Angeles	p	93	\$2,864
(8)	Property options and appraisals ..	Various	a	20	—
	Total			\$5,163	Unknown

^a Phase symbols indicate: a = acquisition, c = construction, p = preliminary plans.

As discussed in our analysis of Item 2720-001-044, the department has also requested authorization to enter into lease with option to purchase agreements for 12 new and replacement area offices. According to the department's five-year plan, such an authorization would result in future capital acquisition costs in excess of \$24 million. The department, however, has neither justified these facilities on a program basis nor provided information to substantiate the cost estimates provided in the five-year plan. Consequently, we have recommended deletion of the Budget Bill language in Item 2720-001-044 that would provide the requested authorization.

ANALYSIS AND RECOMMENDATIONS

Projects Recommended for Approval

We recommend approval of the following projects.

DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL—CAPITAL OUTLAY AND CAPITAL OUTLAY REVERSION—Continued

Minor Projects—Item 2720-301-044(1). The budget requests \$451,000 for 11 minor projects, ranging from \$188,000 to install vehicle hoists at 10 area offices to \$4,000 to install a fuel service island at the Santa Rosa field office. The scope and cost of these projects appear reasonable.

Academy's New Skid Facility—Item 2720-301-044(2), and Item 2720-495—Reversion. The budget requests \$686,000 to construct an additional skid pan at the CHP Academy. This facility would be used to train cadets to overcome a skid in front wheel drive vehicles. The current skid pan is inadequate for this purpose.

The Legislature appropriated \$478,000 for this project in 1987-88. The low bid for this project, however, was significantly higher than this amount. Our analysis indicates that the scope of the proposed project is the same as approved by the Legislature in 1987-88. The budget, appropriately, requests reversion of the previously appropriated \$478,000 to the unencumbered balance of the State Highway Account.

Central Los Angeles Replacement Facility—Preliminary Plans—Item 2720-301-044(7). The budget requests \$93,000 for preliminary plans to construct a new field office in central Los Angeles. The estimated future cost of this project is \$2,864,000. The proposed facility, a single-floor structure with capacity for 130 CHP officers and 20 support staff, would replace 17-year old "temporary" modular units. We concur with the administration that the existing facilities are no longer adequate in structure or capacity to support the mission of the central Los Angeles office, and should be replaced.

Purchase of Three Leased Facilities. The budget requests a total of \$3,840,000 for the purchase of three area offices occupied by the department under a lease with purchase option agreement (\$3,820,000), and for securing appraisals and options on sites for future construction (\$20,000). The location and purchase price of each office is summarized in Table 2. Our analysis indicates that each acquisition is financially beneficial to the state. The cost of purchasing and maintaining each facility is less than the present value of future lease payments.

The \$20,000 for appraisals/options would finance site evaluations for replacement offices scheduled to be constructed and occupied on a lease with purchase option basis in 1990-91.

San Francisco Replacement Facility

We recommend a reduction of \$93,000 in Item 2720-301-044(6) to delete preliminary plans for a replacement area office in San Francisco.

The budget requests \$93,000 for preliminary plans for a replacement area office in San Francisco. The proposed project would demolish the existing San Francisco field office and construct a new facility. While the department has not yet estimated the future cost of design and construction of this facility, the facility would be of the same type as the department is proposing to build in central Los Angeles at an estimated future cost of \$2.9 million.

Renovation of Existing Building Would Be Less Costly, Equally Effective. Our analysis indicates that renovation of the existing San Francisco field office would be a more cost-effective way of meeting the

department's program needs than construction of a new facility. The San Francisco area office, a 125-person staff, currently occupies the first floor of a state-owned facility at Eighth and Bryant Streets. The second floor is currently occupied by the CHP Golden Gate Division staff. The Golden Gate Division, however, will relocate in early 1989 to a newly constructed facility in Vallejo, leaving the upper floor vacant to serve the needs of the area office staff. The department acknowledges that the space in the existing building, with the availability of the upper floor, would be adequate for the needs of the area office. Moreover, our review of the existing facility with area staff indicates that necessary remodeling of the building interior could be accomplished *without* alteration of structural elements.

We conclude that renovation of the San Francisco facility would render it adequate for the needs of the CHP area office staff. Such renovations would include some demolition and reconstruction of non-structural walls, and additional shower facilities to accommodate the traffic officers stationed at this location. Other needs at the facility, such as re-roofing and a new boiler, require replacement of existing building systems and should be addressed on a priority basis with other needs funded through the department's special repair budget. Our analysis indicates that the necessary renovation and repairs would cost substantially less than construction of a new facility. We therefore recommend deletion of preliminary planning funds for a new facility. A proposal by the department for renovation of the existing San Francisco facility to accommodate the needs of area office staff would merit legislative review.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY

Item 2740-301 from the Motor
Vehicle Account, State
Transportation Fund

Budget p. BTH 123

Requested 1989-90	\$981,000
Recommended approval	981,000

GENERAL PROGRAM STATEMENT

Five-Year Capital Outlay Plan

The Department of Motor Vehicles (DMV) capital outlay program is concerned primarily with renovation, replacement and construction of field offices from which DMV personnel serve the public. Two other ongoing projects include correcting fire and life safety deficiencies in the department's Sacramento headquarters building, and preparing the headquarters for installation of a new computer system.

DEPARTMENT OF MOTOR VEHICLES—CAPITAL OUTLAY—Continued

Table 1 shows that the department plans to spend approximately \$16.5 million over the next five years to provide a new security system for its headquarters building, to exercise purchase options for six leased field offices, and for minor capital outlay.

Table 1
Department of Motor Vehicles
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands)

<i>Projects</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
Headquarters security	\$395	—	—	—	—	\$395
Field office acquisition	—	\$3,400	\$5,700	\$4,000	—	13,100
Minor capital outlay	586	600	600	600	\$600	2,986
Totals	\$981	\$4,000	\$6,300	\$4,600	\$600	\$16,481

The DMV establishes priorities for construction of field offices based on population growth and traffic patterns in designated service areas, the number of staff required to serve this population, and the amount of space available in existing facilities to house the required staff and accommodate the public (based on State Administrative Manual standards). It is the department's policy to lease field offices which serve small service areas (generally, facilities less than 5,000 net square feet in area), or areas with unstable population growth. In service areas which require a larger facility and where it appears that the department will continue to need such a facility to meet public demand for services, the department considers construction of a state-owned field office. In recent years, the department has relied primarily on lease with purchase option financing to secure its state-owned field offices.

OVERVIEW OF THE BUDGET REQUEST

The budget requests \$981,000 in Item 2740-301-044 for the DMV capital outlay program for 1989-90. This amount includes \$395,000 for a new security system in the department's headquarters building, and \$586,000 for 10 minor capital outlay projects (\$200,000 or less per project).

Moreover, as discussed in our analysis of Item 2740-001-044, the department has also requested authorization to enter into lease with option to purchase agreements for four replacement field offices (Corona, Redding, Sacramento, and Escondido). Such an authorization would result in future capital acquisition costs in excess of \$8 million. The department, however, has not justified three of these facilities (Corona, Redding, and Sacramento) on a program basis, and has not provided information to substantiate the estimated cost of the same three facilities. Consequently, we have recommended authorization of lease with option to purchase financing only for the Escondido project.

ANALYSIS AND RECOMMENDATIONS**Minor Projects***We recommend approval.*

The budget requests \$586,000 for 10 minor capital outlay projects, ranging from \$75,000 to make restrooms accessible to the mobility impaired at the Bell Garden field office, to \$9,000 to construct a chain link vehicle enclosure at the Oceanside field office. The scope and cost of these projects appear reasonable.

Physical Security System and Public Access Control—Headquarters*We recommend approval.*

The budget requests \$395,000 to install a computerized access control and alarm monitoring system at the department's two-building Sacramento headquarters complex. The project would include purchase and installation of magnetic card readers, electronic door locks and video cameras at all entryways and at all doors leading from public to employee areas. It would also include construction of physical barriers to access at some entrances.

The Legislature appropriated \$153,000 for a similar but more limited system as a minor capital outlay project in 1985-86. This amount proved insufficient to fund a project of the scope approved by the Legislature. In subsequent consultations with the department, the State Police determined that the approved system, which did not control access at all entryways, did not adequately protect the building and its occupants. The department has since redirected all but \$43,000 of the 1985-86 appropriation to other minor projects. The department indicates that \$438,000 (\$43,000 remaining from the 1985-86 appropriation and \$395,000 included in this item) will provide a system which will meet the standards of the State Police and the concerns about safety of DMV staff expressed in legislative approval of the 1985-86 project. Our analysis indicates that the expanded system now proposed by the department does provide better security for DMV staff than the system proposed by the department in 1985-86.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under this item.

CALIFORNIA TAHOE CONSERVANCY—CAPITAL OUTLAY

Item 3125-301 from the Lake
Tahoe Acquisitions Fund and
various funds

Budget p. R 4

Requested 1989-90	\$25,000,000
Recommended approval	25,000,000
Recommended reduction	None

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS
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1. Tobacco Surtax Funds. Recommend adoption of Budget Bill 1021 language specifying the uses for funds appropriated from the Public Resources Account.

OVERVIEW OF THE BUDGET REQUEST

The budget projects total expenditures of \$25 million for conservancy capital outlay in 1989-90. This amount consists of two *new* appropriations

CALIFORNIA TAHOE CONSERVANCY—CAPITAL OUTLAY—Continued

totaling \$6 million (\$5 million from the Lake Tahoe Acquisitions (Bond) Fund and \$1 million from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund), and an estimated \$19 million in carry-over balances available for capital outlay in the budget year.

Bond Funds. The budget proposes that a total of \$22 million be made available for bond act acquisitions in 1989-90. This amount consists of the new \$5 million appropriation and a carryover of \$17 million of bond funds from prior-year appropriations. Total proposed bond fund expenditures are about \$4 million more than the conservancy expects to spend from bond funds in the current year. The proposed new appropriation and status of the bond fund acquisition program are discussed in greater detail below.

Tobacco Surtax Funds. The conservancy also requests \$1 million from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund. The Tobacco Tax and Health Protection Act of 1988 (commonly known as Proposition 99) created this account to supplement existing spending on (1) fish and wildlife habitat programs and (2) state and local park and recreation programs. (For a fuller discussion of the act, please see Item 0540.) This proposed new appropriation also is discussed in more detail below.

Environmental License Plate Funds. The budget also anticipates the carry over of \$2 million appropriated in the current year by Ch 1623/88 (SB 4, Presley) from the Environmental License Plate Fund into 1989-90. The statute authorizes the conservancy to use these funds for capital outlay and grants for land acquisition and site improvements related to erosion control, restoration of disturbed lands, wildlife enhancement and preservation of natural resources. The conservancy indicates that it will use \$1 million of these funds to supplement its local assistance program for soil erosion control grants, and the remaining \$1 million for wildlife habitat programs that are ineligible for bond act funding.

ANALYSIS AND RECOMMENDATIONS**Additional Bond Funds Requested***We recommend approval.*

The conservancy requests \$5 million in bond funds to purchase undeveloped property at Lake Tahoe, pursuant to the 1982 Lake Tahoe Acquisitions Bond Act. The funds also would be available to make local assistance grants to other public agencies or nonprofit organizations for land acquisition pursuant to the bond act.

The Budget Bill contains language exempting conservancy acquisitions valued at less than \$250,000 and all local assistance grants from Public Works Board review. This is consistent with legislative policy in prior years.

Status of the Lot Acquisition Program. The conservancy indicates that approximately 6,000 to 7,000 environmentally sensitive lots are located on the California side of the Tahoe Basin. The conservancy has contacted the owners of almost all of these lots about possible acquisition and has received positive responses from the owners of more than 4,600 lots. As of December 1988, the conservancy had authorized the acquisition of 2,800 lots at an average cost of about \$11,500 per lot for total costs of \$32.3 million (plus transaction costs such as appraisal fees, title insurance, and escrow fees). The conservancy estimates that, by the end of the current

year, it will have authorized the acquisition of up to 3,700 lots with typical values ranging between \$11,000 and \$15,000 per lot.

Anticipated Progress Through 1989-90. Table 1 shows the projected status of the Lake Tahoe Acquisitions (Bond) Fund at the end of 1989-90, based on the budget request and the conservancy's current expenditure plans. By that time, the conservancy expects to have spent a total of \$70 million from the bond fund since it began operations in 1985, including the \$5 million requested by the budget for capital outlay in 1989-90. A reserve of \$15 million would remain available for future appropriation and expenditure.

Table 1
California Tahoe Conservancy
Projected Status of Lake Tahoe Acquisitions (Bond) Fund
June 30, 1990
(dollars in thousands)

Total bonds authorized		\$85,000
Cumulative expenditures through 1989-90:		
Support	\$2,233	
Capital Outlay:		
Lot acquisition program	57,600	
Acquisition grants for soil erosion projects	3,400	
Access and recreation lands	4,700	
Wildlife lands	<u>2,000</u>	
Total, cumulative expenditures through 1989-90, approved and proposed		\$69,933
Remaining reserve—June 30, 1990		\$15,067

The request for an additional \$5 million in bond funds appears reasonable, given the conservancy's statutory mandate and the uncertainty inherent in estimating the number of lot owners who will accept the conservancy's offers.

Tobacco Surtax Funds Requested

We recommend the adoption of Budget Bill language restricting Public Resource Account funds to uses specified in Proposition 99.

The conservancy requests \$1 million from the Public Resources Account (PRA) in the tobacco surtax fund for other purposes the conservancy has identified that are ineligible for bond act funding. These include acquisition of developed properties and site restoration and improvement. The conservancy did not receive any new funding in the current year for these purposes.

Budget Control Language Needed. As we discuss in detail in Item 0540, appropriations from the Public Resources Account must be used to (1) supplement existing programs or to establish new programs and (2) support wildlife habitat enhancement or parks and recreational opportunities. The conservancy's request for \$1 million from the PRA is consistent with these requirements insofar as the conservancy proposes to use these funds to *supplement* its existing program to restore and protect wildlife habitat. However, the conservancy does not have a list of specific projects that it intends to fund from the PRA. As a consequence, we cannot determine the extent to which PRA funding actually will be spent for projects related to enhancement of wildlife habitat. Therefore, we recommend the adoption of the following Budget Bill language (in Item 3125-301-235) to ensure that the conservancy spends the funds from the

CALIFORNIA TAHOE CONSERVANCY—CAPITAL OUTLAY—Continued

Public Resources Account *only* for the purposes authorized under the act:

1. The funds appropriated in this item shall be available only to supplement existing conservancy programs to protect, restore, enhance or maintain fish, waterfowl and wildlife habitat, in accordance with the provisions of Sections 30122(b) (5) (A) and 30125 of Article 2 of Chapter 2 of Part 13 of Division 2 of the Revenue and Taxation Code.

**ENERGY RESOURCES CONSERVATION AND DEVELOPMENT
COMMISSION—CAPITAL OUTLAY**

Item 3360-301 from the General
Fund, Energy Resources
Programs Account

Budget p. R 32

Requested 1989-90	\$145,000
Recommended reduction and transfer to General Fund.....	145,000

ANALYSIS AND RECOMMENDATIONS

We recommend deletion of \$145,000 requested under Item 3360-301-465 for the construction of shower facilities in the commission's Sacramento office building. We further recommend that the Legislature transfer the savings resulting from this recommendation to the General Fund.

The budget includes \$145,000 from the Energy Resources Programs Account (ERPA) to convert approximately 460 square feet in the commission's downtown Sacramento office building into shower facilities. According to the commission, the proposed showers would be used by commission employees who commute to work on bicycles or who exercise during the lunch period. Our review indicates that the showers are not needed. Commission employees already have access to shower facilities in the Bateson Building across the street. Moreover, the proposed project cost is excessively high (\$315 per square foot), given the relatively simple construction requirements. In view of the availability of existing showers and the high cost of the proposed alterations, we recommend deletion of the \$145,000.

This recommendation, if adopted, would increase the surplus in ERPA by \$145,000. In order to increase the Legislature's flexibility in meeting statewide needs, we recommend that the Legislature transfer the \$145,000 to the General Fund.

AIR RESOURCES BOARD—CAPITAL OUTLAY

Item 3400-301 from the Air
Pollution Control Fund

Budget p. R 49

Requested 1989-90	\$958,000
Recommended approval	958,000

ANALYSIS AND RECOMMENDATIONS**Haagen-Smit Laboratory—Modifications**

We recommend approval contingent on receipt of preliminary plans prior to budget hearings.

The budget includes \$958,000 from the Air Pollution Control Fund for the construction phase of modifications to the Haagen-Smit Laboratory in El Monte. The project consists of three parts:

- Enclosure of a breezeway area to provide a controlled temperature environment for cars awaiting manufacturers' emissions testing;
- Conversion of a storage area to a new laboratory to test fuel vaporization from engines and automobile fuel tanks, and;
- Installation of acid-resistant lab benches, fume hoods, and miscellaneous fixtures in the Atmospheric Testing Laboratory.

The amount requested for construction is consistent with the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation. At the time this analysis was prepared the board had not provided the Legislature with completed preliminary plans. We recommend approval of the budget request, contingent on receipt of completed preliminary plans prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend that the Legislature *not* approve the request.

**DEPARTMENT OF FORESTRY AND FIRE
PROTECTION—CAPITAL OUTLAY**

Item 3540-301 from the
Cigarette and Tobacco
Products Surtax Fund and the
Forest Resources
Improvement Fund

Budget p. R 77

Requested 1989-90	\$4,363,000
Recommended approval	2,622,000
Recommended reduction	848,000
Recommendation pending	893,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. *Feather Falls Fire Station. Reduce Item 3540-301-235 by \$25,000 for preliminary plans and working drawings. Recommend reduction of \$25,000 for preliminary plans/* 1025

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—CAPITAL OUTLAY—Continued

- working drawings. Further recommend adoption of supplemental report language recognizing estimated future construction cost based on completed value engineering study (future savings of \$175,000).
2. *Shasta and De Luz Fire Stations. Reduce Item 3540-301-235 by \$460,000.* Recommend reduction of \$460,000 for working drawings/construction for Shasta Fire Station (\$295,000) and De Luz Fire Station (\$165,000) based on implementing cost-saving measures identified by completed value engineering study for the Feather Falls Fire Station. 1026
 3. *Pondosa and Sandy Point Forest Fire Stations.* Recommend approval of \$40,000 in Item 3540-301-235 for preliminary plans contingent on receipt of detailed scope/cost information prior to budget hearings. 1027
 4. *Bitterwater Helitack Base.* Withhold recommendation on \$893,000 requested in Item 3540-301-235 pending receipt of preliminary plans and value engineering study, as required by 1988 Budget Act language. 1028
 5. *Mountain Home State Forest—Acquisition. Delete \$363,000 in Item 3540-301-928.* Recommend deletion of funds because acquisition is not justified either on basis of (a) potential incompatible development or (b) anticipated revenues. 1028

OVERVIEW OF THE BUDGET REQUEST AND FIVE-YEAR CAPITAL OUTLAY PLAN

The budget requests \$4.4 million for eight major and 13 minor capital outlay projects for the Department of Forestry and Fire Protection in 1989-90. The department's five-year capital outlay plan (as amended September 1988) identified 29 major and 49 minor projects, totaling an estimated \$11.9 million, for funding in 1989-90. Generally, the budget request is directed at major construction projects for which the Legislature already has appropriated funds for preliminary plans and working drawings, and defers new construction and acquisition projects identified in the five-year plan.

Funds for preliminary plans and working drawings for four of the requested projects were appropriated in the 1984 and 1985 Budget Acts. Funds for the construction phase of these projects, however, have not been requested until now. Moreover, the five-year plan includes a substantial backlog of projects which has built up over the last several years. The estimated cost of identified projects in the five-year plan exceeds \$66 million. Most of these projects are to replace forest fire stations where the age, condition and/or location present operational problems for the department.

ANALYSIS AND RECOMMENDATIONS

The budget includes \$4.4 million for capital outlay for the Department of Forestry and Fire Protection. This amount consists of \$4 million from the Public Resources Account in the Cigarette and Tobacco Products Surtax Fund and \$363,000 in the Forest Resources Improvement Fund (FRIF). The FRIF funding is proposed for only one project—acquisition of land for the Mountain Home State Forest. Table 1 summarizes the

amounts requested for each project and our recommendations. As Table 1 indicates, we recommend approval of \$2,622,000 in Item 3540-301-235 (cigarette surtax monies). We have made these recommendations based on the merits of the projects, rather than whether the proposed funding source is appropriate for the proposed purposes. We believe the latter issue is a policy matter for the Legislature's determination.

Table 1
Department of Forestry and Fire Protection
1989-90 Capital Outlay Program
Items 3540-301-235 and 3540-301-928
(dollars in thousands)

<i>Project</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>	<i>Estimated Future Cost^b</i>
Item 3540-301-235:				
Tehama-Glenn Apparatus Building	ce	\$452	\$452	—
Minor projects	pwc	646	646	—
Feather Falls Fire Station	pw	55	30	\$770
Shasta Fire Station	wce	1,226	931	—
De Luz Fire Station	wce	688	523	—
Pondosa Fire Station	p	20	20 ^c	614
Sandy Point Fire Station	p	20	20 ^c	549
Bitterwater Helitack Base	ce	893	pending	—
Subtotal		\$4,000	\$2,622	\$1,933
Item 3540-301-928:				
Mountain Home State Forest	a	363	—	—
Totals		\$4,363	\$2,622	\$1,933

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; e = equipment; and a = acquisition.

^b Department estimates.

^c Recommended amount contingent on receipt of detailed scope/cost information prior to budget hearings.

As summarized in Table 1, we recommend approval as budgeted of the following two proposals totaling \$1,098,000.

Tehama-Glenn Apparatus Building (Red Bluff). The proposed 10-bay apparatus building includes space for fire engines and two offices. The Legislature approved funds for preliminary plans and working drawings in the 1985 Budget Act. These documents have been completed. The amount requested for construction (\$452,000) is consistent with the amount recognized by the Legislature in supplemental report language, adjusted for inflation.

Minor Projects. The budget includes \$646,000 for 13 minor capital outlay projects (\$200,000 or less per project) statewide. These projects range in cost from \$15,000 for a bathroom addition at Saratoga Summit Fire Station (Santa Cruz County) to \$190,000 for a barracks/messhall at the Kneeland Helitack Base (Humboldt County).

A discussion of the remaining projects and our recommendation for each follows.

Feather Falls Fire Station

We recommend a reduction of \$25,000 in Item 3540-301-235 for preliminary plans and working drawings for the Feather Falls Fire

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—CAPITAL OUTLAY—Continued

Station. We further recommend that the Legislature adopt supplemental report language that recognizes a reduced estimated future cost for the project, to be consistent with a completed value engineering study for this project. (Future savings: \$175,000.)

The budget includes \$55,000 for a *second* set of preliminary plans and working drawings to replace the forest fire station near Feather Falls in Butte County. The Legislature appropriated \$34,000 in the 1985 Budget Act for preliminary plans and working drawings. The cost estimate based on the completed working drawings indicated a construction phase cost of \$770,000, which exceeded the amount recognized by the Legislature in the *Supplemental Report of the 1985 Budget Act* by \$242,000.

In an effort to reduce the cost of this—and other—fire station projects, the department hired a consultant to undertake a value engineering study. The study indicates that significant savings could be realized on the Feather Falls project by the adoption of various cost-saving measures. These include measures such as (1) simplifying the building design to eliminate unnecessary corners and associated structural work and (2) deleting unnecessary paving of driveways. Our analysis indicates that based on the value engineering study, the construction phase of the project should cost \$595,000 rather than the \$770,000 estimated by the department.

Implementation of the study's recommended measures, however, requires a redesign of the project. Thus, the department is requesting funds for a second set of preliminary plans and working drawings. Our review indicates that redesign is appropriate because the suggested cost-saving measures in the value engineering are reasonable and can also serve as a model for saving funds on other fire station projects. The request for redesign of preliminary plans and working drawings, however, is overbudgeted in relation to the total cost of the project. Consequently, we recommend that the amount requested in Item 3540-301-235 for preliminary plans/working drawings be reduced by \$25,000. This would leave the department with \$30,000 for this purpose.

We further recommend that the Legislature recognize the lower estimate of future cost (\$595,000), which is consistent with the value engineering study, in supplemental report language describing the scope/cost of the project.

Shasta and De Luz Fire Stations

We recommend reductions totaling \$460,000 from funds requested in Item 3540-301-235 for construction of two forest fire stations, based on implementing cost-saving measures identified by the value engineering study of the Feather Falls Fire Station project.

The budget includes a total of \$1,914,000 for working drawings and construction for the following two forest fire stations:

- \$1,226,000 for a new fire station in Shasta County, three miles west of Redding, and
- \$688,000 to replace a fire station in De Luz, northwestern San Diego County.

The Legislature appropriated \$73,000 for preliminary plans/working drawings for the Shasta Fire Station in the 1985 Budget Act and \$25,000

for preliminary plans/working drawings for the De Luz Station in the 1984 Budget Act. The construction cost estimates for each project, based on completed working drawings, substantially exceed the amounts recognized by the Legislature in supplemental report language, adjusted for inflation. In order to reduce project costs, the department wants to redesign the De Luz station to incorporate construction cost-saving measures identified in a value engineering study for the Feather Falls Fire Station (discussed above). The department does not believe these measures are appropriate, however, at the Shasta site. The department believes some revision of the Shasta project working drawings *may* be needed to insure compliance with the requirements for essential services facilities. For these reasons, the budget requests funds to revise working drawings for both the De Luz and Shasta projects. Under the circumstances, redesign of these facilities is appropriate and we recommend approval of additional funds for this purpose. The amounts requested for construction, however, are excessive and should be reduced.

In the case of the De Luz project, the total amount requested in the budget for working drawings and construction is inconsistent with the intent to reduce costs. In fact, the budget request is based on the cost estimate which prompted the department to seek redesign of the project.

In the case of the Shasta project, the amount requested exceeds the amount recognized by the Legislature in the 1985 supplemental report (adjusted for inflation) by \$173,000.

Our review of the working drawings indicates that the major cost-saving measures identified in the Feather Falls value engineering study can and should be incorporated into the design for *both* the Shasta and De Luz sites. These measures, including reductions in site grading, paving and simplifying the structures should result in savings comparable to those at Feather Falls. On this basis, we recommend the following reductions totaling \$460,000 from Item 3540-301-235:

- reduction of \$295,000 and approval in the reduced amount of \$931,000 for the Shasta Fire Station, and
- reduction of \$165,000 and approval in the reduced amount of \$523,000 for the De Luz Fire Station.

These reductions would bring the above project costs within the amounts originally recognized by the Legislature, adjusted for inflation.

Pondosa (Shasta County) and Sandy Point Fire Stations (Santa Cruz County)

We recommend approval contingent on receipt of detailed construction cost estimates.

According to the department, the age, condition and site location of these fire stations create significant operational problems. Consequently, this budget proposal provides for replacement of the fire stations at nearby sites that are better situated for response times on most fires.

Our review indicates that both replacement/relocation of these stations is justified on a program basis. At the time this analysis was prepared, however, detailed scope descriptions (such as size of facilities and type of construction), schedules and construction cost estimates had not been prepared. We recommend approval of funds for preliminary plans, contingent on receipt of this information prior to budget hearings. If this information is not available to the Legislature at that time, we recommend that the Legislature *not* approve the requests.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION—CAPITAL OUTLAY—Continued**Bitterwater Helitack Base**

We withhold recommendation on \$893,000 requested in Item 3540-301-235 for construction of the Bitterwater Helitack Base pending receipt of preliminary plans and value engineering study, as required by the 1988 Budget Act.

The budget includes \$893,000 for construction of a fire-fighting helitack base near Bitterwater in San Benito County. The Legislature reappropriated funds in the 1988 Budget Act (Item 3540-490) for preliminary plans and working drawings for this project. The reappropriation item included language requiring the department to reevaluate estimated construction costs "based on an independent value engineering study and a reevaluation of project administration needs." The language further required that the department submit the value engineering study, preliminary plans and a revised cost estimate to the Legislature prior to release of the 1989-90 budget. At the time this analysis was prepared, the department had not submitted any of these documents to the Legislature. According to department staff, the documents will not be ready for the Legislature's review until late February. We withhold recommendation on \$893,000 requested for construction pending receipt of the information required by the 1988 Budget Act language. If this information is not provided to the Legislature prior to budget hearings, we recommend that the Legislature not approve the request.

Mountain Home State Forest—Land Acquisition

We recommend deletion of \$363,000 requested in Item 3540-301-928 for acquisition of a parcel of land owned by the State Lands Commission because acquisition is not justified either on the basis of (1) potential incompatible development or (2) anticipated revenues to the Forest Resources Improvement Fund (FRIF).

The budget includes \$363,000 from the FRIF for the department to purchase a 40-acre parcel from the State Lands Commission for incorporation into the Mountain Home State Forest in Tulare County. The Legislature deleted funds proposed in the 1988-89 Budget for this same acquisition.

Current ownership of the parcel does not present a significant problem for management of the state forest. There should be no danger of incompatible development of the parcel, which is managed by the department pursuant to an agreement with the commission. (The department has similar arrangements with the commission on lands throughout the state.)

Under the agreement, revenues from the sale of timber on the parcel go to the commission. One reason cited by the department for the acquisition is its desire for timber revenues from the parcel to be deposited in the FRIF. The department plans to harvest timber from the parcel every 10 years, with each harvest generating an estimated \$70,000 in revenues. (The department has not provided information substantiating this estimate, nor has it indicated whether the revenues are gross or net of the department's operating/management costs.) Assuming the estimate is for net revenues, the department would not recover the acquisition price of the parcel for at least 50 years—a poor investment of FRIF monies.

In view of the above, we recommend deletion of the requested funds.

DEPARTMENT OF FISH AND GAME—CAPITAL OUTLAY

Item 3600-301 from the Fish and
Game Preservation Fund and
the Federal Trust Fund

Budget p. R 112

Requested 1989-90	\$1,076,000
Recommended approval	983,000
Recommended reduction	93,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

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- | | |
|---|------|
| 1. Five-year Capital Outlay Plan. Recommend adoption of supplemental report language directing the department and the Wildlife Conservation Board to develop a coordinated, comprehensive capital outlay plan. | 1029 |
| 2. Merced River Salmon Rearing Facility. Recommend approval of \$557,000 of reimbursements to Item 3600-301-200 contingent on receipt of preliminary plans prior to budget hearings. | 1031 |
| 3. Red Bluff Fish Habitat Shop. Reduce Item 3600-301-200 by \$93,000. Recommend deletion of funds requested for acquisition, preliminary plans and working drawings because the department has not justified either the program need or specific scope/cost. | 1031 |

OVERVIEW OF THE BUDGET REQUEST AND FIVE-YEAR CAPITAL OUTLAY PLAN

Including reimbursements, the budget proposes \$1.6 million for three major and 13 minor capital outlay projects for the Department of Fish and Game in 1989-90. The department's five-year capital outlay plan (dated September 1988) identifies two major projects for funding in 1989-90 (estimated cost of \$1.2 million). One of these projects is not funded in the budget—construction of a fish ladder at Healdsburg Dam in Sonoma County. Instead, the budget includes funds for two projects scheduled in the plan for funding in 1990-91.

Most capital outlay funding related to the Fish and Game program is *not* included in the department's five-year plan or budget. Instead, most funding is provided through appropriations to the Wildlife Conservation Board (WCB), which acquires and develops land on behalf of the department. The budget estimates 1989-90 capital outlay expenditures of \$45.1 million from special and bond funds, budgeted through the WCB. Only \$3.9 million of this amount is identified in the department's five-year plan. Thus, the five-year plan gives the Legislature only a fragmented picture of the department's true capital outlay program.

Five-Year Capital Outlay Plan

We recommend that the Legislature adopt supplemental report language directing the department and the Wildlife Conservation Board to develop a coordinated, comprehensive five-year capital outlay plan.

As discussed above in our overview of the department's budget request and capital outlay plan, the five-year capital outlay plan gives the

DEPARTMENT OF FISH AND GAME—CAPITAL OUTLAY—Continued

Legislature a fragmented and inaccurate view of the department's true capital outlay needs and proposals. Consequently, the Legislature does not have the information it needs to address the department's varied land acquisition and facility needs. To correct this problem, we recommend that the Legislature adopt the following supplemental report language:

Beginning with the 1990-91 five-year capital outlay plan and annually thereafter, the plan shall be developed jointly by the Department of Fish and Game and the Wildlife Conservation Board. The plan shall identify fully the department's land acquisition and development needs, and whether (and why) these needs should be budgeted through appropriations to the department or the board. The plan shall include a detailed explanation of the proposed capital outlay program, the basis on which the program was developed, the basis for the financing plan, and how the program meets projected needs. The plan shall show project priorities and schedules and explain the basis on which priorities are assigned. The plan also shall provide estimates for the operation/management costs resulting from each project, including the basis of the estimates.

ANALYSIS AND RECOMMENDATIONS

The budget includes \$1,076,000 (net of a \$557,000 reimbursement from the Department of Water Resources for the Merced River salmon rearing facility project) for capital outlay for the Department of Fish and Game. This amount consists of \$1,041,000 from the Fish and Game Preservation Fund and \$35,000 from the Federal Trust Fund. The federal funds provide the federal share of the cost for preliminary plans/working drawings for the Darrah Springs Hatchery. Table 1 shows the amounts requested for each project and our recommendations.

Table 1
Department of Fish and Game
1989-90 Capital Outlay Program
Items 3600-301-200 and 3600-301-890
(dollars in thousands)

<i>Project</i>	<i>Phase^a</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>	<i>Estimated Future Cost</i>
Minor construction projects.....	pwc	\$937	\$937	—
Darrah Springs Hatchery—ponds.....	pw	46	46	\$514
Merced River salmon rearing facility.....	c	557	557 ^b	—
Red Bluff fish habitat shop.....	apw	93	—	597
Subtotals.....		\$1,633	\$1,540	\$1,111
Less reimbursements		—557	—557	—557
Totals		\$1,076	\$983	\$1,111

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; and a = acquisition.

^b Recommended amount contingent on receipt of preliminary plans prior to budget hearings.

As summarized in the table, we recommend approval of the following two proposals totaling \$983,000.

Minor Construction Projects. This proposal includes 13 minor construction projects (\$200,000 or less per project) statewide. These projects range in cost from \$13,000 to install troughs and replace a water line at

the Fillmore Fish Hatchery (Ventura County) to \$150,000 to renovate a building at the Hot Creek Fish Hatchery (Inyo County).

Darrah Springs Hatchery (Shasta County). The budget includes \$46,000—consisting of \$35,000 from federal funds and \$11,000 from the Fish and Game Preservation Fund—for preliminary plans and working drawings to replace four earthen trout broodstock ponds with two cement ponds (each 568 feet in length), and make other ancillary improvements to the facilities. The estimated future cost for construction is \$514,000, three-fourths of which would be federally funded.

According to the department, upgrading the ponds will improve the quality of the trout broodstock and result in increased egg production. Our review indicates that the project scope/cost is reasonable.

Merced River Salmon Rearing Facility

We recommend approval contingent on receipt of preliminary plans prior to budget hearings.

The budget includes \$557,000 from the Fish and Game Preservation Fund for construction of improvements to the Merced River salmon rearing facility, located 15 miles northeast of Merced. This amount is offset fully by a reimbursement from the Department of Water Resources (DWR). Reimbursement is required as mitigation for the effects on fish populations of DWR facilities/operations.

The 1988 Budget Act included \$46,000 for preliminary plans and working drawings for this project. The amount requested for construction is consistent with the amount recognized by the Legislature in supplemental report language, adjusted for inflation. At the time this analysis was prepared, however, the Legislature had not received completed preliminary plans for review. Consequently, we recommend approval contingent on receipt of preliminary plans prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend that the Legislature *not* approve the request.

Red Bluff Fish Habitat Shop

We recommend deletion of \$93,000 requested in Item 3600-301-200 for acquisition, preliminary plans and working drawings for replacement of a maintenance shop in Red Bluff because the department has not justified either the program need or specific scope/cost.

The budget requests \$93,000 for (1) acquisition of land for a new maintenance shop (\$42,000) and (2) preliminary plans and working drawings for the shop (\$51,000). The proposed 10,000 square foot facility would replace an existing 1,200 square foot shop where fish screens and fish ladders are built and maintained by department staff. The estimated future cost for construction is \$597,000.

The department has not provided information addressing:

- the basis of the proposed size of the new building (eight times the area of the existing maintenance shop);
- why acquisition of a new site is necessary;
- the basis of the estimated acquisition cost (no appraisal available);
- why funds for preliminary plans and working drawings are needed prior to acquisition of the new site;
- what will be done with the abandoned site and building; and
- operating cost impact of the new facility.

DEPARTMENT OF FISH AND GAME—CAPITAL OUTLAY—Continued

Finally, under the department's five-year capital outlay plan (submitted to the Legislature in September 1988) this project was scheduled for funding in 1990-91. At the time this analysis was prepared the department had not provided any information to the Legislature to explain why the schedule (and priority) of this project have been moved up.

Based on the above, we recommend deletion of the requested funds.

WILDLIFE CONSERVATION BOARD—CAPITAL OUTLAY

Item 3640-301 from the Wildlife
and Natural Areas
Conservation (Bond) Fund
and various funds, including
continuously appropriated
and carryover funds

Budget p. R 116

Requested 1989-90	\$45,132,000
No recommendation	25,372,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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1. Unspecified Capital Outlay Projects. We make no recommendation on a total of \$25,372,000 requested in Items 3640-301-235, 3640-301-447, 3640-301-748, and 3640-301-787 for unspecified land acquisition, development, and minor capital outlay projects, because we have no basis on which to advise the Legislature whether these expenditures are warranted.

1033

OVERVIEW OF THE BUDGET REQUEST

The budget proposes total expenditures of \$45.1 million for various capital outlay projects to be undertaken by the Wildlife Conservation Board (WCB) in 1989-90. As shown in Table 1, these funds consist of (1) four separate *new* appropriations, (2) funds continuously appropriated to the board by Proposition 70 (\$15 million), and (3) current-year funds carried over for expenditure in 1989-90 (\$4.8 million).

In addition to the amounts proposed in the budget, it is likely the board will have a substantial amount of additional carryover funds from the current year available for expenditure on capital outlay projects in 1989-90. Specifically, the budget estimates that the board will spend a total of \$47.2 million for capital outlay projects during the *current year*. This is \$31.7 million more than the largest amount spent by the board in any of the previous nine years. In all probability, a significant portion of the \$47.2 million will be carried over into 1989-90 and remain available for expenditure. Similarly, given the board's expenditure history, a substantial portion of the funds proposed for the *budget year* are likely to remain unexpended at the end of 1989-90, and be available for expenditure in outlying years.

Table 1
Wildlife Conservation Board
Proposed 1989-90 Expenditures for Capital Outlay
(dollars in thousands)

<i>Item/Description</i>	<i>Fund</i>	<i>Amount</i>
<i>Proposed new appropriations:</i>		
3640-301-235	Cigarette and Tobacco Products Surtax Fund	\$4,500
3640-301-447	Wildlife Restoration Fund	1,429
3640-301-748	Fish and Wildlife Habitat Enhancement (Bond) Fund	4,093
3640-301-787	Wildlife and Natural Areas Conservation Fund	15,350
Subtotal, proposed new appropriations		(\$25,372)
<i>Other fund sources:</i>		
Public Resources	California Wildlife, Coastal, and Park Land Conservation	
Code 5907(c)	Fund (continuously appropriated)	\$15,000
Ch 1623/88	Wildlife and Natural Areas Conservation Fund (carry over)	4,760
Subtotal, other fund sources		(\$19,760)
1989-90 Total Expenditures (Proposed)		\$45,132

New Fund Sources for Capital Outlay Projects. The budget proposes expenditures from two new fund sources for WCB capital outlay projects:

1. ***The California Wildlife, Coastal, and Park Land Conservation Act of 1988***—Proposition 70—authorizes the issuance of \$776 million in general obligation bonds for projects related to natural resources. The act continuously appropriates \$81.3 million from the California Wildlife, Coastal, and Park Land Conservation (Bond) Fund to the board for specified property acquisition projects to protect fish and wildlife. The board estimates that it will spend \$15 million from this fund in 1989-90.

In addition, the act establishes the Wildlife and Natural Areas Conservation Fund, and makes available \$50 million from the fund, upon appropriation by the Legislature, for acquisition, development, and restoration of habitat for threatened and endangered species, and fish and wildlife. Chapter 1623, Statutes of 1988, appropriated \$10.5 million of these funds to the WCB for expenditure in the current year. The board, however, indicates that it will spend only \$5.7 million in 1988-89, and will carry over the remaining \$4.8 million for expenditure in 1989-90.

2. ***The Tobacco Tax and Health Protection Act of 1988***—Proposition 99—imposes an additional excise tax on cigarettes and other tobacco products, and requires that 5 percent of the revenue from the tax be deposited into the Public Resources Account (PRA) in the Cigarette and Tobacco Products Surtax Fund. Monies in the PRA are to be used for programs to benefit fish, waterfowl, and wildlife habitat, and for park and recreation resources. The budget estimates that the excise tax will result in revenue of approximately \$46 million to the Public Resources Account by the end of 1989-90. The budget proposes expenditures of \$4.5 million of these funds for WCB property acquisition projects in 1989-90.

ANALYSIS AND RECOMMENDATIONS

Information on Capital Outlay Projects is Not Adequate

We make no recommendation on \$25,372,000 proposed for (1) land acquisition and development projects, (2) minor capital outlay projects, and (3) project planning, because the board has not provided information on the scope and cost of the proposed projects.

WILDLIFE CONSERVATION BOARD—CAPITAL OUTLAY—Continued

The budget proposes total expenditures of \$45.1 million for WCB capital outlay projects in 1989-90. Of this amount, \$25.4 million is requested as *new* appropriations in the Budget Bill. The remaining funds have been appropriated in prior years or are continuously appropriated and therefore do not require further legislative action. The funds requested in the Budget Bill are for various *unspecified* acquisition and development projects, minor capital outlay projects, and for project planning as follows:

- \$15,350,000 from the Wildlife and Natural Areas Conservation (Bond) Fund for acquisition, development, and enhancement projects benefiting unique, fragile, threatened, or endangered species (\$12 million), and fish and game (\$3 million), plus project planning (\$350,000);
- \$4.5 million from the PRA for acquisition and restoration of wildlife habitat along the Cosumnes River (\$1.5 million) and acquisition of deer habitat (\$3 million);
- \$4,093,000 from the Fish and Wildlife Habitat Enhancement (Bond) Fund for acquisition, enhancement, and development projects benefiting marshlands and aquatic habitat; and
- \$1,429,000 from the Wildlife Restoration Fund and \$100,000 in reimbursements for land acquisition and development (\$1,029,000), minor capital outlay (\$480,000), and project planning (\$20,000).

The budget does not identify (1) the specific projects the board proposes to fund, or (2) the expected cost of the projects. Although the board has provided lists of potential acquisition and development projects, these lists do not identify the costs of individual projects or provide specific project justification. Furthermore, the board indicates that the projects on the lists are tentative and subject to change. Nevertheless, it has been the Legislature's practice to grant the board this unusual degree of budget flexibility.

Without information on the specific projects to be funded and the costs of these projects, we have no basis for making a recommendation to the Legislature on the board's request.

DEPARTMENT OF BOATING AND WATERWAYS—CAPITAL OUTLAY

Item 3680-301 from the Harbors
and Watercraft Revolving
Fund

Budget p. R 126

Requested 1989-90	\$1,220,000
Recommended approval	1,220,000

ANALYSIS AND RECOMMENDATIONS

The budget requests \$1.2 million from the Harbors and Watercraft Revolving Fund (HWRF) for capital outlay projects proposed by the

Department of Boating and Waterways in 1989-90. The funds will be used to develop boating facilities in the state park system, State Water Project Reservoirs and other state-owned land.

(1) Project Planning\$20,000

We recommend approval.

The budget requests \$20,000 for use in evaluating proposed projects and preparing budget estimates for 1989-90. The amount requested is reasonable.

(2) Minor Projects.....\$1,200,000

We recommend approval.

The department requests \$1.2 million for minor capital outlay projects in the following areas:

Castaic Lake State Recreation Area (SRA) (\$46,000)
 Emerald Bay State Park, Lake Tahoe (\$60,000)
 Folsom Lake SRA, Granite Bay (\$200,000)
 Millerton Lake SRA, North Shore (\$200,000)
 Oroville Lake SRA, Bidwell Canyon (\$200,000)
 Oroville Lake SRA, Spillway Area (\$34,000)
 Perris Lake SRA (\$10,000)
 San Luis Reservoir SRA (\$120,000)
 Salton Sea SRA (\$130,000)
 Emergency repairs and ramp extensions (\$100,000)
 Immediate improvement needs (\$100,000)

These projects are reasonable in scope and cost, and appear to be justified.

STATE COASTAL CONSERVANCY—CAPITAL OUTLAY

Items 3760-301, 3760-302 and
 3760-303 from various funds

Budget p. R 138

Requested 1989-90	\$32,867,000
Recommended approval	32,867,000

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget shows that the conservancy has approximately \$32.9 million available for expenditure in 1989-90. This amount consists of approximately \$15 million in new appropriations: State Coastal Conservancy Fund of 1984 (\$2.5 million), Fish and Wildlife Habitat Enhancement Fund (\$5.5 million), the California Wildlife, Coastal, and Park Land Conservation Fund of 1988 (\$6.7 million), and the California Environmental License Plate Fund (\$117,000). Additionally, the budget shows an estimated \$18 million in carry-over balances available in 1989-90. This amount is part of a direct appropriation the conservancy received in 1988-89 for specific projects included in Proposition 70. The conservancy only anticipates spending \$6 million of this amount in the budget year.

STATE COASTAL CONSERVANCY—CAPITAL OUTLAY—Continued

The remaining \$12 million will be carried over into the 1990-91 budget. Consequently, of the total \$32.9 million available, the conservancy expects to spend roughly 21 million in the budget year for capital outlay activities.

Language in each of the capital outlay items allows these funds to be used for local assistance projects as well. Therefore, the money requested may be allocated for projects directly carried out by the conservancy or for grants to local agencies and nonprofit organizations.

The conservancy's request appears reasonable and is consistent with statutory mandates.

DEPARTMENT OF PARKS AND RECREATION—CAPITAL OUTLAY

Item 3790-301 from the
Parklands (Bond) Fund of
1984 and various funds

Budget p. R 164

Total proposed expenditures 1989-90.....	\$58,933,000
Requested 1989-90.....	25,521,000
Recommended approval.....	21,216,000
Recommended reduction.....	286,000
Recommendation pending.....	4,019,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
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Parklands (Bond) Fund of 1980

1. *Lighthouse Field SB-Items to Complete. Reduce Item 3790-301-721(1) by \$286,000.* Recommend reduction to reflect a more reasonable estimate of the state share of cost for the project. 1040

Parklands (Bond) Fund of 1984

2. Bidwell Mansion SHP-Visitor Center. Withhold recommendation on \$1,067,000 requested in Item 3790-301-722(3) pending receipt and review of updated cost estimates. 1041
3. Natural Heritage Stewardship. Withhold recommendation on \$202,000 requested in Item 3790-301-722(12) pending completion of 1988 bond fund deliberations. 1041

State Beach, Park, Recreational and Historical Facilities (Bond) Fund of 1974

4. Old Town San Diego SHP - Bohannon Pottery Village. Withhold recommendation on \$2,750,000 requested in Item 3790-301-733(1) pending receipt of final cost estimates. 1042

OVERVIEW OF THE BUDGET REQUEST

The budget proposes expenditures totaling \$58.9 million from various funding sources for the Department of Parks and Recreation (DPR) capital outlay program in 1989-90. This amount consists of (1) \$25.5

million in funds proposed for appropriation in the Budget Bill and (2) \$33.4 million in continuously, or previously, appropriated funds. The department proposes to use these funds for 12 major projects, various minor development projects, acquisitions, and project planning. Most of the funds are provided from the California Wildlife, Coastal and Park Land Conservation (Bond) Fund of 1988 (\$22 million), the Parklands (Bond) Fund of 1984 (\$17 million), the Off-Highway Vehicle Fund (\$6.5 million), and the Public Resources Account of the Cigarette and Tobacco Products Surtax Fund (\$4.4 million).

For discussion purposes, we have divided the department's program into three parts based on the proposed funding sources for the projects. Table 1 shows the department's total capital outlay request, by funding source, and indicates the page on which the analysis of projects from each funding source begins. Table 1 also indicates funds available to the department either from reappropriations or from direct appropriations through the 1988 Bond Fund.

Table 1
Department of Parks and Recreation
1989-90 Capital Outlay Program Summary
(dollars in thousands)

<i>Proposed New Appropriations</i>	<i>Fund</i>	<i>Budget Bill Amount</i>	<i>Analysis Page</i>
3790-301-235	Public Resources Account, Cigarette and Tobacco Products Surtax Fund	\$4,362	— ^a
3790-301-263	Off-Highway Vehicle Fund	6,532	— ^a
3790-301-392	State Parks and Recreation Fund	95	— ^a
3790-301-721	Parklands (Bond) Fund of 1980	349	1,040
3790-301-722	Parklands (Bond) Fund of 1984	9,433	1,041
3790-301-733	State Beach, Park, Recreational and Historical Facilities (Bond) Fund of 1974	2,750	1,042
3790-301-786	California Wildlife, Coastal and Park Land Conservation (Bond) Fund of 1988	2,000	— ^a
Subtotal, proposed new appropriations		(\$25,521)	
<i>Funds Previously Approved</i>			
3790-301-263	Off-Highway Vehicle Fund	\$1,300	
3790-301-392	State Parks and Recreation Fund	1,420	
3790-301-721	Parklands (Bond) Fund of 1980	622	
3790-301-722	Parklands (Bond) Fund of 1984	7,160	
3790-301-728	Recreation and Fish and Wildlife Enhancement Fund (1970 Bond)	100	
3790-301-732	State Beach, Park, Recreational, and Historical Facilities (Bond) Fund of 1964	10	
3790-301-742	State, Urban, and Coastal Park Fund (1976 Bond) ...	2,700	
3790-301-786	California Wildlife, Coastal and Park Land Conservation (Bond) Fund of 1988	20,000	
3790-301-890	Federal Trust Fund	100	
Subtotal, funds previously approved		(\$33,412)	
Total		\$58,933	

^a Projects not discussed separately. We recommend approval as budgeted.

DEPARTMENT OF PARKS AND RECREATION—CAPITAL OUTLAY—Continued

New Parks Funding Source: Proposition 70

In June 1988, voters approved the California Wildlife, Coastal, and Park Land Conservation Act of 1988, known as Proposition 70. The act establishes a bond fund of \$726 million, of which \$284 million is directly appropriated to the department for acquisitions of new park lands (\$98.6 million) and for grants to local agencies for park land acquisition and development (\$185.4 million). The department proposes to spend \$20 million for *state* acquisitions in 1989-90, leaving \$78.6 million for expenditure in future years.

In addition to funds directly appropriated to the department, Proposition 70 allocates \$54.7 million for various park and recreation purposes. These funds must be approved by the Legislature prior to expenditure. A detailed listing of project categories can be found in Table 2. The Budget Bill includes expenditures totaling \$2 million from these funds for storm damage repair (\$1 million) and volunteer projects (\$1 million). The remaining funds will be available for appropriation by the Legislature subsequent to a nomination, screening and ranking process conducted by the department. The department must review nominations for expenditures and submit a list of priorities to the Legislature and the Secretary of the Resources Agency by March 1, 1989. A Department of Finance budget amendment letter to the Legislature should follow shortly thereafter proposing expenditure of all or a portion of the funds in the budget year.

Table 2
Department of Parks and Recreation
Proposition 70 Allocation for Park Capital Outlay and Local Grants
(dollars in millions)

	<i>Total Amount Allocated</i>
<i>Direct Appropriations</i>	
Department of Parks and Recreation.....	\$98.6
Grants to local agencies.....	185.4
Subtotals, direct appropriations.....	(\$284.0)
<i>Budget Bill Appropriations</i>	
Acquisitions for existing parks.....	\$4.7
Coastal Resources (non San Francisco Bay)	14.0
a. San Diego to Santa Barbara County	(8.0)
b. San Luis Obispo to San Francisco County.....	(4.0)
c. Marin to Del Norte County	(2.0)
San Francisco Bay development.....	3.0
Inland development.....	8.0
Lakes and reservoirs development.....	2.0
Storm damage repairs.....	1.0
Volunteer projects.....	3.0
Natural resources stewardship.....	10.0
Historical facilities development	5.0
Trails development.....	3.0
Sno-Park trailhead acquisition and development	1.0
Subtotals, Budget Bill appropriations.....	(\$54.7)
Total, capital outlay and local grants for parks.....	\$338.7

Storm damage repairs. As part of its funding request for 1989-90, the department requests \$1 million from the 1988 bond fund to repair

existing public use and administrative facilities in the event of storm damage prior to the beginning of the budget year. No specific projects are identified in the budget. Instead, the department indicates it will use the funds on an "as required basis." In the spring, however, the department traditionally submits detailed information on its priorities for storm damage repairs. We will review this information when it becomes available and bring any concerns to the attention of the Legislature.

ANALYSIS AND RECOMMENDATIONS

Our review of the department's request for 1989-90 indicates that projects totaling \$21.2 million are reasonable in scope and cost. Accordingly, we recommend approval of these projects in the amounts requested. Table 3 provides a summary of these projects.

Table 3
Department of Parks and Recreation
1989-90 Capital Outlay Program
Projects Recommended for Approval
(dollars in thousands)

<i>Item/Project^a</i>	<i>Budget Bill Amount</i>
3790-301-235—Public Resources Account, Cigarette and Tobacco Products Surtax Fund	
(1) San Buenaventura SB, groin repair/replacement (c)	\$155
(2) Statewide sand replenishment (c)	437
(3) Minor projects	3,770
3790-301-263—Off-Highway Vehicle Fund	
(1) Carnegie SVRA, initial development (c)	1,830
(2) Hollister Hills SVRA, Hudner (a)	2,500
(3) Hollister Hills SVRA, Taylor (a)	1,000
(4) Budget Package/schematic planning	50
(5) Minor projects	1,102
(6) Pre-budget appraisals	50
3790-301-392—State Parks and Recreation Fund	
(1) Retrofit visitor services facilities (c)	95
3790-301-722—Parklands (Bond) Fund of 1984	
(1) Angel Island SP, East Garrison visitor improvements, minor projects	102
(2) Angel Island SP, water system connection (pwc)	616
(4) Bothe-Napa Valley SP, Wright (a)	600
(5) California Citrus SHP, schematic planning and artifact acquisition	225
(6) China Camp SP, rehabilitate and develop day use facilities (pw)	116
(7) Leo Carillo SB, rehabilitation and replacement of worn-out facilities, campground (c)	837
(8) Pyramid Lake SRA, Phase I development (c)	2,391
(9) Refugio SB, rehabilitation and replacement of worn-out facilities, Upcoast campground (c)	1,349
(10) San Luis Reservoir SRA, family campground and day use (c)	1,778
(11) Budget package/schematic planning	150
3790-301-786—California Wildlife, Coastal and Park Land Conservation (Bond) Fund of 1988	
(1) Storm damage repair	1,000
(2) Volunteer Program, minor projects	1,000
Total	\$21,153

^a Letter following project indicates phase: a=acquisition; p-preliminary plans; w=working drawings; c=construction.

DEPARTMENT OF PARKS AND RECREATION—CAPITAL OUTLAY—Continued

PARKLANDS (BOND) FUND OF 1980

ITEM 3790-301-721

The department requests an appropriation of \$349,000 from the Parklands (Bond) Fund of 1980 for one major project in 1989-90.

Lighthouse Field SB-Items to Complete\$349,000

We recommend a reduction of \$286,000 for items to complete facilities upgrading at Lighthouse Field State Beach (SB) to reflect a more reasonable estimate of the state's share of cost for the project. (Reduce Item 3790-301-721 (1) in the amount of \$286,000.)

The department requests \$349,000 to complete the Phase I development of Lighthouse Field SB. Owned jointly by the state and the City of Santa Cruz, Lighthouse Field SB includes 36 acres of undeveloped coastal terrace and 4,200 feet of scenic cliffs. Specifically the budget proposes the following expenditures:

- 2,200 feet of metal rail fencing (\$175,000);
- Curbs, gutters, and log barriers (\$70,000);
- Landscaping (\$50,000); and
- Miscellaneous items including architectural and engineering fees (\$53,250).

In 1977, the department entered into an operating agreement with the City of Santa Cruz that (1) designates the city as the lead agency for the beach, (2) makes the city responsible for operations and maintenance of the facility and (3) stipulates that the state, through the DPR, may fund no more than 25 percent of the total development costs of the park.

In 1987 the city drew up plans for the first phase of development in accordance with the General Plan. The city approved a bid of approximately \$1.4 million and requested \$342,000 (25 percent of the total) from the department. The DPR informed the city that state participation would require appropriation of funds by the Legislature, a process that entails development of a budget package by the department, review by the Department of Finance, and appropriation by the Legislature. Normally this process takes approximately two years to complete. In 1987-88 the city chose to proceed with the first phase of the development project without receiving state support through the DPR's budget. There was no legislative review of the project at the time development began. However, the state did pay for approximately \$296,000 of the 1987-88 project costs through a competitive grant awarded to the City of Santa Cruz from State Coastal Conservancy bond funds.

The budget proposes to complete Phase 1 development in 1989-90 at a cost of \$349,000. According to the department, these costs would be funded *entirely* by the state and represent the state's share of the *total* development costs for Phase 1, including the majority of the project that was completed in 1987-88.

In our view, the department's proposal should be modified for two reasons. First, one aspect of the 1989-90 development proposal goes far beyond current state specifications for similar park units. Specifically, the proposal includes \$175,000 to purchase and install 2,200 feet of metal rail fencing along the cliffs at the park unit. This fencing would be identical to fencing installed by the city in 1987-88 along certain portions of the

cliffs at Lighthouse Field SB. At \$80 per linear foot, however, the cost of this fencing is three times as expensive as fencing used in most other state park units. Using state specifications, we estimate that the fencing would cost approximately \$78,000. Second, state administrative procedures require that all major capital outlay projects be reviewed by the Legislature prior to appropriation of state funds for support. The department, however, is requesting that the Legislature appropriate state funding for a share of the costs both for items yet to be completed *and items completed in 1987-88 without legislative review.*

In our view, under the operating agreement, the state's share of cost for development of the park unit should be limited to those aspects of development that the Legislature has the opportunity to review. Additionally, the state should not pay for materials or other development costs that are in excess of the costs that would be incurred at the park unit if the state were the sole developer. We recommend the state pay 25 percent of (1) the estimated cost of purchasing and installing fencing materials similar to those installed in other park units (\$78,000) and (2) after deduction of the fencing cost, the remaining 1989-90 costs of \$174,000 to complete Phase 1 development of the park unit. Accordingly, we recommend a total reduction of \$286,000 from the department's proposal.

PARKLANDS (BOND) FUND OF 1984

ITEM 3790-301-722

The department requests appropriations totaling \$9,433,000 from the Parklands (Bond) Fund of 1984 for various major and minor projects, and planning activities in 1989-90. Elsewhere, we recommend approval of 10 projects totaling \$8,164,000. The remaining projects are discussed below.

Bidwell Mansion State Historic Park (SHP),

Visitor Center, Construction\$1,067,000

We withhold recommendation on \$1,067,000 requested in Item 3790-301-722(3) pending final cost estimates for a visitor center at Bidwell Mansion SHP.

The budget includes \$1,067,000 for construction of a new visitor center and realignment of the parking area at Bidwell Mansion SHP in Chico. Currently, visitor services are housed within the mansion, preventing the department from fully restoring the mansion to its historic state.

Design and Building Materials Have Changed. The initial design of the visitor center was incompatible with the mansion. To improve the compatibility of the visitor center and the mansion, the department has altered the preliminary design by lowering the level of the roof, making minor changes in the floor plan, and specifying an exterior building material that does not distract attention from the mansion. The project now appears reasonable in scope and design. Since final cost estimates based on these changes were not available at the time of this *Analysis*, however, we withhold recommendation on \$1.1 million for construction of the visitor center pending review of a revised cost estimate.

Natural Heritage Stewardship, Minor Projects\$202,000

We withhold recommendation on \$202,000 requested in Item 3790-301-722(12) for Natural Heritage Stewardship pending completion of the 1988 Bond Fund deliberations.

DEPARTMENT OF PARKS AND RECREATION—CAPITAL OUTLAY—Continued

The department requests \$202,000 from the 1984 Bond Fund for projects that focus on critical plant and animal habitat, control and elimination of exotic species, and erosion control.

The program for 1989-90 anticipates using \$202,000 from the 1984 bond plus additional funds from the 1988 bond, for natural heritage stewardship. Proposition 70 allocates \$10 million, subject to appropriation by the Legislature, for natural heritage stewardship. At the time of this *Analysis*, the department had not yet specified (1) the amount of Proposition 70 funding it proposes to spend in 1989-90 on this program or (2) project detail and priorities for program expenditures. Accordingly, we withhold our recommendation on the \$202,000 proposed in the budget pending receipt of detail on expenditures from all sources proposed for natural heritage stewardship in the budget year.

STATE BEACH, PARK, RECREATIONAL AND HISTORICAL FACILITIES (BOND) FUND OF 1974**ITEM 3790-301-733**

Old Town San Diego SHP-Bohannon Pottery

Village, Acquisition.....\$2,750,000

We withhold recommendation on the acquisition of Bohannon Pottery Village in Old Town San Diego pending completed acquisition cost estimates.

This acquisition will help satisfy the demands for off-street parking in close proximity to the main historic area of the park and enable the department to realign the main park entrance road according to the General Plan. The acquisition appears reasonable in scope, but the department currently is having the property reappraised. Until the reappraisal is complete, the department will be unable to provide a firm acquisition cost estimate. As a result, we withhold our recommendation pending completion of the reappraisal and receipt of an updated cost estimate.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved in each item. This would be consistent with actions taken by the Legislature in prior years.

DEPARTMENT OF WATER RESOURCES—CAPITAL OUTLAYItem 3860-301 from the Public
Resources Account

Budget p. R 198

Requested 1989-90.....	\$1,100,000
Recommended approval	1,100,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

- | | |
|--|------|
| 1. Federally Funded Flood Control Projects. Recommend the Department of Finance report at budget hearings on funding for penalties incurred by not providing funding for federal flood control projects. | 1044 |
| 2. Flood Control Project Staffing. Recommend deletion of 4.5 PYs if the Legislature concurs with the administration's proposal to not provide funding for federal flood control projects. | 1045 |

OVERVIEW OF THE BUDGET REQUEST

The budget requests capital outlay funds totaling \$1.1 million from the Public Resources Account, Cigarette and Tobacco Products Surtax Fund (PRA) to purchase lands with riparian vegetation for flood control.

No Funding for Federal Flood Control Projects. In previous years, the budget has also requested funding, primarily from the Special Account for Capital Outlay (SAFCO), to provide the state's share of federally-sponsored flood control projects. The budget does not propose any funding for the state's share of such projects in 1989-90, due to a shortfall in the SAFCO.

The Reclamation Board, within the Department of Water Resources (DWR), acts as the nonfederal sponsor for flood control projects constructed by the U.S. Army Corps of Engineers in the Sacramento and San Joaquin River Systems. As nonfederal sponsor, the board is responsible for providing funding for lands, easements, rights-of-way, and relocations (known as LERRs) required for projects, as well as a cash contribution.

Under state law, the board pays all of the nonfederal costs for some projects and shares nonfederal costs with local interests for other projects. In either case, the board's contribution is budgeted as a capital outlay expenditure. Outside the central valley area, local agencies act as the nonfederal sponsor and receive state funds in the form of subventions. These monies are budgeted as local assistance in the DWR's budget.

ANALYSIS AND RECOMMENDATIONS**Federally-Funded Flood Control Projects: Costs If We Pay, Costs If We Do Not**

Background. The state, as the nonfederal sponsor for federal flood control projects, is under a legal obligation to provide the nonfederal costs of any project for which an agreement has been signed with the U.S. Army Corps of Engineers (COE). The state is usually responsible for purchasing lands, easements and rights-of-way before the COE is able to advertise project contracts. Therefore, a significant portion of the state obligation is required before the project begins construction. The remain-

DEPARTMENT OF WATER RESOURCES—CAPITAL OUTLAY—Continued

der of the state share, usually for relocation of facilities (such as roads, bridges, and power lines) and for the federally required cash contribution, is incurred during the construction phase of the project. The final cash contribution is usually calculated when work is completed.

The COE indicates that the state share of project costs in 1989-90 will total approximately \$10.5 million. Table 1 shows the five projects that are currently proposed for federal funding in the budget year. Of these projects, two currently are under construction, two have been delayed for several years and are ready to begin construction in the budget year, and one is a new project expected to begin construction in 1989-90.

Table 1
Department of Water Resources—Capital Outlay
Federal Flood Control Projects Scheduled for 1989-90
(dollars in thousands)

<i>Project</i>	<i>Status</i>	<i>1989-90 State Funding Require- ment</i>
Fairfield Vicinity Streams	Phases I and II complete	—
	Phase IIa to begin	\$80
	Phase III under construction	627
	Phase IV to begin	1,150
Subtotals, Fairfield		(\$1,857)
Sacramento Riverbank Protection Project	4 contracts advertised or under construction	1,200 ^a
	7 new contracts to begin	1,300 ^a
Subtotals, Sacramento		(\$2,500) ^a
Merced County Streams	Construction LERRs to be purchased 1988-89	—
	Construction to begin 89-90	\$396-595 ^b
Subtotals, Merced		(\$396-595) ^b
San Joaquin River Clearing and Snagging	Middle River to begin	\$225
	Mendota Pool to begin	42
	Kings River North to advertise contracts	60
Subtotals, San Joaquin		(\$327)
Cache Creek Settling Basin	Construction to begin 89-90	\$5,190
Total		\$10,270-\$10,469

^a Costs for SRP project are approximate and could vary.

^b Merced County has not yet determined whether to seek state/local cost sharing according to new provisions contained in Ch 1251/88 (SB 505, Royce), or under previous cost sharing arrangements, resulting in a range of potential state costs.

State Incurs Penalties for Not Meeting Funding Obligation

We recommend that the Departments of Finance (DOF) and Water Resources report at budget hearings on how the administration intends to provide funds for (1) federal penalty assessments or (2) the state share of project costs in 1989-90. We further recommend that the departments report at budget hearings concerning project funding priorities.

If the state fails to make payments required under the agreements with the COE, the COE has two options: it may continue the construction of

the project, particularly if there is an imminent public safety concern (such as a partially completed dam), or it may suspend or terminate project activities. In either case, the COE charges the state a penalty, in the form of interest costs, on any delinquent payments. The penalty is set at 150 percent of the rate on federal Treasury bills auctioned prior to the date of delinquency, and is recalculated every three months thereafter. (If a contract has not been advertised yet, however, the state does not incur an obligation and would not be penalized. Therefore, in cases where contracts have not yet been advertised, it may be possible for the COE to delay the advertising dates for new contracts to avoid assessing penalties on the state.) The COE indicates that it will impose penalties on the state if it does not meet the state funding obligation. Based on the status of the five projects, *we estimate that the state could incur approximately \$800,000 in penalties in 1989-90.*

Other Potential Consequences of Not Paying State Share. In addition to the penalties the state would incur for nonpayment of its share of project costs, the 1989-90 projects could be delayed at least a year if the COE opts to suspend construction until state funds become available. The consequences of project delays differ between projects, depending on the status of the project and the degree of flood risk associated with current conditions. (A description of each project appears at the end of this item.) In addition, failure to provide the budget-year share of flood control project costs could jeopardize the state's relationship with the COE. In the past, the state has always provided its required share of funding and, as a result, is in good standing with the COE. The COE in turn has allowed the state some latitude with regard to scheduling of payments and other requirements of nonfederal sponsors. If the state fails to provide its funding share in 1989-90, the Corps could require in the future that all nonfederal support for a given project must be provided *before* the project can begin.

Our analysis indicates that the state could incur significant penalty costs in 1989-90—as well as project delays—if the Legislature approves the administration's proposal not to fund federal flood control projects in the budget year. The budget, however, proposes *no funding* for these penalty costs. We recommend, therefore, that the DOF and the DWR report at budget hearings on how the administration intends to (1) provide funds for penalty payments associated with each project or (2) fund the state share of project costs. We also recommend that the DOF and the department report on the priorities for funding the five specific projects discussed in this analysis.

Flood Control Activities Overstaffed But Underfunded

We recommend that the Legislature delete 4.5 personnel-years in DWR staffing for federal flood control projects if the Legislature concurs with the administration proposal to provide no state funding for federal flood control projects in 1989-90.

Staff support for the department's major capital outlay program for flood control activities is included in the budget requests for project costs. The budget is proposing to fund only one flood control project this year, a decrease of four projects from the current year.

In the current year, the department has 8.5 personnel-years (PYs) to support its capital outlay projects. The department indicates that the one project approved for the budget year, the riparian vegetation purchase

DEPARTMENT OF WATER RESOURCES—CAPITAL OUTLAY—Continued

project, requires 1 PY. Consequently, the budget should reflect a decrease of 7.5 PYs to correspond with the decrease in flood control projects proposed for funding.

The budget, however, proposes to reduce staff support for major capital outlay projects by only 3 PYs, while in effect deleting *all* funding for staff support by not requesting project funding. Our analysis indicates that the department would require approximately \$200,000 to support the 4.5 PYs that would remain dedicated to the flood control program. No specific proposal was submitted, however, to justify the number of PYs proposed for reduction or how the department will fund the personnel that would remain. Consequently, we recommend that the Legislature delete the 4.5 positions left to support federal flood control projects *if* it concurs with the administration's proposal to provide no funding for these projects.

Federal Flood Control Projects for 1989-90

For informational purposes, we provide below a description of each of the federally-funded flood control projects scheduled for 1989-90.

Fairfield Vicinity Streams Project. This project, under construction since 1985, is scheduled for completion in 1989-90. The first three phases comprise one unit of the flood control system, and the fourth phase will provide flood protection along a separate stream. Phase IIa, a portion of a diversion channel, connects work completed under Phases II and III, and is necessary for the diversion channel unit of the project to become operational. The Reclamation Board is fully responsible for nonfederal costs incurred for the remainder of the project because the local sponsor has already contributed its share to the project.

Sacramento Riverbank Protection Project. This is an ongoing project to maintain the integrity of the levee system along the Sacramento River by preventing erosion on bank areas critical to maintaining the flow of the river. Each year, several contracts are undertaken to line portions of the riverbank with rock, to mitigate the environmental impacts of the project, and in some areas to implement alternative bank protection measures. The federal government provides 75 percent of the funding for the project, and the state, through the Reclamation Board, provides all LERRS and cash to total 25 percent of project costs.

Merced County Streams. The first of four phases of this project, Castle Dam, has been approved for construction, although the project has experienced numerous delays. The COE anticipates beginning construction in June 1989. State funds required for purchase of LERRs before construction of Castle Dam can begin are available in the 1988-89 budget, and are anticipated to be expended by April 1989. The COE anticipates advertising construction contracts in May 1989. Once construction contracts are let, the state and the nonfederal sponsor will be responsible for (1) relocations required by the project in 1989-90, (2) additional upstream LERRS, and (3) a portion of the cash requirement. The COE estimates that the nonfederal share in 1989-90 will be \$850,000, including cash requirements, but cautions that costs could be as much as \$500,000 more than currently estimated. The Reclamation Board is not responsible for the entire nonfederal share of this project, but the local sponsor has not yet determined which of two available cost-sharing options it will select.

San Joaquin River Clearing and Snagging. This project, designed to provide some relief from flooding and seepage on segments of the San Joaquin River, has also experienced numerous delays. If all environmental documentation is approved as anticipated by the COE, the project should commence in June 1990. This would require state purchase of construction LERRs in 1989-90. (The Reclamation Board is the sole nonfederal sponsor for the project.) The federal government is providing all the funds necessary for purchase of mitigation lands for the project, which should occur in the current year.

Cache Creek Settling Basin. Part of the Sacramento River Flood Control Project, the Cache Creek Settling Basin is scheduled to be enlarged to prevent sediment from being carried further downriver during high water. Assuming federal funds are appropriated, the COE intends to begin construction in the spring of 1990, requiring purchase of LERRs in 1989-90. However, Congress did not appropriate funds for this project in the current federal fiscal year.

DEPARTMENT OF HEALTH SERVICES—REVERSION—CAPITAL OUTLAY

Item 4260-496 to the General
Fund, Special Account for
Capital Outlay

Budget p. HW 97

ANALYSIS AND RECOMMENDATIONS

We recommend approval.

The budget proposes a reversion to the Special Account for Capital Outlay (SAFCO) of the unencumbered balance of funds appropriated in Item 4260-301-036 (2) of the 1987 Budget Act. The Legislature appropriated \$1,308,000 in that item from SAFCO for the department to exercise a purchase option for a 25,000 square foot laboratory building in Los Angeles which the department had been leasing. The department purchased the building in June 1988. The balance of the appropriation to be reverted is \$4,000.

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY

Item 4440-301 from the
Cigarette and Tobacco
Products Surtax Fund,
Unallocated Account

Budget p. HW 132

Requested 1989-90	\$17,530,000
Recommended approval	11,525,000
Recommended reduction	280,000
Recommendation pending	5,725,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Multipurpose Building at Atascadero State Hospital. Reduce Item 4440-301-236 by \$219,000 (future savings \$8.6 million).* Recommend deletion of preliminary plan funds because recent state court actions invalidating the Mentally Disordered Offender Program eliminate the need for this new building. 1051
2. Warehouse Expansion at Atascadero State Hospital. Recommend approval contingent on receipt of preliminary plans prior to budget hearings. Further recommend supplemental report language setting construction phase cost at \$1,281,000. 1052
3. "R and T" Building Improvements at Metropolitan State Hospital. Withhold recommendation on \$5,239,000 for construction pending (a) final accounting/justification for project cost increases and (b) decision by the Office of Statewide Health Planning and Development on a waiver request which could significantly affect project cost. 1052
4. *Upgrade James Hall at Metropolitan State Hospital. Reduce Item 4440-301-236 by \$61,000.* Recommend deletion of working drawing funds and approval in the reduced amount of \$31,000 for preliminary plans due to uncertainties over final project scope/cost. 1053
5. Building 197 Improvements at Napa State Hospital. Withhold recommendation on \$486,000 requested for working drawings pending receipt of completed preliminary plans prior to budget hearing, including a cost estimate reviewed on the basis of the bid award at Building 195—as required by language in the *Supplemental Report of the 1988 Budget Act*. Further recommend deletion of Budget Bill language providing authority to solicit construction bids prior to appropriation for construction. 1054

OVERVIEW OF THE BUDGET REQUEST AND FIVE-YEAR CAPITAL OUTLAY PLAN

Budget Request. The Department of Mental Health's (DMH) 1989-90 capital outlay program represents the sixth year of a major initiative to upgrade all patient living areas in the department's hospitals to meet current fire, life safety and environmental standards. This capital outlay work is part of a larger departmental effort to maintain accreditation of

its hospitals by the Joint Commission on Accreditation of Hospitals (JCAH). As of October 1987, the JCAH had granted accreditation to all DMH hospitals. Continued accreditation status, however, is contingent on successful and timely completion of the projects to remodel patient living areas.

According to the Governor's Budget, the patient living area remodeling plan involves the renovation of space for 5,384 patient beds at a total estimated cost of \$144.1 million, or about \$26,800 per bed. To date, the Legislature has approved funds totaling \$88.1 million for this work. The budget requests \$16.5 million in 1989-90 which would leave an estimated funding need of \$39.5 million in future years to complete the patient living area remodeling plan.

Table 1 shows estimated costs for the patient living area remodeling effort as well as for additional projects in patient program areas, staff offices and support facilities (\$36 million). The budget requests \$1.0 million for these other projects in 1989-90 for which the estimated future cost is \$10.1 million. When these other projects are taken into account, the overall DMH capital outlay plan, as shown in the Governor's Budget, involves a total estimated cost of \$180.1 million. As Table 1 indicates, the Legislature has appropriated a total of \$113 million for this overall effort, leaving an estimated funding need of \$67.1 million in 1989-90 *and* future years.

Table 1
Department of Mental Health
Hospital Remodeling/Capital Outlay Plan
As Shown in Governor's 1989-90 Budget
(dollars in thousands)

<i>Type of Project</i>	<i>Total Beds</i>	<i>Estimated Total Cost^a</i>	<i>Previously Funded Amount</i>	<i>Budget Bill Amount</i>	<i>Estimated Future Cost^a</i>
Patient living area remodeling	5,384	\$144,117	\$88,098	\$16,526	\$39,493
Other hospital projects	N/A	36,003	24,906	1,004	10,093
Totals		\$180,120	\$113,004	\$17,530	\$49,586

^a Department estimates.

Five-Year Capital Outlay Plan. The department's five-year capital outlay plan dated January 12, 1989, however, identifies an *additional \$31.5 million for projects* not identified in the Governor's Budget. The additional projects generally address (1) remodeling of kitchen and dining areas and employee housing and (2) renovation of utility systems.

The DMH five-year plan provides a generalized overview of the department's capital improvement needs. Based on our review of the plan, we believe the informational content of the plan should be improved to make it a more useful document, not only for the Legislature, but for the administration. Specifically, the department needs to include more detailed discussions of the *program needs/requirements* which "drive" the capital outlay proposals included in the plan, specify how proposed projects meet program needs and identify project priorities and the basis on which priorities are set.

ANALYSIS AND RECOMMENDATIONS

The budget requests \$17,530,000 for seven major and seven minor capital outlay projects for DMH in 1989-90. The entire amount is

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

requested from cigarette surtax monies (Item 4440-301-236). We have reviewed the DMH capital outlay requests on their merits, rather than whether the proposed funding source is appropriate for the proposed purposes. We believe this matter is a policy issue for the Legislature's determination.

Table 2 shows the amounts requested for each project and our recommendations.

Table 2
Department of Mental Health
1989-90 Capital Outlay Program
Item 4440-301-236
(dollars in thousands)

Sub-Item	Project	Location	Phase ^a	Budget Bill Amount	Analyst's Recommendation	Estimated Future Cost ^b
(1)	Minor construction projects	statewide	pwc	\$610	\$610	—
(2)	Fire, life safety improvements—remodel patient living areas	Atascadero	c	10,503	10,503	—
(3)	Multipurpose building	Atascadero	p	219	—	\$8,593
(4)	Warehouse	Atascadero	w	83	83 ^c	1,245
(5)	Fire, life safety, environmental improvements—R and T Building	Metropolitan	c	5,239	pending	—
(6)	Upgrade James Hall	Metropolitan	pw	92	31	823
(7)	Fire, life safety, environmental improvements—Building 197	Napa	w	486	pending	8,933
(8)	Fire, life safety, environmental improvements—Building 70	Patton	p	298	298	11,645
Totals				\$17,530	\$11,525	\$31,239

^a Phase symbol indicates: p = preliminary plans; w = working drawings; c = construction.

^b Department estimates.

^c Recommended amount contingent on receipt of preliminary plans prior to budget hearings.

As summarized in Table 2, we recommend approval as budgeted of the following three proposals totaling \$11,411,000.

Minor Projects. The budget includes \$610,000 in Item 4440-301-236 for seven minor construction projects. These projects range in cost from \$25,000 to install fire exits at Patton State Hospital (San Bernardino) to \$176,000 to air condition staff offices at the same hospital.

Fire, Life Safety and Environmental Improvements at Atascadero State Hospital. The budget includes \$10,503,000 for the construction phase of fire, life safety and environmental improvements at Atascadero State Hospital. The project consists of interior remodeling of patient wards (255,000 gross square feet) and building additions (45,000 gross square feet) to provide space for administrative and clinical support functions. The State Public Works Board approved preliminary plans for this project in July 1988. At that time the Department of Finance advised the board and the Legislature that the project was within the scope/cost approved by the Legislature. The amount requested for construction is consistent with the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation.

Building 70 Improvements at Patton State Hospital. The budget includes \$298,000 for preliminary plans for fire, life safety and environmental improvements to Building 70 at Patton State Hospital in San Bernardino. The project consists of remodeling approximately 125,000 square feet of existing building area to correct code deficiencies and meet environmental standards needed to maintain hospital accreditation, including the provision of (1) more privacy for patients in sleeping and bathing areas and (2) larger areas for therapeutic treatment activities. Upon completion of the renovations, Building 70 will have a capacity of 320 beds.

The estimated future cost for working drawings and construction is \$11.6 million. The estimated construction contract portion of this cost is \$9.4 million, or about \$75 per square foot.

A discussion of the remaining projects and our recommendation for each follows.

Multipurpose Building, Atascadero State Hospital

We recommend deletion of \$219,000 requested in Item 4440-301-236 for preliminary plans because recent court actions invalidating the Mentally Disordered Offender program eliminate the need for this new project (future savings \$8.6 million).

The budget proposes \$219,000 for preliminary plans for a new "multi-purpose" building at Atascadero State Hospital. According to the department's documentation for the budget request, the proposed building would provide facilities for vocational/academic education classrooms and various staff offices. The project consists of a two-story, fully furnished, maximum security building of 46,700 gross square feet (gsf). The building would be designed to allow for later expansion by adding a third story. (The department has not specified why or when this expansion would be needed, what additional costs are imposed by designing for future expansion, or what the costs of the expansion itself would be.)

Under the department's proposal, most of the space in the new building *ultimately* would be used for classrooms. According to the department, this additional classroom space will be needed at Atascadero to accommodate a growing client population under the recently established Mentally Disordered Offender (MDO) program because the MDO program requires more instructional hours per client relative to other programs. The department's plan for the new building was based largely on an assumption that the MDO population at Atascadero would grow from 139 clients at present to 511.

MDO Program No Longer Constitutional. In October 1988, the state Court of Appeal found the MDO statute to be unconstitutional. The state Supreme Court decided on February 2, 1989 to uphold the appeal court decision.

Budget Impact. Due to the timing of the court ruling, the proposed budget does not reflect its fiscal impact on the MDO program. The Legislature needs additional information to assess the short- and long-term fiscal and policy options as a result of the court ruling. At a minimum, the Legislature needs information on (1) how many current MDO patients would no longer meet commitment criteria for treatment, (2) what is the current- and budget-year impact, (3) are there other commitment mechanisms in statute that would allow treatment of this

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

population, and, if so, how would treatment funding be handled. In view of the court action and the uncertainty of the size of the potential patient caseload and/or treatment mode, preliminary plans clearly are not warranted for a new building, the main purpose of which would be classroom space for the MDO program. On that basis, we recommend deletion of the \$219,000 requested in Item 4440-301-236 for preliminary plans for the multipurpose building at Atascadero.

If the department believes additional space is required at Atascadero for treatment of offenders in other programs, it should provide the Legislature with the following information: (1) fully detailed information on existing/projected space requirements, (2) why existing space is inadequate, and (3) existing/proposed space utilization at the institution. This assessment should include the 81,000 gsf of new office and program space provided by two other projects, one of which is under construction and one of which is in design.

Warehouse Expansion, Atascadero State Hospital

We recommend approval contingent on receipt of preliminary plans prior to budget hearings. We further recommend the adoption of supplemental report language setting the construction phase cost at \$1,281,000.

The budget includes \$83,000 for working drawings for expansion of a warehouse at Atascadero State Hospital. The Legislature approved funds for preliminary plans in the 1988 Budget Act and recognized an estimated total project cost of \$1,164,000 in supplemental report language. The Director of Finance, in a letter dated November 23, 1988, informed the Legislature that structural modifications to the designed project would increase the project cost by \$200,000. Our review indicates that the modifications are needed. The amount requested for working drawings is consistent with the information provided to the Legislature by the director's letter.

At the time this analysis was prepared, the department had not provided the Legislature with completed preliminary plans. We recommend approval of the budget request, *contingent on receipt of completed preliminary plans* prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend the Legislature *not* approve the request. If the Legislature approves funds for the project, we recommend that supplemental report language describing the scope/cost be adopted which establishes a construction phase cost of \$1,281,000, consistent with the November 1988 notification to the Legislature.

"R and T" Building Improvements, Metropolitan State Hospital

We withhold recommendation pending (1) a final accounting/justification for project cost increases and (2) review by the Office of Statewide Health Planning and Development of a waiver request which could significantly affect project cost.

The budget includes \$5,239,000 for the construction phase of fire, life safety and environmental improvements to the "R and T" (receiving and treatment) Building at Metropolitan State Hospital in Norwalk, Los Angeles County. This request exceeds the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act* (adjusted

for inflation) by \$1,125,000—a 27 percent increase. This increase is unusual, not only for its magnitude, but because this year's estimate is based on *the same set of working drawings that were before the Legislature last year*. Also, this is the second year that the administration's cost estimate for the construction phase of this project has increased significantly. The estimate submitted to the Legislature last year was 21 percent higher than the previous estimate based on preliminary plans.

According to the Office of Project Development and Management (OPDM—Department of General Services), most of the recent cost increase is based on the need to correct estimating errors/omissions made in last year's estimate. At the time this analysis was prepared, OPDM was not able to either document or justify fully the changes from the prior estimate. In response to our questions, OPDM is conducting a comparative review of the two cost estimates.

The construction fund request includes \$40,000 for OPDM to hire a consultant to conduct a detailed check of the working drawings. It is not clear why this expenditure is needed. Funds previously appropriated for working drawings should have been adequate to cover a detailed check of the drawings.

Finally, the department currently has a request before the Office of Statewide Health Planning and Development to waive a requirement for a ducted return air system as part of the heating, ventilation/air conditioning system for this building. According to OPDM staff, denial of this waiver request could increase the project cost by as much as \$300,000 to \$400,000.

In view of these circumstances, we withhold recommendation on \$5,239,000 requested in Item 4440-301-235 for construction pending (1) a final accounting/justification for increases in project cost and (2) the decision on the waiver request.

Upgrade James Hall at Metropolitan State Hospital

We recommend approval of \$31,000 in Item 4440-301-235 for preliminary plans only (a reduction of \$61,000), so that the Legislature will have the opportunity to review the scope/cost of the project based on completed preliminary plans.

The budget includes \$92,000 for preliminary plans (\$31,000) and working drawings (\$61,000) to upgrade James Hall at Metropolitan State Hospital. James Hall, built in 1929, serves as the hospital's auditorium and is used for patient recreational therapy, including movie and stage performances. This project will correct all code deficiencies in the building and includes new roofing, new heating/ventilation/air conditioning, reflooring, renovation of kitchen/bath areas, handicap access and installation of a fire sprinkler/alarm system. Estimated future cost for construction is \$823,000. The construction contract cost portion of this estimated cost is \$705,000, or \$75 per gross square foot.

There are many uncertainties concerning the necessary work and associated costs inherent in major remodeling projects of older buildings such as James Hall. These include uncertainties created by the potential presence of asbestos and unknown building structural/utility conditions. During the development of preliminary plans and after an asbestos survey is conducted, the necessary work and associated cost will be better defined. The Legislature needs this information to assess the need/priorities of various project elements and to determine the appropriate level

DEPARTMENT OF MENTAL HEALTH—CAPITAL OUTLAY—Continued

of improvements to fund for this building. Accordingly, we recommend approval in the amount of \$31,000 for preliminary plans only—a reduction of \$61,000 for working drawings.

Building 197 Improvements/ Napa State Hospital

We withhold recommendation on \$486,000 requested in Item 4440-301-236 for working drawings pending receipt of completed preliminary plans. We further recommend that the Legislature delete Budget Bill language providing authority to solicit construction bids prior to appropriations for construction.

The budget includes \$486,000 for working drawings for fire, life safety and environmental improvements to Building 197 at Napa State Hospital. The Legislature appropriated \$214,000 for preliminary plans in the 1988 Budget Act and in supplemental report language directed DMH to review/revise the project cost estimate based on the construction bid award at the neighboring Building 195 project.

At the time this analysis was prepared, completed preliminary plans were not available for legislative review. The construction cost estimate provided by the department—which is *not* based on completed preliminary plans—exceeds the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act* (after adjusting for inflation) by \$288,000. According to the department, an increase in estimated asbestos abatement costs accounts for \$200,000 of the increase in total project cost. The OPDM staff attribute the remainder of the increase to an error in the previous cost estimate. We withhold recommendation on the request for working drawing funds pending receipt of the asbestos survey and completed preliminary plans—including a cost estimate reviewed on the basis of the Building 195 construction contract award (a construction contract was signed in June 1988).

Proposed Budget Language

The Budget Bill includes language (Provision 1 of Item 4440-301-236) permitting the department to solicit construction bids for Building 197 *prior* to the appropriation of funds by the Legislature for construction. This language has been included to enable DMH to go to bid on construction earlier than would otherwise be possible in the absence of a construction appropriation. Based on the department's schedule, construction of this project could commence in the budget year (April 1990). The budget, however, does not request construction funds.

We recommend the Legislature delete the proposed language. Given the administration's decision not to fund construction in 1989-90, the Budget Bill language—which would not allow soliciting bids until the budget *subcommittees* have approved construction monies as part of the 1990-91 Budget—would advance the start of construction by perhaps one or two months. Moreover, soliciting bids without the funds to award a contract is, in our judgement, unwise from a fiscal policy standpoint and potentially unfair to the contractors who spend large sums of money to prepare bids on these projects.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

EMPLOYMENT DEVELOPMENT DEPARTMENT—CAPITAL OUTLAY

Item 5100-301 from various
federal funds

Budget p. HW 154

Requested 1989-90	\$502,000
Recommended approval	502,000

GENERAL PROGRAM STATEMENT**Five-Year Capital Outlay Plan**

The Employment Development Department (EDD) capital outlay program consists of minor renovations and expansions of the department's state-owned field offices and headquarters complex. Most of these projects are related to providing access for the mobility impaired, changing office space configurations for improved service to the public, or installation of new data processing equipment.

The department indicates that it will request \$1 million in each of the next five years to carry out unspecified minor capital outlay projects (\$200,000 or less per project). The Office of the State Architect, under a \$500,000 interagency agreement with EDD, recently completed "holistic studies" of 33 state-owned EDD field offices (EDD occupies 40 state-owned offices and 167 leased offices). These studies reviewed structural elements and building systems, and made recommendations for repairs and improvements. The department's five-year plan, understandably, does not reflect these recommendations, because the EDD has not yet evaluated the studies.

ANALYSIS AND RECOMMENDATIONS*We recommend approval.*

The budget requests \$502,000 from various federal funds for seven minor capital outlay projects. The costs of these projects range from \$21,000 to provide new hearing facilities in the Van Nuys appeals office, to \$153,000 to modify EDD-owned premises in San Jose to accommodate disability insurance staff currently in a leased location.

The scope and cost of the proposed projects appear reasonable.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY

Item 5240-301 from the 1988

Prison Construction Fund

Budget p. YAC 28

Requested 1989-90	\$21,083,000
Recommended approval	18,631,000
Recommended reduction	2,452,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. New Prison Capital Outlay Needs. Recommend that the Department of Corrections (CDC) report to the fiscal committees on its 1989-90 capital outlay needs and its funding plan for new prisons. 1057
2. Contractor Claims. Recommend CDC provide to the fiscal committees written explanations on: (a) why contractor claims on new prison projects now are anticipated to be a minimum of \$82 million in the current year and budget year, (b) why steps previously taken to reduce the incidence of claims have not been successful, (c) details of the steps CDC will take to correct the problem, and (d) what funding sources are available to pay such claims. 1058
3. Preliminary Plans Not Available. Recommend approval of funds for six projects, totaling \$8,872,000, contingent on receipt of completed preliminary plans prior to budget hearings. 1062
4. *Replace Cell Doors/Locks, North Facility, Soledad. Reduce Item 5240-301-747(3) by \$2.1 million.* Recommend reduction to make the project consistent with legislative direction to select the most cost-effective sliding door system. Further recommend that the Legislature not fund this request if completed preliminary plans are not available for legislative review prior to budget hearings. 1063
5. *Visitor Processing Facilities, California Rehabilitation Center, Norco. Reduce Item 5240-301-747(19) by \$89,000 (future savings: \$751,000).* Recommend deletion of funds for preliminary plans/working drawings because department has not justified need for this project or its specific scope/cost. 1064
6. *Program/Administration Complex, South Facility, Soledad. Reduce Item 5240-301-747(4) by \$123,000 (estimated future cost \$3.8 million).* Recommend deletion of funds for preliminary plans because (a) department has not justified scope/cost and (b) new program/administration facilities are premature in advance of determination of feasibility of expanding design bed capacity at the Soledad South Facility. 1065
7. *Gymnasium Building, South Facility, Soledad. Reduce Item 5240-301-747(5) by \$54,000 (estimated future cost \$1.1 million).* Recommend approval of \$31,000 for preliminary plans only—deleting \$54,000 requested for working draw- 1067

- ings—so Legislature may review scope/cost in 1990-91 budget based on completed preliminary plans. Further recommend supplemental report language directing CDC to simplify building design to reduce future costs.
8. **Library Building, Folsom State Prison. Reduce Item 5240-301-747(8) by \$30,000 (future savings \$225,000).** 1067
Recommend approval of \$25,000 for preliminary plans only—deleting \$30,000 requested for working drawings—so that Legislature may review scope/cost in 1990-91 budget based on completed preliminary plans. Further recommend that the Legislature, in supplemental report language, reduce estimated future project cost by \$225,000, and that the department report to the fiscal subcommittees on the feasibility of constructing the building with inmate day labor crews.
 9. **Fire Training Center Improvements, Sierra Conservation Center. Reduce Item 5240-301-747(21) by \$56,000 (future savings at least \$367,000).** 1068
Recommend deletion of funds for preliminary plans/working drawings because most of the proposed improvements are not needed. Recommend that needed improvements be carried out, on a priority basis, within funds available for minor construction projects in Item 5240-301-747(17).
 10. **Budget Bill Language for Budget Packages/Advance Planning.** 1069
Recommend approval of \$200,000 requested in Item 5240-301-747(1) for budget packages/advance planning, with revised Budget Bill language to limit use of funds to projects anticipated to be in the 1990-91 Budget Bill and for which information can be developed prior to budget hearings.

OVERVIEW OF THE BUDGET REQUEST AND FIVE-YEAR CAPITAL OUTLAY PLAN

We recommend that the department report to the fiscal committees on its 1989-90 capital outlay needs for new prisons.

Budget Request is Incomplete. The budget requests \$21.1 million in 1989-90 for California Department of Corrections (CDC) capital outlay. The entire request is from the 1988 Prison Construction Fund—general obligation bond funds approved by the voters in November 1988. The budget request addresses only the smaller part of CDC's capital outlay needs. The department's capital outlay program is organized into two distinct efforts—(1) a program for the renovation of *existing* prison facilities (to which the budget request is directed) and (2) a *multi-billion dollar* program to construct *new* prisons.

The budget does not request funds for the new prison construction program even though project schedules indicate that major appropriations (\$200 million or more) will be needed in 1989-90 to keep new prison projects on schedule. A pattern has evolved in the last several years in which CDC requests funds for new prison projects in legislation other than the annual Budget Bill. As part of our review of the growth of the California prison system in *the 1989-90 Budget: Perspectives and Issues*, we point out the difficult position in which the Legislature is placed by reviewing new prison facility requests in isolation from the state budget. In order for the fiscal committees to have a full understanding of CDC's

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

capital outlay program and its relationship to the department's annual support needs, we recommend that CDC report to the fiscal committees, prior to budget hearings, on its capital outlay needs and its funding plan for new prisons in 1989-90, including project detail customarily provided to the Legislature on other state capital outlay projects (such as preliminary plans, detailed cost estimates, complete project schedules and effects on annual operation/maintenance costs).

The Five-Year Plans. The department prepares its five-year capital outlay plans for new prisons and existing facilities as separate documents. Our 1989-90 *Perspectives and Issues* (California's Prisons) includes a discussion of the last plan for new facilities submitted to the Legislature (May 1988). In that discussion we point out that the department's latest inmate population projection is sharply higher than the projection on which the new facility plan was based. Based on the new population projection, we estimate a funding need for new prisons of at least \$1.5 billion during the next five years if CDC is to meet its guidelines for prison overcrowding (120 percent to 130 percent of design capacity).

The department's plan for existing facilities identifies projects totaling \$116 million in estimated cost during the next five years, including \$20.8 million scheduled for 1989-90. Except for the deferral of three projects, the budget addresses this identified need. The amount requested in the budget exceeds the amount scheduled in the five-year plan due to cost increases on some projects.

In the *Perspectives and Issues* discussion, we recommend that CDC incorporate a number of improvements in its new prison master plan. Two areas where the new facility and existing facility plans share need for improvement are (1) *program needs/priorities*, including how proposed projects meet those needs and (2) identifying the *relative priorities of projects*, including how projects are identified and considered for inclusion in the plan and the basis on which priorities are set.

ANALYSIS AND RECOMMENDATIONS**Contractor Claims on Prison Projects—Potential \$100 Million Cost**

We recommend that, prior to budget hearings, the Department of Corrections provide the Legislature with written explanations on: (1) why CDC expects a minimum of \$82 million in contractor claims on new prison projects during the current year and budget year, (2) why steps previously taken to reduce the incidence of claims have not been successful, (3) details of the steps CDC will take to correct the problem, and (4) what funding sources are available to pay such claims.

Background. Typically, the state pays construction contractors the amount bid by the contractors for construction work, plus any additional amounts needed to cover project change orders. Generally, change orders are funded within a 5 percent contingency balance that is included in the project appropriation. On occasion, contractors file claims against the state for *additional* payments, contending that circumstances beyond the contractor's control—such as extraordinary weather-caused delays, errors in architectural documents, or disputes on the value of change orders—have increased the contractor's cost of meeting contractual obligations. The state—in this case, the Department of Corrections—reviews the claims, then resolves them in one of the following ways: full

payment, outright rejection, partial or full payment based on negotiated settlement, third party arbitration or judicial action.

In our *Analysis of the 1987-88 Budget Bill*, we raised concerns about the magnitude of construction contractor claims CDC estimated (between \$74 million and \$200 million) would be filed against the state on new prison projects authorized at that time.

In response to these concerns, CDC informed the fiscal subcommittees in writing that the above estimate—which CDC had used to justify a budget request for legal positions to review claims—was erroneous. According to CDC, “formal and informal” claims totaled less than \$35 million as of January 1987, or about 4 percent of construction contract amounts then outstanding. The department stated that it expected eventual claim filings totaling approximately \$70 million on all projects authorized by the Legislature at that time. The department also stated its belief that actual claims *paid* would be between 1 and 2 percent of total construction costs, or approximately \$30 million.

In November 1987, in response to direction given in the *Supplemental Report of the 1987 Budget Act*, the department assured the subcommittees that it had taken steps to reduce the incidence/magnitude of future claims. Specifically, the department stated that measures to improve the change order process had “reduced contractor complaints regarding payment for change order work, and are expected to reduce contractor claims related to change work.” The department stated further that better review of contract documents prior to bids already had “strengthened accountability of our architects and engineers for errors and omissions” and had “minimized design problems that could result in legitimate claims.” Finally, CDC stated that a formalized claims review process, including an augmentation of staff resources for claims review, would “discourage the filing of frivolous claims” and generally reduce the incidence of claims.

Since enactment of the 1987 Budget Act, CDC has provided quarterly reports to the Legislature on the status of change orders, progress payments to contractors, and claims. In the most recent report, dated November 10, 1988, the department stated that pending claims totaled \$38.8 million, with “the vast majority of these unresolved claims” at the first two projects undertaken in the construction program—the California Medical Facility-South (Vacaville) and the Southern Maximum Security Complex (Tehachapi).

Current-Year Deficiency and 1989-90 Budget Request Related to Claims. In a letter dated January 6, 1989, the Director of Finance informed the Legislature, pursuant to Section 27.00 of the 1988 Budget Act, of his intent to authorize deficiency expenditures of \$5.5 million from prison bond funds for additional legal/consultant services to review claims. The budget requests an augmentation of \$3 million for the same purpose in 1989-90. To justify the current-year deficiency and the budget-year augmentation, CDC now states: “Since 1984, formal claims and arbitrations have been filed against the Department *at an increasing rate*. While approximately \$25 million worth have been resolved and one arbitration for \$6.5 million has yet to be decided, it is expected that an additional \$82 million in claims will have to be handled in the CY [current-year] and BY [budget-year].” [Emphasis added]. The \$82 million, which represents “known pending claims,” does not include potential claims at the Pelican Bay and San Diego projects. The department

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

anticipates that an unknown level of claims will be filed soon at these two projects. If these claims equal 10 percent of the project contracts, an additional \$18 million would be filed, bringing the *pending and projected claims total to \$100 million*.

At the time this analysis was prepared, departmental staff were not able to explain how the claims situation could have changed so dramatically between November 1988 and January 1989. If the higher estimate of pending/projected claims is valid, CDC's construction program is experiencing claims at a far higher rate than other state construction programs. For example, according to CDC's data, pending/projected claims are 13 percent of outstanding contract amounts. By contrast, Caltrans and the Department of Water Resources each experience claims at less than 1 percent of construction contract amounts.

No Identified Funding Sources for Claim Payments. The magnitude of the department's claims estimate raises concerns regarding potential funding sources for claim payments. According to data provided by CDC, as of August 1988, the department had paid \$8.8 million on claims originally filed for \$25.9 million, an average payment of 34 cents on the dollar. Assuming payments continue at this average rate, remaining claims would result in *additional payments totaling \$34 million*. On some project appropriations, CDC has fund balances which *may* be adequate to cover claim payments. In most cases, however, appropriations and/or augmentations (either by the Legislature or the State Public Works Board) probably will be needed to pay claims.

According to the Governor's Budget, only \$50.3 million of prison bond funds will be available for appropriation if the Governor's 1989-90 prison bond spending requests are approved. This reserve is supposed to cover future correctional spending needs *other* than claims, such as project cost overruns, support of CDC's Planning and Construction Division (annual cost of \$12 million), 1990-91 existing prison facility capital outlay (currently scheduled at \$47.7 million), and deferred maintenance at youth and adult correctional facilities (annual cost of about \$10 million). In fact, even without claim payments, funding needs for planned youth and adult correctional facilities far exceed available prison bond balances. The current claims situation makes matters worse.

Recommendations. In view of the above, we recommend that, prior to budget hearings, the Department of Corrections provide the Legislature with written explanations on: (1) why contractor claims on new prison projects now are anticipated to be a minimum of \$82 million in the current year and budget year, (2) why steps previously taken to reduce the incidence of claims have not been successful, (3) details of the steps CDC will take to correct the problem, and (4) what funding sources are available to pay such claims. In our discussion of CDC's support budget request, we withhold recommendation on the \$3 million budget-year request for legal/consultant services to review claims, pending resolution of the above issues and better definition of CDC's support needs.

PROJECTS REQUESTED IN THE 1989-90 BUDGET

The budget includes \$21,083,000 in Item 5240-301-747 for 17 major capital outlay projects, two infrastructure studies, 28 minor construction projects (\$200,000 or less per project) and advance planning/budget packages. For discussion purposes, we have divided our analysis of this

proposal into six descriptive categories. For each category, Table 1 shows the amounts requested in the Budget Bill, the department's estimate of future costs, and our recommendation.

Table 1
Department of Corrections
1989-90 Capital Outlay Program
Item 5240-301-747
(dollars in thousands)

<i>Project Category</i>	<i>Number of Major Projects</i>	<i>Budget Bill Amount</i>	<i>Analyst's Recommendation</i>	<i>Estimated Future Cost^a</i>
Security improvements	6	\$11,855	\$9,755	\$704
Utility system improvements	4	4,507	4,507	—
Visitor processing facilities	2	1,373	1,284	751
Other major projects	5	379	116	6,316
Minor construction projects	—	2,609	2,609	—
Planning and studies	—	360	360	—
Totals	17	\$21,083	\$18,631	\$7,771

^a Department estimates.

Proposals for Which We Recommend Approval as Budgeted

We recommend approval of eight proposals in Item 5240-301-747 totaling \$4,564,000. A brief description of these proposals follows.

Renovate Locking Devices, Birch Hall, California Institution for Men (CIM), Chino. The budget proposes \$816,000 for the construction phase of renovation of locking devices on 154 cells at Birch Hall, California Institution for Men. Preliminary plans for this project were funded in the 1988 Budget Act and approved by the State Public Works Board in January 1989. The amount requested is consistent with the estimate recognized in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation.

Study of Primary/Secondary Electrical Distribution System at CIM. The budget includes \$75,000 for an assessment of the primary/secondary electrical distribution system at CIM. The assessment will provide information to determine needs for upgrading the system in the future.

Yard Lighting, Minimum Security Facility at CIM. The budget includes \$534,000 for preliminary plans, working drawings and construction of seven lighting masts (100 feet high) in the minimum security yard at CIM. The additional lighting is needed to improve security and reduce the incidence of violent assaults in the yard during evening hours.

Purchase of Railroad Right-of-Way at the California Medical Facility (CMF), Vacaville. The budget proposes \$60,000 for acquisition of an abandoned railroad right-of-way which bisects a corner of CDC's grounds at the California Medical Facility (CMF) in Vacaville. Acquisition of the 7.83 acres will eliminate the potential of noncompatible use.

Yard Lighting, California Institution for Women (CIW), Frontera. The budget proposes \$33,000 for preliminary plans and working drawings to add 12 lighting masts to the CIW grounds. Six of the masts would be 60 feet tall and six would be 100 feet in height. Each mast would have a cluster of high pressure sodium vapor lamps, designed to illuminate the CIW grounds to a level of intensity so that correctional officers in

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

perimeter guard towers could identify individual inmates on the prison grounds during evening hours. The estimated future cost for construction is \$704,000.

Water System Study at CIW. The budget includes \$85,000 for an assessment of the water system at CIW. The assessment will provide information to determine needs for upgrading the water system in the future.

Brine Pond Waste Disposal System at CIW. The budget includes \$352,000 for preliminary plans, working drawings and construction to replace the brine pond waste disposal system at CIW in order to comply with an abatement order from the Santa Ana Regional Water Quality Control Board.

Minor Construction Projects. The budget includes \$2,609,000 for minor capital outlay projects in Item 5240-301-747 (17). These projects range in cost from \$24,000 to construct a garbage can room at CIM (Chino) to \$200,000 to provide television antennae and power outlets for 1,200 cells at the California Men's Colony in San Luis Obispo.

Projects for Which We Recommend Contingent Approval

We recommend approval of six projects totaling \$8,872,000 contingent on receipt of completed preliminary plans prior to budget hearings.

For each project discussed briefly below, the amount requested is consistent with prior cost estimates approved by the Legislature, adjusted for inflation. In the 1988 Budget Act, the Legislature appropriated funds for preliminary plans for these projects with the understanding that preliminary plans would be available for legislative review prior to the conclusion of budget hearings. If completed preliminary plans are not available to the Legislature during the hearings, we recommend that the Legislature *not* approve the requests for construction funds for these projects.

Primary/Secondary Electrical Distribution System, California Training Facility (CTF), Soledad. The budget includes \$2,019,000 for the construction phase of replacing the primary/secondary electrical distribution system at CTF.

Locking Devices, East and West Halls, Deuel Vocational Institution (DVI), Tracy. The budget includes \$1,698,000 for the construction phase of replacing locking devices in the East and West Halls at DVI.

Electrical Distribution System at DVI. The budget proposes \$897,000 for construction to upgrade the primary/secondary electrical distribution system at DVI.

Reception/Visitor Processing Building at CIM. The budget proposes \$1,284,000 for construction of a reception/visitor processing building (4,600 square feet) at CIM. The project also includes a 500-vehicle parking lot.

New Domestic Water Supply System, California Rehabilitation Center (CRC), Norco. The budget includes \$1,239,000 for construction of a new domestic water supply system at CRC.

Security Locks, Doors and Window Sashes at Sierra Conservation Center (SCC), Jamestown. The budget proposes \$1,735,000 for the construction phase of installing security locks, doors and window sashes at SCC.

The following is a description of the remaining projects in the 1989-90 budget and our recommendation for each project.

Security Improvements

The budget includes \$11.9 million for six major projects for improving security systems at existing facilities. Table 2 summarizes the amounts requested and our recommendations. As indicated in Table 2 and as discussed above, we recommend either approval as budgeted or contingent approval for five of these security improvement projects. A discussion of the remaining security improvement project and our recommendation follows.

Table 2
Department of Corrections
1989-90 Capital Outlay Program
Security Improvement Projects
Item 5240-301-747
(dollars in thousands)

Sub-Item	Project Title	Location	Phase ^a	Budget Bill Amount	Analyst's Recommendation	Estimated Future Cost ^b
(3)	Replace cell doors/locks, North Facility	Soledad	wc	\$7,039	\$4,939 ^c	—
(6)	Replace locking devices, East and West Halls	Tracy	c	1,698	1,698 ^c	—
(9)	Renovate locking devices, Birch Hall	Chino	c	816	816	—
(12)	Yard lighting, minimum security facility	Chino	pwc	534	534	—
(15)	Yard lighting	Frontera	pw	33	33	\$704
(20)	Security locks, doors, window sashes, Calaveras Unit	Jamestown	c	1,735	1,735 ^c	—
Totals, security improvements				\$11,855	\$9,755	\$704

^a Phase symbols indicate: p = preliminary plans; w = working drawings; and c = construction.

^b Department estimates.

^c Recommended amount pending receipt of preliminary plans prior to budget hearings.

Replace Cell Doors and Locks, North Facility, Soledad

We recommend approval in the reduced amount of \$4,939,000 in Item 5240-301-747 (reduction of \$2.1 million), for replacement of cell doors and locks, to finance the most cost-effective sliding door system pursuant to prior legislative direction. We further recommend that the Legislature not fund this request if completed preliminary plans are not available for legislative review prior to budget hearings.

The budget proposes \$7,039,000 for working drawings and construction to replace 1,228 cell doors/locks at the CTF North Facility in Soledad. The Legislature appropriated \$52,000 in the 1986 Budget Act for preliminary plans for this project and a value engineering study directed at minimizing project costs. *The Supplemental Report of the 1986 Budget Act* stated legislative intent that the preliminary plans and value engineering study be completed in time for legislative review of the project in the 1987-88 Budget. No proposal was included in the 1987-88 Budget. In the 1988-89 Budget, the department requested funds for working drawings without

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

having completed either the preliminary plans or the study. During the 1988-89 budget hearings, the department informed the Legislature that the estimated cost for working drawings and construction had climbed from \$2.7 million to \$5.8 million, primarily due to a decision, made on the basis of security considerations, to switch from swinging doors to sliding doors. The Legislature did not approve the request for working drawing funds but did endorse the use of sliding doors. In supplemental report language, the Legislature directed CDC to complete the value engineering study and to select the most cost-effective design for a project involving sliding cell doors.

The study, completed in August 1988, shows that a manually operated sliding door system would be the least expensive to purchase/install of the three alternatives studied (\$3,377 per cell door versus \$4,592 for doors operated either on electric motors or a pneumatic system). On this basis and pursuant to legislative direction, the project should consist of a manually operated door/lock system. This would also be consistent with the door/lock systems called for under CDC's Design Criteria Manual for new prisons housing inmates of the same security classification (Level III). The amount requested in the budget, however, is based on the pneumatically controlled door/lock system.

After accounting for inflation, project administration and contingency, we estimate that the project cost would be \$2.1 million less with a manually operated system. Consequently, we recommend a reduction of \$2.1 million in Item 5240-301-747 and approval in the reduced amount of \$4,939,000 for working drawings and construction for this project, *contingent on receipt of completed preliminary plans prior to budget hearings*. If completed preliminary plans are not available for legislative review at that time, we recommend that the Legislature *not* approve funds for the project.

Visitor Processing Facilities

The budget includes \$1.4 million for two projects to replace/expand visitor processing facilities. As discussed above, we recommend approval, contingent on receipt of preliminary plans, for the Reception/Visitor Processing project at CIM, Chino. A discussion of the other project and our recommendation follows.

Visitor Processing Facilities, California Rehabilitation Center (CRC), Norco

We recommend deletion of \$89,000 requested for preliminary plans and working drawings because the department has not justified either the need for or the scope/cost of this project (future savings of \$751,000).

The budget requests \$89,000 in Item 5240-301-747 (19) for preliminary plans and working drawings to construct visitor processing facilities at CRC. The project consists of a new visitor processing building (626 gross square feet (gsf)) and remodeling an existing building that is not presently in use (6,940 gsf) into a visiting center. The estimated future cost for construction is \$751,000. The department proposes using the existing visitor center (5,400 square feet) for vocational education classrooms. The department has not specified whether any remodeling would be needed for that purpose.

The department has not substantiated (1) why either the existing visitor processing facilities at CRC or existing space for vocational

education are inadequate or (2) the frequency or extent to which congestion occurs.

In view of the above, we recommend deleting \$89,000 requested in Item 5240-301-747 for preliminary plans and working drawings (future savings of \$751,000).

Miscellaneous Major Projects

The budget includes \$379,000 for five major projects for various purposes that do not fall under any of the descriptive categories discussed above. Table 3 summarizes the amounts requested and our recommendations for these miscellaneous projects. As indicated in Table 3 and as discussed above, we recommend approval as budgeted for the land acquisition project at Vacaville. A discussion of the four remaining projects and our recommendation for each follows.

Table 3
Department of Corrections
1989-90 Capital Outlay Program
Miscellaneous Major Projects
Item 5240-301-747
(dollars in thousands)

Sub-Item	Project Title	Location	Phase ^a	Budget Bill Amount	Analyst's Recommendation	Estimated Future Cost ^b
(4)	Program/administration complex, South Facility.....	Soledad	p	\$123	—	\$3,846
(5)	Gymnasium building, South Facility	Soledad	pw	85	\$31	1,139
(8)	Library building.....	Folsom	pw	55	25	795
(13)	Purchase railroad right of way....	Vacaville	a	60	60	—
(21)	Fire training center.....	Jamestown	pw	56	—	567
Totals, miscellaneous major projects.				\$379	\$116	\$6,347

^a Phase symbols indicate: p = preliminary plans; w = working drawings; c = construction; and a = acquisition.

^b Department estimates.

Program/Administration Complex, South Facility, California Training Facility (CTF)

We recommend deletion of \$123,000 requested for preliminary plans for a new program/administration complex at CTF-South because (1) the department has not justified the specific scope/cost and (2) any expansion of program/administration facilities is premature in advance of addressing the potential to expand design bed capacity at CTF-South (future project cost \$3.8 million).

The budget proposes \$123,000 in Item 5240-301-747 for preliminary plans for a new program/administration complex at the minimum security South Facility at CTF in Soledad. The proposed complex would provide 26,184 gsf of space for custody staff/administrative offices and various inmate program areas, including chapel, classrooms, library, medical clinic and visiting area. These programs and offices are presently housed in 14 metal structures dating from the 1940s, totaling 13,410 gsf of space. These structures would be demolished and removed as part of the project. The estimated future cost for working drawings and construction

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

of the proposed complex is \$3.8 million. The estimated construction contract portion of that amount is \$3.2 million, or \$122 per gsf.

This relatively high square foot cost is due, at least in part, to an excessively elaborate building design. The schematic drawings prepared by the Office of the State Architect (OSA) show three separate buildings in the complex connected by covered walkways. Two of the three buildings have irregular perimeters, which add to the building's structural requirements and cost. The covered walkways alone will cost \$141,000, according to OSA's estimate. Our review of the schematic drawings indicates that project costs could be significantly reduced by simplifying the design and by consolidating the program/office space within one building.

Project costs also have been increased by OSA's decision to use concrete block construction rather than wood frame buildings. In a letter from the Office of Project Development and Management (OPDM) to the Department of Finance dated December 15, 1988, OPDM questioned this decision and stated that it was investigating this and other aspects of the proposed project.

In any case, the department has not justified the need to more than double the space currently provided at CTF's South Facility for the programs and offices to be included in the proposed complex. Based on discussions with CDC staff and our on-site review, we believe the existing areas are overcrowded and the metal structures, while still serviceable, should be replaced at some point. It should be noted, however, that part of the overcrowding of program/office space is caused by the excessively high inmate population at CTF-South. Currently, 784 inmates are housed in this facility. This represents 191 percent of the design bed capacity. This overcrowding should be alleviated to some extent as new minimum security beds are built throughout the state. The department's facilities master plan for new prisons (dated May 1988) provides for construction of 4,500 minimum security beds over the next five years. This would reduce systemwide overcrowding of minimum security beds to an average of 159 percent of design bed capacity.

The budget proposal, however, raises a relevant question. That is, should additional minimum security beds be constructed at CTF-South? In our 1989-90 *Perspectives and Issues* (California's Prisons), we point out that one option available to the Legislature for minimizing the cost of new minimum security beds is to expand capacity at existing minimum security facilities. This approach has potentially significant cost advantages compared to constructing entirely new facilities since there would be no need to acquire land, install major new utilities and/or build support facilities. The department should investigate the potential of this approach at CTF-South *before* designing and building new program/administration facilities.

In view of the need to consider expansion of program/administration facilities as an integral part of possible expansion of design bed capacity at CTF-South, and in view of the high cost of the proposed facility and apparent unresolved questions about scope/cost of the proposal, it would be premature to fund preliminary plans at this time. Accordingly, we recommend deletion of \$123,000 requested in Item 5240-301-747(4) for preliminary plans for the program/administration complex.

Gymnasium Building, South Facility, CTF

We recommend approval of \$31,000 for preliminary plans only—a reduction of \$54,000 requested for working drawings—so that the Legislature may review the project scope/cost in the 1990-91 Budget based on completed preliminary plans. We further recommend that the Legislature, in supplemental report language describing the project scope/cost, direct the department to simplify the building design and reduce project cost (future project cost \$1.1 million).

The budget includes \$85,000 for preliminary plans (\$31,000) and working drawings (\$54,000) for a new gymnasium building at CTF's South Facility in Soledad. The proposed 9,047 gsf building would replace the existing gymnasium located in a 4,000 gsf metal quonset hut built in the late 1940s. According to the department, the project is needed because the existing building is undersized, in poor condition and beyond its designed useful life. Our review of the project, including a site visit, indicates that a new gymnasium is needed.

The estimated future cost for construction is \$1.1 million. The construction contract portion of this amount is \$943,000, or \$104 per gsf. This cost is relatively high, given the small amount of interior structural, electrical and duct work needed in a gymnasium building. In contrast, the California State University budgets about \$95 per gsf for recreation/gymnasium facilities that provide for intercollegiate events and spectator seating.

Thus, although a new gymnasium building is justified, we believe the project should be (1) accomplished at less cost and (2) reviewed by the Legislature in the 1990-91 Budget based on completed preliminary plans. We therefore recommend approval of \$31,000 for preliminary plans only, reducing Item 5240-301-747 by \$54,000 for requested working drawing funds. We further recommend that the Legislature, in supplemental report language describing the project scope/cost, direct the department to simplify the building design with the objective of reducing project costs.

Library Building at Folsom State Prison

We recommend approval of \$25,000 for preliminary plans only, reducing Item 5240-301-747 by the \$30,000 requested for working drawings, in order for the Legislature to review the project scope/cost in the 1990-91 Budget based on completed preliminary plans (future savings \$225,000). We further recommend that the Legislature, in supplemental report language, reduce estimated future costs by \$225,000.

Finally, we recommend that the department report to the fiscal subcommittees, prior to budget hearings, on the feasibility of constructing the building with inmate day labor crews, as well as other measures to reduce costs.

The budget proposes \$55,000 for preliminary plans (\$25,000) and working drawings (\$30,000) to construct a 4,078 gsf library building at Folsom State Prison. The building would replace the existing library, located in a deteriorated, undersized building. The estimated future cost for construction is \$795,000. The construction contract portion of this amount is \$594,000, or \$146 per gsf.

The relatively high square foot cost of construction is due, in part, to security requirements which affect contractors' work schedules and

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

practices. The project site is on the edge of the exercise yard within the maximum security prison. Thus, the cost estimate includes \$75,000 for increased contractor's cost for security requirements. Deducting this added cost would lower the construction contract cost to \$127 per gsf, which is still relatively high. By comparison, California State University's budgeting guidelines call for construction costs of \$85 per gsf for library buildings.

We believe the Legislature should have the opportunity to review the proposed project in the 1990-91 Budget on the basis of completed preliminary plans. Accordingly, we recommend approval of \$25,000 for preliminary plans, deleting \$30,000 requested in Item 5240-301-747 for working drawings. We further recommend that the Legislature, in supplemental report language describing the project scope/cost, recognize a construction contract cost of \$85 per gsf, with an additional allowance of \$75,000 for increased contractor's costs due to security requirements. We estimate that future project cost would be reduced by \$225,000 under this approach.

Finally, we recommend that the department report to the fiscal subcommittees, prior to budget hearings, on the feasibility of (1) constructing the building with inmate day labor crews as a means of reducing costs associated with security requirements and (2) other measures to reduce project cost.

Fire Training Center Improvements, Sierra Conservation Center (SCC)

We recommend deletion of the \$56,000 requested in Item 5240-301-747(21) for preliminary plans and working drawings for the fire training center improvements because the needed improvements can be financed, in priority, using funds budgeted for minor capital outlay (future savings at least \$367,000).

The budget includes \$56,000 for preliminary plans and working drawings for improvements to the Fire Training Center at SCC (near Jamestown, Tuolumne County). The department trains minimum security inmates in fire fighting techniques at the SCC Fire Training Center prior to assignment to forest fire crews working out of conservation camps throughout central and southern California. The proposed improvements consist of the following:

- classroom/equipment building;
- fire training tower;
- two-story "burn house," (a training prop constructed of concrete block and metal, used for training inmates in extinguishing live fires);
- "smoke house" (another training prop of concrete block/metal construction, used to train inmates in use of breathing apparatus, rescue practices and building ventilation);
- gas leak simulator pad (a 2,000 square feet concrete pad with gas pipe prop, used to simulate fires caused by gas and petroleum leaks); and
- oil pit (650 square feet, used for simulating petroleum spills).

The proposed project also includes paving, curbs, gutters and walks in the vicinity of the props. The future cost for construction of the above improvements is \$567,000, according to the current estimate by OSA. The total project cost, with preliminary plans and working drawings, is

estimated to be \$623,000. This is 2.5 times the department's initial estimate of \$253,000 (prepared as part of its five-year master plan). At the time this analysis was prepared, departmental staff was unable to reconcile the two estimates or explain why the estimated project cost more than doubled in the course of a few months.

Based on our review of the project, including a visit to the site and discussions with fire training center staff, we believe the department has not justified the need for the following elements of the proposal: classroom/equipment building, training tower, "burn house," gas leak simulator pad, and paving, curbs, gutters and walks. For example, the department has been unable to identify why the existing classroom/equipment building is inadequate. Moreover, the department's written justification for the project indicates that the existing training tower, one-story "burn house" and gas leak simulator pad can continue to be used. The fire training center is accessible at present on a paved road. The department has not justified why additional paving, curbs, gutters and walks (\$59,000 cost) are necessary.

If the above items were deleted, total project cost would be reduced by \$481,000 to \$142,000, allowing the department to accomplish necessary improvements as a minor capital outlay project (construction projects of \$200,000 or less). The budget already includes \$2.6 million in Item 5240-301-747(17) for minor capital outlay. We therefore recommend that the department carry out the needed improvements, in priority with other needs, using funds budgeted under minor capital outlay in 1989-90. Therefore, we recommend deletion of the \$56,000 requested for preliminary plans and working drawings for the fire training center in Item 5240-301-747(21).

Planning, Studies and Minor Construction Projects

The budget includes four proposals totaling \$3 million for planning, studies and minor construction projects at existing prisons. As discussed above, we recommend approval of two proposed studies as well as the minor capital outlay amount. The following is a discussion of the proposal for budget packages/advance planning and our recommendation.

Budget Packages/Advance Planning

We recommend approval of the amount requested (\$200,000) for budget packages/advance planning. We further recommend revision of related Budget Bill language.

The budget proposes \$200,000 in Item 5240-301-747(1) for budget packages/advance planning of projects included in the department's five-year capital outlay plan for existing prison facilities. The Budget Bill includes related language defining the specific purposes for which the \$200,000 may be spent. We agree with the department that the Legislature and administration would be served by improved budget packages and advance planning on existing facility projects and that the proposed amount would accomplish this objective. We believe, however, that the related Budget Bill language needs clarification to limit the use of funds to projects that are to be considered for inclusion in next year's budget. We therefore recommend that the following language be substituted for the language proposed in Provision 1 of Item 5240-301-747:

The funds appropriated in Schedule (1) above are to be allocated by the Department of Corrections, upon approval by the Department of Finance, to

DEPARTMENT OF CORRECTIONS—CAPITAL OUTLAY—Continued

develop design and cost information for new projects for which funds have not been previously appropriated, but for which preliminary plan funds, working drawing funds, and working drawing and construction funds are expected to be included in the 1990-91 Governor's Budget, and for which cost estimates or preliminary plans can be developed prior to legislative hearings on the 1990-91 Budget. These funds may be used for the following: budget package development, architectural programming, engineering assessments, schematic design and preliminary plans. The amount appropriated in this item for that purpose is not to be construed as a commitment by the Legislature as to the amount of capital outlay funds it will appropriate in any future year.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

DEPARTMENT OF THE YOUTH AUTHORITY—CAPITAL OUTLAY

Item 5460-301 from the 1988
Prison Construction Fund

Budget p. YAC 66

Requested 1989-90	\$7,900,000
Recommended approval	2,209,000
Recommended reduction	431,000
Recommendation pending	5,260,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

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|---|------|
| 1. Youth Training School—Well Contamination Problem. Recommend that the department expedite a cost/benefit study of alternative measures to end nitrate contamination of the water supply, and, prior to budget hearings, present a funding proposal to the Legislature. | 1072 |
| 2. Budget Packages and Preliminary Planning. Recommend approval of \$100,000, with the addition of Budget Bill language limiting the use of these funds to projects anticipated to be included in the 1990-91 Budget Bill and for which information can be developed prior to budget hearings. | 1072 |
| 3. El Paso de Robles School—Commissary Warehouse, and Youth Training School—Business Services Building. Recommend approval of these projects contingent on receipt of preliminary plans prior to budget hearings. | 1073 |
| 4. Southern California Youth Center: 1,800-Bed Facility. Withhold recommendation on \$5,260,000 for site acquisition and preliminary plans, pending receipt of a report on an acceptable level of crowding for Youth Authority institutions, an architectural program and associated cost estimate, a financ- | 1073 |

ing plan and a construction schedule for the proposed institution.

5. **Northern California Youth Center: New Staff Training Center—Preliminary Plans and Working Drawings. Reduce Item 5460-301-747(3) by \$431,000.** 1075
Recommend deletion of preliminary plans and working drawings, because the administration has not adequately studied the cost-effectiveness of owning and operating separate training centers (versus a combined center) for the Youth Authority and the Department of Corrections. We recommend that the administration conduct such a study and report to the Legislature in the fall of 1989.

GENERAL PROGRAM STATEMENT

Five-Year Capital Outlay Plan

The Department of the Youth Authority's capital outlay program currently projects a major expansion of the state's facilities for confining youthful offenders. Table 1 shows that the department plans to request \$200 million for design and construction work at six institutions over the next five years. The department intends to devote most of these funds, \$177 million, to design and construction of a new 1,800-bed facility in Kern County. The remaining \$23 million would primarily provide for capacity-related expansion of central administration, kitchen, classroom, and maintenance facilities at existing institutions.

Table 1
Department of the Youth Authority
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands)

<i>Institution</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
1,800-Bed Facility (Kern County)	\$5,260	\$171,366	—	—	—	\$176,626
El Paso De Robles School (Paso Robles)	344	1,750	\$150	\$1,850	—	4,094
Fred C. Nelles School (Whittier)	—	840	4,269	545	\$193	5,847
Northern California Youth Center (Stockton)	425	—	—	—	—	425
Training Center (Stockton)	464	4,068	—	—	—	4,532
Ventura School (Camarillo)	—	905	505	—	—	1,410
Youth Training School (Chino)	1,869	1,436	3,325	390	—	7,020
Planning	100	100	100	100	100	500
Totals	\$8,462	\$180,465	\$8,349	\$2,885	\$293	\$200,454

The department has not yet submitted an annual update of its *Population Management and Facilities Master Plan*, covering fiscal years 1988-89 through 1992-93. Information recently received from the department, however, shows that new construction plays a crucial role in the department's plan for accommodating the expected growth in its ward population. Upon completion of all facilities currently budgeted for construction, the Youth Authority will have facilities designed to accommodate 6,960 wards. The department anticipates that its population will grow from an estimated 9,400 wards in June 1989 to approximately 9,850 wards by 1992-93. The department will rely on construction currently underway and the proposed 1,800-bed institution in Kern County to house about 30 percent of its expected population. In addition, the

DEPARTMENT OF THE YOUTH AUTHORITY—CAPITAL OUTLAY—Continued
 department plans to overcrowd all institutions, existing and planned, at an average level of 112 percent of design capacity.

ANALYSIS AND RECOMMENDATIONS

The budget requests \$7.9 million from the 1988 Prison Construction Fund (bonds) for five major projects (\$6,523,000), 35 minor projects (\$1,277,000), and project planning (\$100,000). We recommend approval of the following projects not discussed elsewhere in our analysis:

- *Northern California Youth Center—Convert Laundry to Free Venture—Item 5460-301-747(2).* The budget includes \$32,000 for preliminary plans and working drawings for a project to convert an abandoned laundry facility to space that will accommodate on-the-job training for wards through the Free Venture Program. Free Venture is a partnership between private industry and the state in which business operations are located at Youth Authority institutions to train and employ wards. This project, at an estimated future cost of \$341,000, would remove laundry equipment, and otherwise prepare the facility to accommodate business operations in general. Any specific equipment and modifications required for operations of a particular business would be provided at the expense of the business, in exchange for use of the state-owned space.
- *Minor Projects—Item 5460-301-747(7).* The budget includes \$1,277,000 for 35 minor projects. The projects range in cost from \$5,000 for purchase of a leased modular classroom at the Northern Reception Center and Clinic (Sacramento) to \$160,000 to improve yard lighting at the Ventura School (Camarillo).

In addition, we note that the budget does not include funds for ending nitrate contamination of the Youth Training School water supply. The following is a discussion of this issue and the department's remaining capital outlay requests.

Youth Training School—No Funds to Correct Well Contamination

We recommend that the department expedite a cost/benefit study of alternative measures to end nitrate contamination of the water supply for the Youth Training School, and present a funding proposal for the selected alternative to the Legislature prior to budget hearings.

The 1988 Budget Act included \$120,000 for (1) a cost/benefit study to compare alternative means of addressing nitrate contamination in the well water at the Youth Training School and the California Institute for Men, and (2) preliminary plans for the project selected as a result of the study. The cost/benefit study, however, did not get underway until January 1989. Consequently, preliminary plans have not been prepared and the budget does not include a request for funds.

The Department of Health Services has stated that the level of nitrates is not a critical health/safety issue, but that the level is higher than permitted under state health standards. Given the nature of this project, we recommend that the department expedite the study, and, prior to budget hearings, present to the Legislature a proposal for correcting the problem.

Budget Packages and Preliminary Planning

We recommend approval of \$100,000 in Item 5460-301-747(1) for budget packages and preliminary planning, with the addition of

Budget Bill language limiting the use of these funds to projects to be considered by the Legislature during hearings on the 1990-91 Budget Bill.

The budget requests \$100,000 in Item 5460-301-747(1) to develop design and cost information for new projects, for which funds have not been previously appropriated.

The use of these funds could be beneficial to the department and the Legislature by providing timely information essential for budget decisions. In keeping with prudent budgetary practice, however, the Legislature should not provide more planning funds in 1989-90 than the department will use in planning projects that can reasonably be funded in 1990-91. Consequently, we recommend that the Legislature substitute the following for language proposed in Provision 1 of Item 5460-301-747:

The funds appropriated in Schedule (1) above are to be allocated by the Department of the Youth Authority, upon approval of the Department of Finance, to develop design and cost information for new projects for which funds have not been previously appropriated, but for which preliminary plan funds, working drawing funds, or working drawing and construction funds are expected to be included in the 1990-91 Governor's Budget, and for which cost estimates and/or preliminary plans can be developed prior to legislative hearings on the 1990-91 budget. These funds may be used for the following: budget package development, architectural programming, engineering assessments, schematic design, and preliminary plans. The amount appropriated in this item for these purposes is not to be construed as a commitment by the Legislature as to the amount of capital outlay funds it will appropriate in any future year.

Construction Projects

El Paso de Robles School—Commissary Warehouse—Item 5460-301-747(4), and Youth Training School—Business Services Building—Item 5460-301-747(5): We recommend approval of these projects contingent on receipt of preliminary plans prior to budget hearings.

The budget requests \$344,000 for construction of a commissary warehouse addition at the El Paso de Robles School (Paso Robles) and \$456,000 for construction of a new business services building at the Youth Training School (Chino). In each case, the amount requested for construction is consistent with the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation. At the time this analysis was prepared, the department had not provided the Legislature with completed preliminary plans for these projects. We recommend approval of the budget request, contingent on receipt of completed preliminary plans prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend that the Legislature not approve these requests.

Southern California Youth Center: 1,800-Bed Facility

We withhold recommendation on \$5,260,000 in Item 5460-301-747(6) for site acquisition and preliminary plans, pending receipt of a report on an acceptable level of crowding for Youth Authority institutions, an architectural program and associated cost estimate, and a financing plan and construction schedule.

The budget requests \$5,260,000 for site acquisition (\$2,560,000) and preliminary plans (\$2,700,000) for an 1,800-bed institution to be located in

DEPARTMENT OF THE YOUTH AUTHORITY—CAPITAL OUTLAY—Continued

Kern County. According to the department's five-year capital outlay plan, the future cost of this institution is \$171 million. We have several concerns about this request.

What Additional Facilities are Needed to Accommodate the Increasing Youth Authority Population? As noted above, the department projects a ward population of 9,850 by 1992-93. This projection assumes that the department's alternative treatment programs will remove about 740 wards from institutions in 1992-93. As discussed in our analysis of the department's support budget (Item 5460), this assumption may be too optimistic, and may require revision upon receipt of additional information from the department. Our analysis of the department's support budget also indicates that the administration's proposal to reduce funding for the County Justice System Subvention Program (CJSSP) could significantly increase the number of wards committed to the Youth Authority.

Upon completion of all facilities currently budgeted for construction, the Youth Authority will have facilities designed to accommodate 6,960 wards. Without further construction, and barring any major policy change which would affect the department's population projection (such as a long-term reduction in funding for the CJSSP), the department would have to crowd these institutions at a level of 141 percent of design capacity by 1992-93. Construction of an 1,800-bed institution would increase the department's design capacity to 8,760 wards, still 1,090 short of the estimated 1992-93 population. The department proposes to house the remaining wards by overcrowding its facilities by an average of 112 percent of design capacity.

The department does not indicate in its most recent population management plan why it is appropriate to crowd its institutions at a level of 112 percent of design capacity, rather than some higher or lower level. The level of crowding considered acceptable for Youth Authority institutions, however, has a direct bearing on how much more institutional bed capacity the department should construct, in addition to facilities already under construction. If no crowding is appropriate, the department should be planning to construct 2,900 beds, instead of 1,800. If, on the other hand, it is appropriate to crowd Youth Authority institutions at a level of 120 percent to 130 percent of design capacity—the level of crowding considered acceptable for state prisons by the Department of Corrections—the department should construct only 800 to 1,500 additional beds. Consequently, we recommend that the department, prior to budget hearings, inform the Legislature what level of crowding it considers acceptable in its institutions, based on its program goals and methods of operation. This information should detail the programmatic and security implications as well as construction and operating cost under various overcrowding assumptions.

Architectural Program and Environmental Impact Reports Not Available Until Late Spring. Chapter 1020/88 (SB 2124, Rogers) provides \$658,000 for architectural programming and for environmental impact reports on potential Kern County sites for this project. Moreover, it requires that the department provide the Legislature with environmental impact reports and design options for the project before seeking additional funding. The department, however, will not complete an architectural program, including design options, for the 1,800-bed institution until March 1989. The architectural program will provide the

Legislature with a better basis than currently available for estimating the cost of preliminary plans and the future costs of this facility. Moreover, a review of the architectural program will enable the Legislature to assess whether the proposed facility includes (1) sufficient intensive treatment/special counseling beds and (2) a balance of high- and low-security facilities that match the custody/security characteristics of Youth Authority wards.

The department may not complete environmental impact reports on potential sites for this project until May 1989. Consequently, information to substantiate the feasibility and probable costs of alternative sites will not be available to the Legislature until late in budget hearings.

How Will the Youth Authority Finance Working Drawings and Construction? Working drawings and construction of the 1,800-bed facility, according to the department, will cost approximately \$171 million. Our analysis, however, indicates that the unappropriated balance of the 1988 Prison Construction Fund, if all of the administration's 1989-90 budget requests are funded, will be only \$37 million. It would not be prudent to fund preliminary plans at this time, unless there is a financing plan to complete the facility in a timely manner. Otherwise, the plans could be outdated at the time of construction. Consequently, we recommend that the department, prior to budget hearings, provide the Legislature with a plan for financing the proposed institution, along with a design and construction schedule.

Northern California Youth Center—New Staff Training Center

We recommend a reduction of \$431,000 in Item 5460-301-747(3) to delete preliminary plans and working drawings for a staff training center, because the administration has not adequately studied the cost effectiveness of operating separate training centers (versus a combined center) for the Youth Authority and the Department of Corrections. The administration should conduct such a study and report to the Legislature in the fall of 1989.

The budget requests \$431,000 for preliminary plans and working drawings for a 42,500 square foot staff training center, to be constructed on state-owned land at the Northern California Youth Center in Stockton. The administration has not yet developed an architectural program for this project. Moreover, although a preliminary estimate by the Office of Project Development and Management places the future (construction) cost of the proposed training center at \$4.9 million, the administration has provided no basis for this estimated cost. The department estimates that annual operating costs associated with the center would be \$440,000.

The department currently conducts its basic training for new employees under contract with an athletic club and a motel in Sacramento, at an annual contract cost of \$646,000. The department estimates that it will spend an additional \$500,000 per year by 1992-93 to reimburse other trainees for per diem expenses. Our analysis indicates that it would be more cost-effective for the state to own training facilities than to continue leasing them. We have a concern, however, about the cost-effectiveness of operating *separate* training facilities for the Youth Authority (CYA) and the Department of Corrections (CDC). In addition, our analysis indicates that the Youth Authority training program does not require a facility of the capacity proposed in the budget. These factors lead us to recommend deletion of design funds for this project.

DEPARTMENT OF THE YOUTH AUTHORITY—CAPITAL OUTLAY—Continued

Administration Has Not Adequately Investigated the Economies and Feasibility of a Joint Youth Authority-Corrections Training Facility. It is not clear why the administration proposes to operate separate training facilities for the Youth Authority and the Department of Corrections. We understand that the two departments have somewhat different missions and require training programs with somewhat different emphases. Two *distinct* programs, however, operating within the *same* institution could share such common space as classrooms, a gymnasium, library, kitchen and dining areas. To some degree, this space would be wastefully duplicated by operating two separate facilities. Consequently, we recommend that the administration compare the long-term capital and operating costs of two separate training facilities with the following alternatives:

- Purchase the CDC Richard A. McGee Training Center at Galt and make modifications necessary to accommodate the CDC and CYA training programs.
- Construct a joint CDC-CYA training facility at another site, such as the Northern California Youth Center in Stockton.

The administration should report its findings to the Legislature in the fall of 1989 and request planning funds in the 1990-91 budget for the most cost-effective alternative.

The CDC Training Center in Galt. Until July 1986, the Youth Authority and the Department of Corrections shared the Richard A. McGee Training Center, leased by CDC in Galt. At that time, the Youth Authority was asked to move its training activities to another site, to make room for expanded CDC training activities at the Galt center. The CDC continues to occupy this facility—99,000 square feet of building space on 40 acres—on a lease with purchase option basis. Our analysis, however, indicates that the Galt facility could provide sufficient capacity for the training programs of both departments, potentially at considerably less construction cost than proposed for the new Youth Authority facility. The current capacity of the Galt facility is 640 trainees. Staff of the Galt Academy indicate that a maximum of 520 CDC trainees attend classes there at any given time. The Youth Authority estimates that it will serve a maximum of 125 trainees at any given time, provided that its training program expands as planned. Thus the Galt academy, with minimal capacity-related modifications, should be able to accommodate both training programs.

We understand that CDC is considering a proposal to exercise its purchase option on the Galt site, at a cost of approximately \$5 million, and construct additional facilities there to better accommodate its training program. With both CYA and CDC at the point of requesting new training facilities, this seems an opportune time to reassess the needs of both training programs and determine whether it is more economical to add to existing facilities at Galt and operate a joint facility, than to build and operate a separate Youth Authority facility, *and* add additional space for CDC at Galt.

New Joint Training Center at a Site Other Than Galt. Galt may not be the best available site for a joint training facility. For example, state-owned sites may be available which are closer to CYA and CDC institutions for purposes of on-site training (although Galt is within 25 miles of CYA's Northern California Youth Center and CDC's Mule Creek

Prison). For example, state-owned land is available *at* the Northern California Youth Center (Stockton). This is the site of four Youth Authority institutions as well as the Northern California Women's Prison and is 40 miles from the Mule Creek Prison (Ione). In its report to the Legislature, therefore, the administration should consider the cost-effectiveness of not purchasing the Galt facility and building an entirely new training facility, for CYA and CDC, at an alternative site.

Proposed Facility Size is Not Justified. Even in the event that the recommended cost-effectiveness study shows separate training institutions to be the most cost effective alternative, the Youth Authority would not require a facility of the size and cost requested in the budget. The department estimates that a maximum of 125 trainees will occupy the proposed facility at any given time. The total proposed classroom capacity of the facility, however, is 276, not including a multipurpose room for physical training and large group meetings. The department has provided no program or capacity justification for the following rooms:

- Large classroom, seats 60. Large group meeting space is available in a multipurpose room that the department indicates will be used for physical training only two-thirds of any given training day.
- Computer learning center, 40 personal computers, seats 72. Personal computers, if needed, could be provided in one or more of four other classrooms.

Elimination of these rooms (about 5,000 square feet—12 percent of the proposed new facility) from the project design would leave a classroom capacity of 143 (not including the multipurpose room) and could significantly reduce construction costs of the project.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

OVERVIEW OF POSTSECONDARY EDUCATION CAPITAL OUTLAY

Overall enrollments in the state's three segments of postsecondary education are expected to gradually increase over the next few years until the mid-1990s and then increase more rapidly into the early 2000s. This enrollment growth coupled with the need to construct new and alter existing facilities to accommodate enrollment will require the expenditure of probably several billion dollars over the next 15 years. In order for the Legislature to address this challenge, it must have comprehensive information on the capital improvements needed to accommodate these enrollments, including the potential need for additional campuses/centers. The Legislature can then use this information to develop a plan to finance the necessary capital improvements. Planning at this time is essential if the needed facilities are to be available when the more rapid rise in enrollments occurs. Currently, however, the Legislature receives information on future capital needs in an inconsistent and haphazard manner.

The following overview provides a discussion of the current budget proposal, the cost implications of the current budget, a summary of enrollments, the capacity of the existing system to accommodate these enrollments and the type of information the Legislature needs to establish a capital outlay plan. Once this plan is in place, the Legislature will have the information it needs to develop a financing plan to expand the state's postsecondary education system.

Summary of the 1989-90 Capital Outlay Program

We recommend that, prior to budget hearings, the University of California (UC), California State University (CSU), and California Community Colleges (CCC) submit information to the Legislature indicating how the individual capital outlay projects proposed in the 1989-90 Budget Bill contribute to accommodating campus facility needs associated with current and/or future enrollments.

The budget includes \$481 million for UC, CSU and CCC capital outlay programs in 1989-90. Of that amount, \$175 million is from general obligation bonds (1988 Higher Education Capital Outlay Bond Fund) and \$306 million from revenue bonds (the "revenue" for these bonds is the General Fund). Table 1 shows the proposed allocations of funds to each segment and the estimated cost to complete the proposed projects and those projects not in the Budget Bill but previously approved by the Legislature. As summarized in Table 1, the Legislature will have to appropriate over \$750 million just to complete these projects.

Funding Availability To Complete Projects Unclear. Based on prior appropriations and proposals in the Governor's Budget (the Governor's Budget does not provide fund condition statements for higher education capital outlay bond funds) there is about \$13 million remaining in the 1986 Higher Education Capital Outlay Bond Fund and roughly \$38 million remaining in the 1988 Higher Education Capital Outlay Bond Fund. According to the State Treasurer's office, however, a total of about \$6 million and \$16 million of the balances in the 1986 and 1988 bond funds, respectively, will be needed to pay interest on loans from the Pooled Money Investment Account. An unknown additional portion of the balances also will be needed for these interest payments in later years. Thus, there will be limited amounts available from these sources (less

than \$30 million) foreither additional appropriations or administrative augmentations. Given this situation, it is not clear how the administration intends to complete the capital program submitted to the Legislature.

Table 1
Postsecondary Education
1989-90 Capital Outlay Programs
(dollars in millions)

Segment	Funding Source		Totals	Additional Funds to Complete Projects
	G.O. Bonds	Revenue Bonds		
University of California.....	\$67.8	\$120.2	\$188.0	\$307.5
California State University.....	66.5	115.4	181.9	314.7
California Community Colleges.....	40.7	70.4	111.1	129.7
Totals.....	\$175.0	\$306.0	\$481.0	\$751.9

Clearly, the capital outlay program included in the Governor's Budget cannot be completed within the limits of existing general obligation bond sources. Consequently, if the Governor's proposals are approved by the Legislature, additional fund sources must be made available. Given this critical funding situation, we believe that it is essential for each segment to submit to the Legislature, prior to budget hearings, detailed information that clearly shows how each capital outlay project will contribute to accommodating campus facility needs associated with current and/or future enrollments. This information will assist the Legislature in determining if the proposed capital outlay projects address the Legislature's priorities for spending limited available funds for capital improvements.

Increased Use of Revenue Bond Financing—Decreased Legislative Fiscal Flexibility

Since 1986, the Legislature has appropriated a total of \$493 million in revenue bond funds to the three segments of postsecondary education for capital outlay purposes. The Governor's Budget proposes increasing this authorization by an additional \$306 million. As shown in Table 2, the annual debt service on this \$799 million financing program will reach **\$81 million** by 1992-93 and continue at this level for another 15 years (assuming no additional revenue bond financing is approved). *Payments on these "revenue" bonds are made from the General Fund and are counted under the state's appropriations limit.*

Table 2
Postsecondary Education
Capital Outlay Programs
Revenue Bond Funding
1988-89 through 1992-93 (Selected Years)

	Amounts Previously Authorized	Budget Year Amount	Total	88-89	Annual Debt Service Costs	
					89-90	92-93
University of California.....	\$374.0	\$120.2	\$494.2	\$4.7	\$29.8 ^a	\$50.0
California State University.....	100.9	115.4	216.3	1.9	2.7	22.0
California Community Colleges.....	18.1	70.4	88.5	—	1.1	9.0
Totals.....	\$493.0	\$306.0	\$799.0	\$6.6	\$33.6	\$81.0

^a Based on State Treasurer's Office data. Budget Bill does not reflect debt service of this magnitude.

OVERVIEW OF POSTSECONDARY EDUCATION CAPITAL OUTLAY—Continued

In addition to revenue bond financing for postsecondary education, the Legislature has authorized \$1.2 billion in revenue bond financing for constructing new prisons. General Fund payments on these revenue bonds total \$55.3 million in the Budget Bill and will increase to approximately \$115 million by 1991-92. *As the use of this method of financing increases, the annual payments under the appropriations limit increases and the Legislature's fiscal flexibility in meeting other statewide needs from tax revenues decreases on a dollar for dollar basis.*

Projected Enrollments versus System Capacity

The enrollments discussed below are those developed by each respective segment. These projections may be tempered based on the California Postsecondary Education Commission's current review of long-range planning to the year 2005. Given the importance of these projections, each segment should provide the Legislature the bases for their projections including what assumptions have been made concerning changes in admissions standards, participation rates and other factors affecting enrollments.

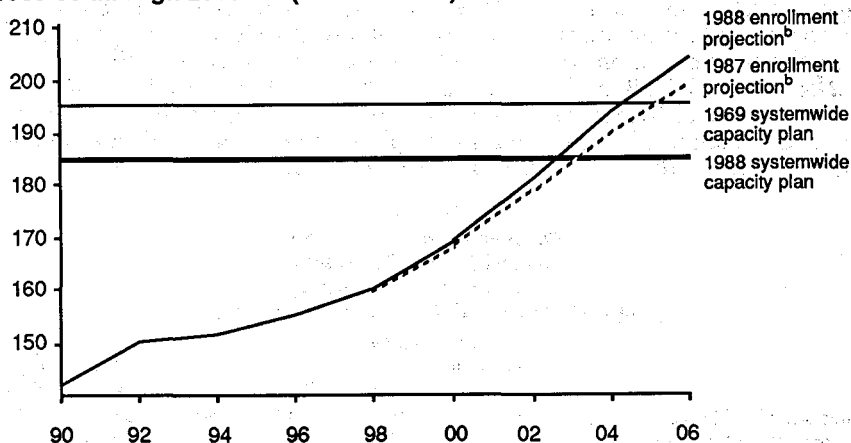
The University of California currently anticipates its general campus enrollment to increase by 44 percent over the next 17 years (from 142,000 headcount students in 1988-89 to 205,000 in 2005-06). This increase

Chart 1

University of California Projected Student Headcount Enrollment

Eight General Campuses

1989-90 through 2005-06^a (in thousands)



^a Data are for fiscal years ending in years specified.

^b Differences between the 1988 and 1987 enrollment projections are solely attributable to different assumptions about the percentage of graduate students enrolled.

represents a 36 percent growth in undergraduate students (42,200 students) and an 80 percent growth in graduate students (20,600 students). A discussion of UC's enrollment plan is contained in our analysis of UC's support budget (Item 6440). In our Analysis of Item 6440, we point out that UC's new plan for graduate student enrollment generates a demand for an additional 5,565 students compared to its 1987 plan. This change coupled with UC's plan to *limit* enrollment on existing campuses has a major impact on the determination of whether or not additional campuses are needed in the UC system.

Chart 1, provides a comparison of projected general campus enrollments at UC with systemwide capacity under two assumptions.

Systemwide Capacity. Chart 1 identifies the capacity of the UC system based on enrollments for the eight general campuses that UC envisioned when enrollments were increasing rapidly in the mid-1960s. *As late as 1969*, UC's plan would have provided for a systemwide enrollment of 196,000 at these campuses. This plan took into consideration academic plans, the optimum enrollment for each campus and the ability of the campus site to accommodate this enrollment. The UC is now proposing the development of *three new campuses* based on limiting enrollment in the year 2005 to 184,700 at these same eight campuses. This enrollment, however, represents a "snapshot" in time and, according to UC, is not necessarily the optimum enrollment level at these campuses. The UC has not identified what the optimum enrollment will be at these campuses. If the campuses were developed to the levels projected in 1969, an additional 11,300 students could be accommodated on existing campuses.

Projected Enrollments. Chart 1 also identifies projected enrollments under two assumptions. In the current year, graduate student enrollment is approximately 18.7 percent of total enrollment on the eight general campuses. In 1987 the university submitted a detailed graduate enrollment plan to the Legislature to increase this percentage to 21.3 percent by 2000-01. Full funding of this 1987 plan would increase graduate student enrollment by 58 percent (15,015 students) over the next 17 years. The new October 1988 university plan, however, proposes a 23.4 percent graduate ratio. This proposed change in graduate students generates a capacity demand for an additional 5,565 graduate students above the level of the 1987 plan. Under both assumptions, the increase in the number of undergraduate students is the same.

Need For New Campuses? As shown in Chart 1, if UC expands existing campuses as originally planned and graduate student enrollment is increased to the level proposed in the 1987 plan, *there is no apparent need for three new UC campuses and it is questionable whether any new campus will be needed by 2005*. Under this scenario, the projected enrollment would exceed systemwide capacity by only 3,300 headcount in 2005. Given the uncertainties associated with projecting enrollments over the 17-year time period, the difference of 3,300 students would not appear to justify planning for a new campus at this time. Consequently, we recommend that prior to budget hearings UC submit to the Legislature the following information:

- the optimum enrollment for each of the existing general campuses,
- the rationale for changing the optimum enrollment level for any campus where the proposed level differs from the 1969 plan, and
- the rationale for not allowing more students to enroll annually at existing campuses in order to accommodate the projected systemwide demand in 2005.

OVERVIEW OF POSTSECONDARY EDUCATION CAPITAL OUTLAY—Continued

In addition, in our earlier discussion in Item 6440, we have recommended that the university provide the Legislature with its rationale for the revision in the graduate enrollment request.

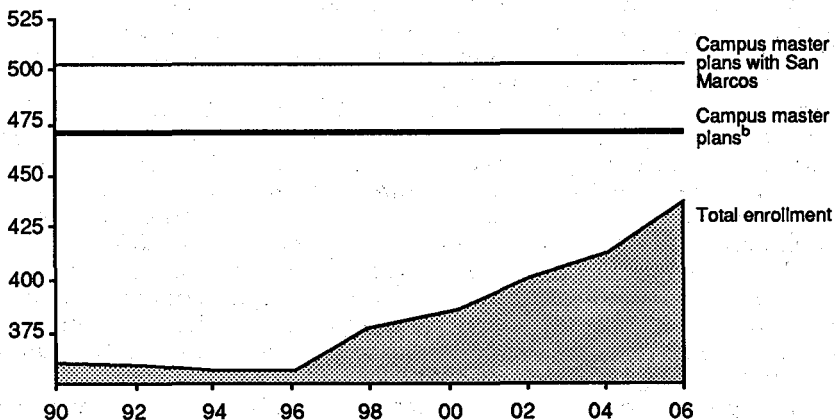
This information should assist the Legislature in determining whether or not additional campuses are needed in the UC system. Furthermore, if the determination is that one or more campuses should be developed, UC should provide the Legislature its plan for developing these campuses. For example, UC should inform the Legislature of the planned optimum enrollment of each new campus, the time frame for reaching this enrollment, the basis for expecting statewide university enrollments to reach these enrollments and how these new campuses will affect existing UC campuses as well as other state-supported postsecondary education campuses.

Finally, as discussed later in this overview, the Legislature may want to defer a decision on the need for additional campuses pending receipt of long-range planning information from the California Postsecondary Education Commission and the three segments. This information, that was requested by the Legislature in 1988, is to be available by December 1989.

The California State University is also projecting a substantial enrollment growth at its 19 campuses over the next 17 years. Over this time period, CSU expects enrollments to increase by 22 percent—from 355,000 headcount students in 1988-89 to 436,000 in 2005-06. Chart 2 shows that the

Chart 2

California State University Projected Student Headcount Enrollment 1989-90 through 2005-06^a (in thousands)

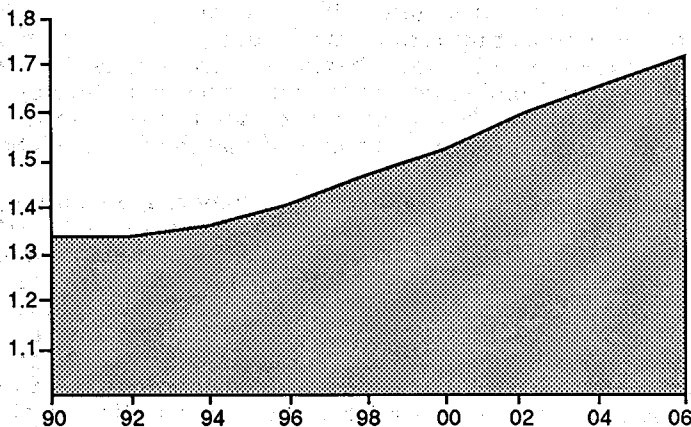


^a Data are for fiscal years ending in years specified.

^b Based on current headcount to FTE ratio of 1.34.

CSU system has a large statewide surplus of available capacity within the master plan enrollment for each of the 19 campuses. For example, in 2005 the master plan capacity of existing campuses could accommodate 24,000 more students than CSU expects to enroll. Moreover, with the addition of the proposed San Marcos campus, the systemwide master plan capacity could accommodate 59,000 more students than CSU expects to be enrolled. This total systemwide capacity is, of course, dependent on construction of additional facilities within the present CSU system.

The 19 campus (proposed 20 campus) CSU system has a statewide mission that is influenced by regional demographics. With few exceptions most campuses primarily serve broad geographic areas. Thus, CSU assumes that where there is growth in population there will be increased demand for CSU services. This is a valid assumption but it does not follow that enrollments at each campus are limited to the immediate region. In fact, CSU recognizes that many campuses have a large component of statewide enrollment. Taking these enrollment factors into consideration, CSU is in the process of reevaluating its current campus master plans and is developing alternative strategies for accommodating the projected enrollments. CSU anticipates completing this effort by December 1989. In the mean time, however, CSU is proposing (in the Governor's Budget) to develop the North San Diego County Center in San Marcos to a full service campus with an enrollment of 13,400 FTE students by 2020 and a master plan enrollment of 25,000 FTE students. The California Postsecondary Education Commission has approved the conversion of this center to a full service campus but has not as yet approved the enrollment levels proposed by CSU.

Chart 3**California Community Colleges
Projected Student Headcount Enrollment
1989-90 through 2005-06^a (in millions)**

^a Data are for fiscal years ending in years specified. No statewide capacity information is available.

OVERVIEW OF POSTSECONDARY EDUCATION**CAPITAL OUTLAY—Continued**

The California Community Colleges. Projections for the community colleges indicate that total statewide enrollment will grow to 1,726,000 students over the next 17 years. Chart 3 illustrates this increase of about 393,000 students, or 29 percent. Statewide capacity for accommodating this enrollment is not shown in Chart 3 because the Chancellor's Office does not have either a statewide plan or a central accounting of the statewide capacity. In part this may be because the emphasis of the community college mission is on providing local service. This should not preclude, however, the Chancellor's Office from obtaining the information necessary to assure efficient use of existing campus facilities, including districts cooperating with each other to alleviate enrollment pressures. The Legislature and the administration need this systemwide information in order to evaluate the needs within the community college system.

Need For Comprehensive Five-Year Capital Outlay Plans

We recommend that, by May 1, 1989, the University of California, California State University, and California Community Colleges submit to the Legislature a current and comprehensive five-year capital outlay plan.

Further, we recommend that the Legislature adopt supplemental report language directing the University of California, California State University and California Community Colleges to annually update these plans and submit them to the Legislature by September 1 of each year beginning in 1989.

As discussed above, over \$750 million will be needed to complete the higher education projects previously approved by the Legislature and the 1989-90 projects proposed in the Governor's Budget. Currently there are no identified fund sources to finance this cost. Moreover, the projects included in this \$750 million program do not come close to addressing the enrollment increases expected toward the end of this century and into the early part of the 21st century. *This time frame cannot be viewed as too distant to be of concern today.* If the state is going to meet the challenge of accommodating future enrollments, the process of capital planning and implementation must begin now. In view of the probable need to spend several billion dollars for this expansion, the Legislature needs to have the information necessary to determine whether or not proposed expenditures meet its priorities and that the funds will be spent effectively.

The Legislature recognized the need for a long-range planning effort in postsecondary education when it adopted language in the *Supplemental Report of the 1988 Budget Act* directing the California Postsecondary Education Commission (CPEC) to develop recommendations to the Legislature and the Governor on policy variables that will influence state costs for new facilities through the year 2005. This effort will be undertaken in cooperation with the public and private segments of postsecondary education. The commission is to report to the Governor and the Legislature by December 1989. The results of this effort should provide the long-term planning framework that will be implemented through comprehensive five-year capital outlay planning documents.

Tied to the commission's planning effort, the Legislature directed UC, CSU and CCC to develop a plan through 2005 to accommodate projected enrollments. These plans are to address the need to expand existing campuses, develop new campuses/centers or other such expansion to accommodate the enrollments. The segments are to submit these documents by December 1990 to the Department of Finance, the Office of the Legislative Analyst and CPEC for review and comment before submitting them to the Governor and the Legislature. Presumably, these documents will be based on the action the Legislature and the Governor take on CPEC's December 1989 report.

The combination of the documents discussed above will set the stage for long-term development of the state's segments of public postsecondary education. Once the Legislature has this information it will be in the position to determine if and when additional campuses are needed in the state's three segments of postsecondary education. Receipt of the information in December 1990 will allow the Legislature to determine whether or not an expansion is warranted and, if appropriate, still allow new campuses to be developed on a timely basis to meet identified enrollment needs.

Comprehensive Five-Year Capital Outlay Plans Needed. To effectively allocate the state's resources and implement the long-term development in a timely manner, the Legislature needs comprehensive five-year capital outlay planning documents. These planning documents should identify the proposed projects for each year (beginning with the budget year), the estimated cost for these projects in each year of the plan and how the proposed projects will contribute to accommodating the needs associated with current and/or projected enrollments. It is important to recognize that these plans represent flexible working documents that are subject to evolutionary changes inherent in a long-term planning process. Some revisions, especially in the more distant years, should be anticipated if the plans are to reflect the most current information. Consequently, these plans should be updated annually and submitted to the Legislature by September 1 of each year. The Legislature can then assess this information and develop a financing plan to enable implementation of the plans approved by the Legislature.

In the meantime, the Legislature is faced with the need to expand existing campuses in order to accommodate current enrollments as well as short-term enrollment growth. In view of the immediate need to develop a financing plan—especially if the plan is to include a bond issue of an appropriate amount for the June 1990 ballot—the Legislature needs to receive this information. Thus, we recommend that the University of California, California State University and the Community Colleges submit such a plan to the Legislature by May 1, 1989. These plans should include at least the following information:

- current year enrollment and annual enrollment projections for each campus to the year 1994-95,
- projects proposed for each campus in each year of the plan, including a discussion of the programmatic bases for each project, and how the project contributes to accommodating needs associated with current-/projected enrollments,
- the estimated cost for each project showing the schedule for when these funds will be needed (for this purpose, project completion costs that are beyond the five-year period should be identified), and

OVERVIEW OF POSTSECONDARY EDUCATION CAPITAL OUTLAY—Continued

- the relative priority of the projects on a campus and systemwide basis.

The segments should be able to provide this information by May 1. This will, however, require UC to aggregate campus five-year plans into a systemwide document. Similarly, the community colleges will need to combine the existing district plans into a statewide document. The CSU has the majority of this information in its systemwide five-year planning document.

The above information should also be part of the annual five-year plans submitted to the Legislature.

UNIVERSITY OF CALIFORNIA—CAPITAL OUTLAY

Item 6440-301 from the 1988
Higher Education Capital
Outlay Bond Fund, Public
Buildings Construction Fund,
and the High Technology
Education Revenue Bond
Fund

Budget p. E 81

Requested 1989-90	\$188,008,000
Recommended approval	183,139,000
Recommended reduction	4,869,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. Preliminary Plans Not Yet Available. We recommend approval of eight projects totaling \$57.3 million contingent on receipt of preliminary plans prior to budget hearings. 1087
2. *Universitywide-Seismic Safety Corrections. Delete \$1,750,000 in Item 6440-301-785(2).* Recommend deletion of funds for preliminary plans for seismic safety corrections because the university has not indicated what specific projects will be undertaken and what the project priorities and future costs will be. 1088
3. *Berkeley Doe/Moffitt Libraries Addition and Seismic Improvements. Delete \$1,600,000 in Item 6440-301-785(5).* Recommend deletion of funds for preliminary plans for an addition joining the Doe and Moffitt libraries and seismic improvements to both libraries because the university should first submit the Doe and Moffitt libraries seismic correction projects on a universitywide list of such projects to the Legislature. In addition, the university has not justified the (1) growth of the central library collection when moved to the new addition and (2) construction of a new addition underground and experiencing the high cost of excavating solid rock. 1088

4. **Los Angeles Anderson Graduate School of Management.** 1090
Delete \$1,315,000 in Item 6440-301-785(17). Recommend deletion of funds for working drawings for the Anderson Graduate School of Management because the university has not provided the Legislature any information to justify this project.
5. **Riverside Soils and Nutrition Building, Seismic Upgrade and Remodel.** Delete \$204,000 in Item 6440-301-785(19). 1090
Recommend deletion of funds for preliminary plans to rebuild the Soils and Plant Nutrition Building in order to permit the UC to reevaluate its future enrollment demands and facility options for its Graduate School of Management and other academic programs.

ANALYSIS AND RECOMMENDATIONS

The budget proposes three appropriations totaling \$188 million to fund the state's share of the University of California's (UC) capital outlay program in 1989-90. Of this amount, \$67.8 million will come from the 1988 Higher Education Capital Outlay Bond Fund (general obligation bonds), \$30 million will come from the Public Buildings Construction Fund (revenue bonds), and \$90.2 will come from the High Technology Education Bond Fund (revenue bonds). The "revenue" for the proposed revenue bond financing is the state General Fund.

1989-90 Capital Outlay Program

We recommend approval of 22 projects totaling \$125,874,000.

We also recommend approval of eight projects totaling \$57,265,000, contingent on receipt of preliminary plans prior to budget hearings.

The University of California's 1989-90 capital outlay program includes \$188 million for 34 projects. To facilitate analysis of these projects, we have divided them into descriptive categories as shown in Table 1.

Table 1
University of California
1989-90 Capital Outlay Program
Funding Summary by Project Categories
(dollars in thousands)

Category	Number of Projects	Total State Cost	Analyst's Recommen- dation	Estimated Future Cost ^a
A. Mitigate hazards	1	\$1,750	—	unknown
B. Complete newly constructed facilities	8	6,686	\$6,686	—
C. Add instructionally related facilities	2	26,124	26,124	24,124
D. Upgrade instructionally related facilities	3	16,031	15,827 ^b	3,468
E. Library space	4	44,904	43,304 ^b	78,918
F. Add research related facilities	6	36,194	34,879 ^b	157,298
G. Upgrade research related facilities	4	45,006	45,006	15,510
H. Other	6	11,313	11,313 ^b	4,927
Totals	34	\$188,008	\$183,139	\$284,245

^a University estimates.

^b Recommended amount contingent on receipt of preliminary plans.

Our analysis indicates that 22 projects totaling \$125,874,000 have either been previously approved by the Legislature or are new proposals that

UNIVERSITY OF CALIFORNIA—CAPITAL OUTLAY—Continued

are otherwise justified to address enrollment needs or other space deficiencies. Consequently, we recommend approval of these projects.

Preliminary Plans Not Yet Available. In addition, our analysis indicates that there are eight projects totaling \$57,265,000 which have been previously approved for preliminary plans and the request for working drawings or working drawings and construction is consistent with the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation. However, at the time this analysis was prepared, the university had not provided the Legislature with the completed preliminary plans for these projects. We recommend approval of the budget requests for these projects, contingent upon receipt of completed preliminary plans prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend that the Legislature not approve the project.

A discussion of the remaining projects and our recommendation for each follows:

Universitywide-Seismic Safety Corrections

We recommend deletion of \$1,750,000 in Item 6440-301-785(2) for preliminary plans for seismic safety corrections because the university has not indicated what specific projects will be undertaken and what the project priorities and future costs will be.

The budget includes \$1,750,000 for preliminary plans for seismic safety corrections throughout the university system. UC has indicated that, based on the Seismic Safety Commission's (SSC) 1981 survey of state buildings, it has a substantial statewide need for making seismic corrections to a number of buildings at several campuses. Moreover, UC indicates that this proposal would address other building modifications such as code deficiencies, replacement of building utility systems and asbestos abatement. The need for or the extent of these other modifications has not been identified. Finally, UC has been unable to provide the Legislature with specific information to indicate what projects would be undertaken, what their relative priorities would be with each other or with other instructional and research capital outlay projects, and what the future costs would be to complete the projects.

In effect, the Legislature is being asked to finance the initiation of a universitywide proposal without knowing what the universitywide plan includes or what the total cost will be. Under these circumstances, we recommend deletion of the \$1,750,000 requested for preliminary plans.

Berkeley Doe and Moffitt Libraries, Addition and Seismic Improvements

We recommend deletion of \$1,600,000 in Item 6440-301-785(5) for preliminary plans for construction of an underground building joining the Doe and Moffitt libraries and seismic improvements to both libraries because the university should first submit the Doe and Moffitt library seismic correction projects on a universitywide priority list of seismic corrections projects to the Legislature. In addition, the university has not justified the (1) growth of the central library collection when it is moved to the new addition and (2) need for building the new addition underground and experiencing the high cost of excavating solid rock.

The budget includes \$1.6 million from general obligation bonds to develop preliminary plans for the first phase of a plan to correct seismic and code deficiencies as well as upgrade and expand the main library complex on the Berkeley campus. The UC expects the entire plan to cost up to \$120 million. The initial project—proposed in the Budget Bill—includes:

- construction of a 143,000 assignable square foot (asf) underground building joining the Doe and Moffitt libraries,
- demolition of the central book stack structure in the Doe Library to improve seismic resistance,
- construction of seismic bracing in the Moffitt Library, and
- other building modifications to the Doe and Moffitt libraries. The future cost to complete this initial project is estimated to be \$35.8 million.

We recommend deletion of \$1.6 million for this project for the following reasons:

- The overall main library project includes major seismic structural corrections to the Doe and Moffitt libraries. Before proceeding with this project, UC should first provide the Legislature with information as to its *universitywide* seismic correction projects and their relative priorities.
- The university has not justified the proposed expansion of the central library collection from 1.5 million volumes, currently in the Doe Library central stack, to 1.9 million volumes by 2006 or potentially up to 2.4 million in the years beyond, after the collection is moved to the new addition. When the Doe Library is fully renovated, additional space for at least 700,000 more volumes could also be made available—bringing the total to 3.1 million volumes. Moreover, future phases of the main library expansion plan could make space available for an undetermined but substantial growth of the on-campus collection.

Currently, Berkeley has a total collection of about 4.6 million volumes available in Doe Library and other libraries on the campus. In addition, the campus has 24-hour access to another 3 million volumes (currently being expanded to over 5 million volumes) at the Northern Regional Library Facility at Richmond.

- The university has not justified the need for building the new addition underground and experiencing the high costs of ripping and blasting a deep excavation in solid rock to construct an underground building that is two football fields in size and up to four stories high, and building a road, plaza and landscaped areas over the top of the building.

Moreover, the university, (1) in studying several alternatives for making additions to the central library complex, has not included in its report the cost benefits of building a conventional above-ground building at a site north of the Doe Library that is presently occupied by several temporary buildings, and (2) has not provided the Legislature with a clear picture of potential changes and costs of future seismic and space modification and expansion projects for the central library complex. In particular, the future uses and modifications of the Doe Library have not been explained.

UNIVERSITY OF CALIFORNIA—CAPITAL OUTLAY—Continued**Los Angeles Anderson Graduate School of Management**

We recommend deletion of \$1,315,000 in Item 6440-301-785(17) for working drawings of the Anderson Graduate School of Management because UC has not provided the Legislature with any information to justify this project.

The Budget Bill includes \$1,315,000 from general obligation bonds to match \$1,572,000 of university gift funds for working drawings for construction of the Anderson Graduate School of Management. The UC is currently using \$2.2 million of gift funds to develop preliminary plans for this project. The future cost to complete this project is estimated to be about \$51 million, including \$24.9 million of state funds and \$26.1 million of university gift funds.

According to UC, this proposal will provide 164,000 asf for the Graduate School of Management, its Executive Education program and a related seminar/conference program for professional continuing education. The UC indicates that the existing Graduate School of Management building will be vacated and used for temporary relocation space to support a series of unidentified seismic projects at UCLA and to meet the needs of other programs in the humanities and social sciences.

At the time this analysis was written, UC had not provided the Legislature *any* information to justify the ultimate expenditure of \$27 million of state funds for this proposal. For example, UC has been unable to identify (1) why the existing facilities are inadequate, (2) why a complete new facility is needed, (3) what seismic projects are planned and the need for temporary relocation space, (4) what the needs are in the humanities and social sciences or how the existing facility will be used for these purposes, (5) the basis for the estimated cost of the project or (6) the cost for using the building for temporary relocation space and/or humanities/social sciences. In short, the Legislature is being asked to finance a proposal without *any* justification on which to base a decision. Consequently, we recommend deletion of \$1,315,000 requested for preliminary plans.

Riverside Soils and Plant Nutrition Building, Seismic Upgrade and Remodel

We recommend deletion of \$204,000 in Item 6440-301-785(19) for preliminary plans to rebuild the Soils and Plant Nutrition Building at the Riverside campus in order to permit UC to reevaluate its future enrollment demands and facility options for its Graduate School of Management and other academic programs.

The budget includes \$204,000 for preliminary plans to completely rebuild the 21,170 asf of space in the south and central wings of the Soils and Nutrition Building at Riverside to provide graduate, laboratory and faculty office space for the Graduate School of Management. The future cost to complete this project is estimated to be \$5.1 million (\$178/asf), about the same cost per assignable square foot as a *new* building with *similar functions*.

These wings, constructed in 1917, were part of the original structures on this campus. These areas have been vacant since 1967. Essentially, this project would (1) completely remove the interior and roof structures of the existing building leaving only the outside brick walls, and (2) construct on the inside, a new steel structure building. This preservation

approach is similar to the one used for rebuilding the State Capitol Building.

We recommend deletion of this project for the following reasons:

- ***The reconstructed building will have major limitations.*** After spending \$5.1 million to reconstruct this small historic building, the university will have a low efficiency facility (58 percent usable space) that will provide only 6,800 asf of graduate laboratory space. Moreover, the building will not be expandable to meet future enrollment growth. As an added concern, this building is located outside of the central core of the campus, away from close access to the libraries and other academic buildings.
- ***Future enrollment growth and facility options should be reevaluated.*** The campus has been designated for growth in future enrollment to include growth in the areas of general administrative sciences. Although it is presently uncertain what the magnitude of the growth will be, it appears certain that the campus will soon need to construct at least one large instructional and research facility in the academic core area. This facility could be designed to (1) accommodate the Graduate School of Management in contemporary, efficient space close to other related programs and (2) permit expansion to meet continued enrollment growth.
- ***Future use of the Soils and Plant Nutrition Building.*** Using the building for administrative purposes or faculty offices would require minimal structural and interior modifications and be compatible with the location of the building. Such uses also should result in a less costly project.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY

Item 6610-301 from the 1988
Higher Education Capital
Outlay Bond Fund, Public
Buildings Construction Fund,
and the High Technology
Education Revenue Bond
Fund

Budget p. E 114

Requested 1989-90	\$181,641,000
Recommended approval	149,293,000
Recommended reduction	31,971,000
Recommendation pending	377,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
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1. Preliminary Plans Not Yet Available. We recommend approval of 15 projects totaling \$80,397,000 contingent on receipt of preliminary plans prior to budget hearings. 1094
2. *Fullerton-Science Building Addition/Renovation, Phase I. Reduce Item 6610-301-525(3) by \$22,431,000.* Recommend deletion of funds for working drawings and construction of the Science Building addition because CSU (1) has not justified the high cost of the addition and (2) should reevaluate renovation of the existing laboratories in the existing Science Building. 1095
3. *Humboldt-Founders Hall, Rehabilitation. Reduce Item 6610-301-660(2) by \$7,948,000.* Recommend deletion of funds for rehabilitation of Founders Hall because seismic corrections have been completed, removing the original high priority for this project. 1096
4. *Statewide Preliminary Planning—1990-91. Approve \$400,000 in Item 6610-301-785(1).* Recommend approval of funds for statewide preliminary planning and adoption of Budget Bill language limiting the expenditure of statewide preliminary planning funds to those capital outlay projects expected to be included in the 1990-91 Governor's Budget. 1096
5. *Dominguez Hills-Education Resources Center Remodeling. Reduce Item 6610-301-785(7) by \$119,000.* Recommend reduction of funds for remodeling the Education Resources Building because CSU has not justified a 23 percent increase in cost over what was previously approved by the Legislature. 1097
6. *Contra Costa Off Campus Center-Infrastructure II. Reduce Item 6610-301-785(14) by \$301,000.* Recommend deletion of funds for preliminary plans for additional infrastructure development at this new permanent center because CSU has not provided the Legislature with any justification for an \$11 million expansion of infrastructure beyond what was previously authorized by the Legislature. 1097

7. Long Beach-Auditorium. Withhold recommendation on \$377,000 in Item 6610-301-785(18) for working drawings for a 1,200-seat auditorium pending (1) receipt of a policy statement and selection criteria from CSU for selection of auditorium projects, (2) demonstration by CSU that this project is the highest statewide priority under these criteria and (3) receipt of preliminary plans. 1098
8. *Pomona-Animal Care Laboratory Facility. Reduce Item 6610-301-785(23) by \$49,000.* Recommend deletion of funds for working drawings of a new animal care laboratory facility because CSU has not justified the need for additional and separate animal care facilities. 1098
9. *Pomona-Utilities. Reduce Item 6610-301-785(24) by \$262,000.* Recommend deletion of funds for preliminary plans and working drawings for central utility system improvements and a water reservoir because the project is premature given that (1) the scope and cost of the utility improvements are to be based upon studies that are not completed, and (2) the size and cost of the reservoir is dependent upon whether or not property will be donated to the state. 1099
10. *Sacramento-Physical Education Classroom/Laboratory Building. Approve \$176,000 in Item 6610-301-785(26).* Recommend approval of funds for preliminary plans and working drawings for an addition to the existing Physical Education Building with the condition that CSU either relocate the new facility to a different nearby site or demolish existing racquetball courts and incorporate new courts into the new addition. 1099
11. *San Diego-Classroom Student Services Building Phase II. Approve \$440,000 in Item 6610-301-785(29).* Recommend approval of working drawings for a new classroom/student services building Phase II provided that the original project scope and cost remains unchanged (except for inflation) to ensure that all of the instructional space previously approved by the Legislature will be provided. 1100
12. *San Francisco-Classroom/Faculty Office Building. Reduce Item 6610-301-785(33) by \$411,000.* Recommend deletion of funds for preliminary plans for a new classroom/faculty office building because CSU has not justified the expenditure of \$26.3 million to build a new building having capacity for 4,078 FTE students in order to replace and permit the demolition of the existing Humanities Building which has a capacity for about 4,899 FTE students. 1101
13. *San Jose-Demolish Spartan City. Reduce Item 6610-301-785(34) by \$450,000.* Recommend deletion of funds for demolition of the Spartan City temporary housing complex because these funds could instead be used for other postsecondary capital outlay projects. 1101

ANALYSIS AND RECOMMENDATIONS

The budget proposes three appropriations totaling \$181.6 million to fund the state's share of the California State University's (CSU) capital outlay program in 1989-90. Of this amount, \$66.4 million is from the 1988

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY—Continued

Higher Education Capital Outlay Bond Fund (general obligation bonds), \$76.4 million will come from the Public Buildings Construction Fund (revenue bonds), and \$38.9 million will come from the High Technology Education Bond Fund. The "revenue" for the proposed revenue bond financing is the General Fund.

1989-90 Capital Outlay Program

We recommend approval of 23 projects totaling \$67,368,000.

We also recommend approval of 15 projects totaling \$80,397,000 contingent upon receipt of preliminary plans prior to budget hearings.

The California State University's 1989-90 capital outlay program includes \$181 million for 50 projects. To facilitate analysis of these projects, we have divided them into descriptive categories as shown in Table 1.

Table 1
California State University
1989-90 Capital Outlay Program
Project Categories
(dollars in thousands)

	<i>Number of Projects</i>	<i>Total State Cost</i>	<i>Analyst's Recommendation</i>	<i>Estimated Future Cost^a</i>
A. Mitigate hazards	5	\$24,292	\$1,861	\$29,205
B. Complete newly constructed facilities ..	8	9,620	9,620	—
C. Add instructionally related space	9	57,356	56,945 ^b	113,796
D. Upgrade instructionally related space .	2	8,252	304 ^b	11,143
E. Library facilities	4	1,272	1,153 ^b	55,850
F. Add support space	9	12,942	12,516	71,579
G. Other projects	6	5,278	4,566 ^b	5,287
H. Permanent off-campus centers	7	62,629	62,328 ^b	17,571
Totals	50	\$181,641	\$149,293	\$304,421

^a CSU estimates.

^b Recommended amount is contingent on receipt of preliminary plans for specific projects.

Our analysis indicates that 23 projects totaling \$67.4 million have been either previously approved by the Legislature or are new proposals that are otherwise justified to address enrollment needs or other space deficiencies. Consequently, we recommend approval of these projects.

In addition, our analysis indicates that there are 15 projects totaling \$80.4 million which have been previously approved and the request for working drawings or working drawings and construction is consistent with the amount recognized by the Legislature in the *Supplemental Report of the 1988 Budget Act*, adjusted for inflation. However, at the time this analysis was prepared, CSU had not provided the Legislature with the completed preliminary plans for these projects. We recommend approval, contingent upon receipt of the completed preliminary plans prior to budget hearings. If the preliminary plans are not available to the Legislature at that time, we recommend that the Legislature not approve the project.

A discussion of the remaining projects and our recommendation for each follows.

Fullerton-Science Building Addition/Renovation, Phase 1

We recommend deletion of \$22,431,000 in Item 6610-301-525(3) for working drawings and construction of the Science Building addition because (1) CSU has not justified the high cost of constructing the new addition and the resulting loss of 78 FTE of class laboratory capacity, and (2) CSU should reevaluate the alternative of renovating the laboratory space in the existing Science Building at a substantially lower cost with no loss of class laboratory capacity.

The budget includes \$22,431,000 from revenue bonds for working drawings and construction of a 60,000 asf addition to the existing Sciences Building at the Fullerton campus. This would be the first of a two-phase project to relocate the physical sciences class laboratories and related support space from the existing Science Building to the new addition and to renovate the vacated space for secondary use such as classrooms, self-instructional computer laboratories and the campus computer center. Upon completion, there would be a reduction of space for 78 FTE students in class laboratories and an increase of classroom space for 266 FTE students. The estimated future cost is \$2.9 million to equip the addition, and \$16.1 million to renovate the vacated space for other uses. The total estimated cost of both phases of the project is about \$41.8 million.

In 1987-88, CSU requested preliminary planning funds for a project to remedy a fume hood exhaust problem in the Science Building at Fullerton. At that time studies indicated that exhaust air from fume hoods vented to the roof of the building reentered the building. The Legislature appropriated funds in the 1987 Budget Act for preliminary plans to correct the ventilation problem and adopted supplemental report language directing CSU to evaluate whether a combination addition/renovation project or a renovation project would be more cost effective. Based on this evaluation, CSU selected the addition/renovation project proposed in this budget request.

We recommend deletion of the proposed Phase 1 addition project because:

- The CSU has not justified the high square foot cost to construct the new science addition (\$322 per asf). This cost exceeds the current cost (\$250 per asf) of constructing other CSU science laboratory buildings by over 28 percent. As part of this high cost, the addition would include a fume hood exhaust system costing about \$3 million. This system would include exhaust air filters and scrubbers and a 45-foot high chimney. These costly elements exceed substantially the laboratory fume exhaust system requirements followed by CSU and UC in designing other science laboratory facilities.
- Buildings throughout CSU and UC have to deal with the problem of fume hood exhausts. The CSU has not demonstrated why the Fullerton situation cannot be remedied by modifications to the exhaust and ventilation system at a significantly lower cost.
- The CSU evaluation of alternative solutions compared the cost of building a new laboratory building and partial alterations to the existing building with the cost of renovating the *entire* science building. A more realistic cost analysis would compare the cost of a new building/alteration with the cost of modifications to the fume hood exhaust system.

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY—Continued

- The university should reevaluate the alternative of renovating the existing Science Building. This reevaluation should include (1) the effect of removing the recirculation modifications that have been made to the original ventilation system, thereby reducing the recirculation of air within the building and (2) other improvements to the existing fume hood exhaust system to conform to requirements followed by other CSU and UC campuses. The square footage cost of such a renovation project would be substantially lower than the cost of constructing the proposed new addition. We note that if CSU were to propose replacement of the ventilation and fume exhaust systems and essential renovation of the laboratories in the existing Science Building, the work could be completed within the time allotted by CSU to construct the new science addition.

Humboldt-Founders Hall, Rehabilitation

We recommend deletion of \$7,948,000 in Item 6610-301-660 (2) for rehabilitation of the Founders Hall Building because seismic corrections have been completed, removing the high priority previously assigned to this project.

The Budget Bill includes \$7,948,000 from revenue bonds for rehabilitation of the 66,153 asf Founders Hall Building at the Humboldt campus which is presently used for classrooms and faculty offices. The project also includes a 1,320 asf addition to the building for 12 faculty offices. Upon completion of this rehabilitation project, there will be no change in either instructional capacity space or in the number of faculty offices.

We recommend deletion of this project because:

- In 1987, CSU assigned a high priority to this project mainly on the basis of the Seismic Safety Commission's 1981 *Seismic Hazard Survey of State of California Buildings*. The commission's survey ranked Founders Hall number 20 in a priority list of state buildings requiring seismic safety corrections. Subsequently, however, the structural engineering consultant for the commission's 1981 survey has reevaluated the top one-hundred buildings on the list. This reevaluation states the building was strengthened for improved seismic performance in 1975 which was not taken into account in the 1981 survey. Consequently, Founders Hall now ranks about 480 in the list of state buildings.
- The CSU should reevaluate the proposed modifications to Founders Hall in light of the structural reevaluation. Modification based on upgrading the building for other reasons should be considered in priority with other projects.

Statewide Preliminary Planning—1990-91

We recommend approval of \$400,000 and adoption of Budget Bill language under Item 6610-301-785(1) limiting the expenditure of statewide preliminary planning funds to only those capital outlay projects for which preliminary plans and cost estimates can be developed prior to budget hearings on the 1990-91 Governor's Budget.

The budget includes \$400,000 from 1988 general obligation bonds for preliminary plans for "selected" major 1990-91 capital outlay projects. Historically, funds for this purpose have been appropriated by the Legislature to CSU with Budget Act language limiting expenditures to

projects expected to be in the next budget and for utility and site development and cost/benefit analyses for future budgets. This limiting language is not proposed in the Budget Bill.

We recommend the Legislature approve the funds for statewide preliminary planning and reinstate the prior Budget Act language in the Budget Bill under Item 6610-301-785.

Funds appropriated in category (1) for statewide preliminary planning shall be available only for those major capital outlay projects for which working drawing or working drawing and construction funds are expected to be included in the 1990-91 Governor's Budget and for which preliminary plans and cost estimates can be developed prior to legislative hearings on the 1990-91 Budget Bill, except that a maximum of \$200,000 shall be available for expenditure on July 1, 1989, for utility and site development for major capital outlay projects and for development of cost/benefit analyses of planning alternatives and detail project programs for proposed 1990-91 and 1991-92 capital outlay projects.

Dominguez Hills-Education Resources Center Remodeling

We recommend approval of \$512,000 in Item 6610-301-785(7)—a \$119,000 reduction—for remodeling the Education Resources Building because CSU has not justified a 23 percent cost increase over what was previously approved by the Legislature for construction of this project.

The Budget Bill includes \$631,000 for construction to remodel 38,018 asf of the first, second and third floors of the Education Resources Building at Dominguez Hills. This project would convert classroom space (720 FTE) and class laboratory space (17 FTE) into needed library space. The future cost to complete the project is estimated to be \$360,000.

We recommend a reduction of \$119,000 in CSU's request for this project.

The CSU has not been able to provide any basis for an increase of \$119,000 (23 percent) over the amount that was previously approved by the Legislature in the *Supplemental Report of the 1988 Budget Act* for the construction portion of this project, when adjusted for inflation (\$512,000).

Contra Costa Off Campus Center-Infrastructure II

We recommend deletion of \$301,000 in Item 6610-301-785(14) for preliminary plans for additional infrastructure development at this new permanent center because CSU has not provided the Legislature with any justification for an \$11 million expansion of infrastructure beyond what the Legislature previously authorized.

The Budget Bill includes \$301,000 for preliminary plans for additional infrastructure development (on-site roads and utilities) for the new permanent off campus center at Concord in Contra Costa County. The estimated future cost to complete this infrastructure project is about \$10.9 million. The Legislature previously approved \$355,000 in the 1987 Budget Act for preliminary plans and working drawings for infrastructure development to provide for a 1,500 FTE student center. The budget includes \$3,976,000 for construction of this project. At the time CSU originally proposed infrastructure development for this center, there was no mention of the need for additional infrastructure.

We recommend deletion of the Infrastructure II project. The CSU has been unable to provide any information to the Legislature that would justify the expenditure of an additional \$11 million for infrastructure development at this 1,500 FTE center.

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY—Continued
Long Beach-Auditorium

We withhold recommendation on \$377,000 in Item 6610-301-785(18) pending (1) receipt of a policy statement and selection criteria from CSU for the selection of auditorium projects for funding as required by the 1988 Budget Act, (2) demonstration by CSU that this project is the highest statewide priority under these criteria, and (3) the receipt of preliminary plans.

The budget includes \$377,000 for working drawings for construction of a new 38,000 asf facility to house a 1,200 seat auditorium and associated support space at the Long Beach campus. The estimated future cost to complete this project is \$12.8 million.

The Legislature, when appropriating funds for preliminary plans for this project in the 1988 Budget Act, also adopted Budget Act language stipulating the funds could not be allocated until (1) the Trustees of CSU adopted a policy statement and selection criteria for evaluating if and when auditorium projects are to be proposed for campuses within the CSU and (2) the Chancellor's Office applies the policy statement and selection criteria to all campuses and the Long Beach auditorium is demonstrated to be the highest unmet priority need systemwide.

The Trustees have adopted a policy and selection criteria for these projects. At the time this analysis was written, however, the Chancellor's Office had been unable to provide documentation detailing the systemwide application of this policy and the relative ranking of the Long Beach project. Consequently, we withhold recommendation pending receipt of (1) the data to demonstrate the Long Beach auditorium as the highest systemwide need and (2) receipt of preliminary plans prior to budget hearings.

Pomona Campus-Animal Care Laboratory Facility

We recommend deletion of \$49,000 in Item 6610-301-785(23) for working drawings for construction of a new animal care laboratory facility because the CSU has not justified the need for additional and separate animal care facilities.

The budget includes \$49,000 for working drawings of a new 3,640 asf animal care laboratory building at the Pomona campus for relocation of some of the laboratory animals currently housed in the existing Science Building. The estimated future cost to complete the project (including equipment) is \$1,543,000. The estimated construction cost equals \$344 per asf. This construction cost is approximately the same as the cost for a new animal care complex at UC Berkeley. The Berkeley complex, however, includes more complex areas such as surgical suites and biohazard laboratories and is constructed underground. These features, that are not part of CSU's proposal, add to the cost of the Berkeley facility. The CSU has been unable to provide any basis for why the cost of this smaller, less complex facility should be this high.

This new space would be in addition to 2,500 asf of existing animal care space that would remain in use in the Science Building. According to CSU, the primary reason for proposing the new animal care facilities is to enable the campus to meet animal health care standards set by the National Institutes of Health and the U.S. Department of Agriculture.

We recommend deletion of this project because CSU has not justified the need to construct 3,640 asf of additional animal care space. The campus has and will continue to use 2,500 asf of space in the Science Building for animal care purposes. This space was upgraded in 1987-88 to meet current standards. The CSU has not been able to provide any data demonstrating that the existing facilities are inadequate or why an additional and separate 3,640 asf animal facility is needed.

Pomona-Utilities

We recommend deletion of \$262,000 in Item 6610-301-785 (24) for preliminary plans and working drawings for construction of central utility systems and a new water reservoir because it is premature given that (1) the scope and cost of the utility improvements are to be based upon campus utility services studies which are not yet completed, and (2) the size and cost of the reservoir is dependent upon whether or not property will be donated to the state.

The Budget Bill includes \$262,000 from 1988 general obligation bonds for preliminary plans and working drawings for construction of major improvements to the central sewer, gas and electrical utility systems at the Pomona campus. The project also includes construction of a new water reservoir to replace the existing water reservoir which has been determined to be seismically deficient. In addition, fire alarm systems would be installed in several buildings. Although, the proposal does not specify the respective costs of the various utility improvements and the water reservoir, the university indicates that future cost to complete the project would be about \$5.3 million.

We recommend that the project be deleted. The request is premature and not justified for funding at this time for the following reasons:

- The scope and costs of the sewer, gas and electrical utility improvements are to be based on three campus-wide utility service studies which are currently in process and have not yet been completed.
- The size and cost of the water reservoir is dependent on whether or not a parcel of privately owned property is donated to the state. At the time of this analysis, this property had not yet been donated.

When this information is available and evaluated by CSU, a project based on that information would warrant consideration by the Legislature.

Sacramento-Physical Education Classroom Laboratory Building

We recommend approval of \$176,000 in Item 6610-301-785 (26) for preliminary plans and working drawings for a new addition to the existing Physical Education Building with the condition that CSU either relocate the building to another nearby site or demolish the existing racquetball courts and incorporate the courts into the new addition in order to simplify the building and reduce project cost.

The Budget Bill includes \$176,000 from 1988 general obligation bonds for preliminary plans and working drawings for construction of a new 45,255 asf addition to the existing Physical Education and Gymnasium Building. The new facility would be used by the physical education programs and would include classrooms, class laboratories, physical education activity laboratories, a self-instructional computer laboratory and faculty offices. The estimated cost to complete the project is \$9 million.

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY—Continued

The proposed facility would be designed to fit on a small site between the existing Physical Education Building and an adjacent building having several racquetball courts. In order to develop the needed floor space, CSU proposes to construct the upper floors of the new facility as a cantilever structure over the racquetball courts. Our field review of the project revealed that if the building is located on this small site the existing racquetball courts should be demolished and incorporated in the new addition. Another viable alternative, however, would be to locate the new building on another site near the existing physical education facilities. Either of these alternatives would permit simplification of the design for the new facility, possibly reducing the number of upper stories and reducing the cost of the project. Consequently, we recommend approval of the project with the condition that the CSU reevaluate the proposal and develop preliminary plans for the less costly of the two alternatives outlined above.

San Diego—Classroom Student Services Building Phase II

We recommend approval of \$440,000 in Item 6610-301-785(29) for working drawings for the Classroom/Student Services Building Phase II (1) provided the original project scope and cost remains unchanged (except for inflation) to ensure that all of the instructional space previously approved by the Legislature will be provided and (2) contingent on receipt of preliminary plans prior to budget hearings.

The budget includes \$440,000 from 1988 general obligation bonds for working drawings to construct a new 63,474 asf combination instructional and student services building.

When the Legislature approved funds for preliminary plans for this project in the 1987 Budget Act, it specified in the supplemental report that the project scope include lecture capacity for 1,000 FTE students (7,500 asf), class laboratory capacity for 125 FTE students (9,700 asf), self-instructional computer laboratory capacity for 200 stations (9,800 asf), 20 faculty offices (5,384 asf), and space for various student services functions (33,590 asf). The language also specified that the total cost of the project is to be \$13,259,000. This language reflected the scope and cost of the project as proposed by CSU.

On November 3, 1988, CSU requested the Department of Finance to authorize major changes in project scope and an increase in total project cost. The change in scope would not change the overall size of the building but would convert all the class laboratory and faculty office space into student services offices. The CSU indicated that the total cost of the project should also be increased by \$1,489,000 (or 11.2 percent) to \$14,748,000 to allow for a 2 percent inflation increase in overall project costs and an increase in equipment costs from \$476,000 to \$1,221,000.

The original justification for this project included class laboratory space for 125 FTE students and 20 faculty offices on the basis that the space was needed to accommodate enrollment on this campus. The CSU has not provided justification to the Legislature for deletion of this instructional space and instead constructing additional student services space or for assigning a higher priority to these functions rather than instructional space and faculty offices. Furthermore, CSU has not explained why the estimated cost of equipment has almost tripled.

We recommend approval of the request for working drawings (1) provided that no changes are to be made in either the original project scope or the project cost, except for an increase to allow for inflation and (2) contingent on receipt of preliminary plans prior to budget hearings.

San Francisco-Classroom/Faculty Office Building

We recommend deletion of \$411,000 in Item 6610-301-785 (33) for preliminary plans for a new classroom/faculty office building for the School of Humanities because CSU has not justified the expenditure of \$26.3 million to build a new building having capacity for 4,078 FTE students to replace and permit the demolition of the existing Humanities Building which has capacity for 4,899 FTE students.

The budget includes \$411,000 for preliminary plans to construct a new 125,600 asf classroom/faculty office building. The estimated future cost to complete the project is \$25.9 million. The new building would permit consolidation of the various departments of the School of Humanities into the new building, and (2) replacement and demolition of the existing (132,000 gsf) Humanities Building which was built in 1957. According to CSU, the existing building should be demolished because it has seismic deficiencies and this site has been selected for construction of a new building in the future *if* this campus is designated for growth to 25,000 FTE. The current plan, however, shows this campus to remain at 19,200 FTE through 1994-95. Moreover, under a higher enrollment scenario, the need to demolish the existing 132,000 gsf permanent building is highly questionable.

We recommend deletion of this project for the following reasons:

- The CSU has not justified the expenditure of \$26.3 million to construct a new building having capacity for 4,078 FTE to replace and permit demolition of an existing permanent building, having greater capacity of 4,899 FTE, which can be seismically strengthened and renovated.
- The existing building is about number 50 in the Seismic Safety Commission's list of statewide buildings for seismic strengthening. A project that addresses this need and possibly some renovation for other needs would warrant legislative consideration and could be completed in less time than the time allotted by CSU for construction of the new building. In fact, such a remodeling project was included in CSU's five-year capital outlay plan last year at an estimated cost of \$2.5 million.

San Jose-Demolish Spartan City

We recommend deletion of \$450,000 in Item 6610-301-785(34) for demolition of the Spartan City temporary housing complex because these funds could instead be used for other capital improvements.

The budget includes \$450,000 from 1988 general obligation bonds to demolish the Spartan City temporary housing complex at the San Jose campus. The CSU indicates that the project would demolish unsafe housing facilities that have multiple code deficiencies, including fire, structural and asbestos hazards. If these facilities were needed for student housing, they would be considered unsafe and in need of improvement. The facilities, however, are not proposed to be used and are vacant and locked to prevent entry. Thus, it appears that the facilities present a low health and safety risk. Therefore, we recommend deletion of the \$450,000

CALIFORNIA STATE UNIVERSITY—CAPITAL OUTLAY—Continued

requested for demolition. The funds requested for this purpose could instead be used for other capital outlay improvements. Furthermore, financing of housing related projects is CSU's responsibility through the Dormitory Revenue Fund. Thus, if CSU believes this housing should be demolished, the CSU should consider use of this fund rather than general obligation bonds.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

CALIFORNIA MARITIME ACADEMY—CAPITAL OUTLAY

Item 6860-301 from the 1988
Higher Education Facilities
Capital Outlay Bond Fund

Budget p. E 123

Requested 1989-90	\$467,000
Recommended reduction	467,000

Computer Classroom Addition

We recommend deletion of Item 6860-301-785 for a savings of \$467,000 because the academy has not justified construction of additional space for an instructional computer center.

The budget includes \$467,000 for preliminary plans, working drawings, construction and equipping of a 4,100 gross square foot (gsf) two-story addition to an existing classroom building. The new addition would consist of 2,050 gsf of unassigned space on the second floor and 2,050 gsf of space on the first floor which would house 24 instructional microcomputer stations, one advanced computer station for drafting and design instruction, and five microcomputers for faculty use. The project would also provide two faculty offices.

The academy has been unable to provide the Legislature with any information on the use of existing computer equipment or why additional computers are necessary. The academy has also not provided information concerning the current use of existing space and why any additional computers could not be housed in existing space.

Enrollment at the academy has dropped 24 percent in the past five years, from 468 students (the design capacity of the academy's facilities) in 1983-84 to 358 students in 1988-89. Given this decline in enrollment, the need for more computer equipment and instructional space is unclear. Because the academy has not justified the need to purchase additional computer equipment or construct additional instructional space, we recommend deletion of this project.

CALIFORNIA COMMUNITY COLLEGES—CAPITAL OUTLAY

Item 6870-301 from the 1988
Higher Education Capital
Outlay Bond Fund and Public
Buildings Construction Fund

Budget p. E 142

Requested 1989-90	\$111,105,000
Recommended approval	104,591,000
Recommended reduction	3,015,000
No Recommendation	3,499,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS
*Analysis
page*

1. *Citrus CCD-Aquatic Center. Delete \$83,000 in Item 6870-301-785(9).* Recommend deletion of funds for working drawings of an aquatic center at Citrus College because the college has a standard 25 meter swimming pool. 1105
2. *Pasadena Area CCD-Library Building. Reduce Item 6870-301-785(46) by \$835,000.* Recommend a reduction in request for land acquisition and working drawings for a new library building at Pasadena City College because the acquisition of two parcels of land for a parking lot should be financed by the district. 1105
3. *San Francisco CCD-Library Building. Delete \$851,000 in Item 6870-301-785(63).* Recommend deletion of funds for working drawings of a library building at San Francisco City College because the college has not justified the project. 1106
4. *Mt. San Antonio and San Mateo CCDs-Cogeneration System. Delete \$858,000 in Item 6870-301-785(40) and (64).* Recommend deletion of funds for working drawings and construction of two cogeneration systems at Mt. San Antonio College and San Mateo College because these projects would be more appropriately funded under the Energy Efficiency Revenue Bond program. 1106
5. *Santa Monica CCD-Technology Building Addition Primarily for Campus Administration. Delete \$388,000 in Item 6870-301-785(68).* Delete funds for working drawings for a building addition primarily for campus administration because the project is intended to make room for a parking structure which could be located at another site. 1107
6. *Child Care Centers. No recommendation on \$2,111,000 in Item 6870-301-660 and \$1,388,000 in Item 6870-301-785.* We make no recommendation on funding for 12 child care centers in order to permit the Legislature to make a policy decision as to what priority should be given to funding child care centers at community colleges and what such projects should cost. We also recommend that prior to budget hearings the Chancellor's Office submit to the Legislature its policies, guidelines, and five-year plan and cost estimates for its child care center capital outlay program. 1107

CALIFORNIA COMMUNITY COLLEGES—CAPITAL OUTLAY—Continued

ANALYSIS AND RECOMMENDATIONS

The budget proposes two appropriations totaling \$111.1 million to fund the state's share of the California Community Colleges (CCC) capital outlay program in 1989-90. Of this amount, \$40.7 million will come from the 1988 Higher Education Facilities Bond Fund (general obligation bonds) and \$70.4 million will come from the Public Buildings Construction Fund (revenue bonds—the "revenue" for these bonds is the state General Fund). The budget indicates that various community college districts will provide a total of \$6 million to pay a portion of the estimated costs of the proposed projects. Thus, the total proposed expenditures for 1989-90 are \$117.1 million with 95 percent (\$111.1 million) from the state and 5 percent (\$6 million) from the districts.

New Centers

In the 1988 Budget Act the Legislature funded infrastructure and initial facilities for three new permanent educational centers in Riverside County having full campus potential—the West Center, Moreno Valley Center and Norco Center. The Budget Bill contains \$25.7 million of additional funding for facilities at the Riverside County centers and \$5.1 million for infrastructure and initial facilities for *four additional new permanent centers*—the Petaluma Center, Placerville Center, Napa Valley Center and Glendale Center. Of these four centers, the Petaluma and Placerville centers have potential for future expansion to full campus size.

1989-90 Capital Outlay Program

We recommend approval of 79 projects totaling \$101,836,000.

The California Community Colleges' 1989-90 capital outlay program includes \$111.1 million for 97 projects. To facilitate analysis of these projects, we have divided them into 10 descriptive categories as shown in Table 1.

Table 1
California Community Colleges
1989-90 Capital Outlay Program
Project Categories
Item 6870-301-660
Item 6870-301-785
(dollars in thousands)

Category	Number of Projects	Total State Cost	Analyst's Recommendation	Estimated Future Cost ^a
A. Mitigate Hazards.....	3	\$1,652	\$1,652	—
B. Complete new facilities.....	17	5,221	5,221	—
C. Add instructionally related facilities.....	11	28,150	28,150	\$11,370
D. Upgrade instructionally related facilities....	15	10,750	10,750	4,563
E. Libraries.....	7	10,458	8,772	39,816
F. Add new support facilities.....	14	14,482	14,011	41,797
G. Upgrade support facilities.....	1	1,135	1,135	—
H. Other.....	7	6,944	6,086	—
I. Creation of permanent off-campus centers.....	10	28,814	28,814	18,945
J. Child care centers.....	12	3,499	3,499 ^b	13,255
Totals.....		\$111,105	\$104,591	\$129,746

^a District estimates.

^b No recommendation.

Our analysis indicates that 79 projects totaling \$101.8 million have either been previously approved by the Legislature or are new proposals that are otherwise justified to address enrollment needs or other space deficiencies. Consequently, we recommend approval of these projects. A discussion of the remaining projects and our recommendation for each follows:

Citrus CCD-Aquatic Center

We recommend deletion of \$83,000 in Item 6870-301-785(9) for working drawings of an aquatic center at Citrus College because the college has a standard 25-meter pool.

The budget includes \$83,000 from general obligation bonds for working drawings for construction of an aquatic center at Citrus College in Los Angeles County. This center would consist of: (1) a 50-meter heated swimming pool (olympic size) with two 1-meter diving boards and one 3-meter board and a handicap ramp access into the pool, (2) a 3-meter physical therapy pool with handicap lifts, and (3) a locker and shower room. The estimated future cost of the project is \$1.2 million. No district funds are earmarked for this project.

Historically, the Legislature's policy has been to fund standard 25-meter pools for instructional purposes in the three segments of higher education. Some 50-meter pools have been built, but they were either totally funded with nonstate funds or funded with state funds for the cost of a basic 25-meter pool with additional costs financed with nonstate funds. The college currently has a standard 25-meter pool for instructional purposes. Consequently, we recommend that the \$83,000 for this project be deleted.

Pasadena Area CCD-Library Building

We recommend approval of \$1,897,000 and a reduction of \$835,000 in Item 6870-301-785(46) for acquisition of land and preparation of working drawings for a library building at Pasadena City College because acquisition of two parcels of land for a parking lot should be financed by the district.

The Budget Bill proposes \$2,732,000 from general obligation bonds for the acquisition of three parcels of land on East Colorado Boulevard in Pasadena and preparation of working drawings for construction of a new 59,238 asf library building at Pasadena City College. The estimated future cost of the project is \$13.4 million.

Our analysis indicates that the CCC has justified the need for and the cost of the library construction project. In addition, the acquisition of one parcel of commercial property has been justified to provide a site for the library building. The use of state funds, however, to acquire the two other parcels of commercial property is not appropriate. The sole purpose for purchasing this property is to provide parking. The use of state funds to purchase parking facilities is not consistent with Section 81802 of the Education Code which stipulates that "a (state-funded) project shall not include the . . . improvement of site for student or staff parking." Consequently, we recommend a reduction of \$835,000 in the state cost of

CALIFORNIA COMMUNITY COLLEGES—CAPITAL OUTLAY—Continued

this project. If the district believes acquisition for parking is necessary, it can use district funds or issue revenue bonds authorized under Education Code Section 81900.

San Francisco CCD-Library Building

We recommend deletion of \$851,000 in Item 6870-301-785(63) for working drawings for a library building at San Francisco City College because the CCC has not provided the Legislature with sufficient information to justify the project.

The budget proposes \$851,000 to prepare working drawings for construction of a new 84,370 asf library building for San Francisco City College. The estimated future cost of the project is \$16.5 million.

It is clear that San Francisco City College has less library space than state guidelines would provide for. The district, however, has not provided justification for the construction of 84,370 asf of new space. In addition, the district has not provided information identifying either the need for or the size of various categories of space included in the building (such as computer assisted reference, faculty reading room, "new books" browsing area, copy center, etc.). Moreover, the district has not specified why the existing campus library space (39,650 asf) should not continue to be used for library functions. The district has also failed to explain or justify its intended secondary use of the vacated library space. Lacking this essential information, we recommend deletion of the project. If the district provides the Legislature with a complete proposal prior to budget hearings, it would warrant legislative review.

Mt. San Antonio and San Mateo County CCDs-Cogeneration Systems

We recommend deletion of a total of \$858,000 in Item 6870-301-785(40) and (64) for working drawings and construction of cogeneration systems at Mt. San Antonio College and San Mateo College because these projects would be more appropriately financed under the Energy Efficiency Revenue Bond program.

The budget proposes \$858,000 from general obligation bonds for working drawings and construction of cogeneration systems at Mt. San Antonio College (\$205,000) and San Mateo College (\$653,000). Both systems will be used to heat swimming pools and showers and will generate electricity for campus use. Both districts anticipate savings in electrical utility and gas heating costs.

In 1982, the Legislature authorized the Energy Efficiency Revenue Bond program to fund cost effective energy conservation projects. Under this program, which is administered by the Department of General Services (Office of Energy Assessment), the State Public Works Board (PWB) is authorized to issue, over a 10-year period, up to \$500 million in revenue bonds to finance energy projects.

If the colleges determine that the proposed cogeneration projects can achieve sufficient savings to establish favorable pay-back periods, they should consider applying to the Office of Energy Assessment for funding under the energy bond program. On this basis, and without prejudice to the projects, we recommend deletion of \$858,000. Adoption of this recommendation would serve to free up bond funds that could be used in place of revenue bond financing for projects proposed elsewhere in the budget at a direct savings to the General Fund.

Santa Monica CCD-Technical Building Addition Primarily for Campus Administration

We recommend deletion of \$388,000 in Item 6870-301-785(68) for working drawings for a new building addition primarily for use by campus administration because the project is intended to make room for a multistory parking structure which could instead be constructed at another site.

The budget proposes \$388,000 from general obligation bonds to prepare working drawings for construction of a 21,349 asf third story addition to the technical instruction building at Santa Monica City College. The addition will be used for campus administrative offices, a library and a museum. The estimated future cost of the project is \$4.4 million.

The district indicates that the proposed relocation of the administrative offices is needed to make a site available for construction of a multistory parking structure. In effect, the proposal asks the state to spend \$4.8 million to provide a site for a parking lot. We recommend deletion of the project. Clearing (as discussed above) a site and/or otherwise developing parking facilities is a district responsibility that should be financed through the district parking fund or other local funds. Moreover, based on our analysis, it appears that the parking structure could instead be constructed on another campus parking lot without building new space for administrative offices.

Child Care Centers

We make no recommendation on \$2,111,000 in Item 6870-301-660 and \$1,388,000 in Item 6870-301-785 for 12 child care centers in order to permit the Legislature to make a policy decision as to what priority should be assigned to funding the construction of child care centers at community colleges and what the cost of such centers should be. Further, we recommend that the CCC facilitate this decision by submitting to the Legislature, prior to budget hearings, its policies, guidelines, five-year plan and cost estimates for its child care center capital outlay program.

The Budget Bill proposes \$3.5 million for 12 child care centers with estimated future costs of \$13.3 million. Table 2 contains a listing of the child care center projects by funding sources. In recent years, the construction of child care centers has been undertaken with state funds in the CCC system. In contrast, the University of California and the California State University use *nonstate* funds for construction of child care centers.

It is important to consider that, not only is the number of state-funded child care centers increasing in the CCC system, but the cost of the individual centers is also rising. For example, Table 2 shows that construction of a 6,533 asf center at Napa Valley College is estimated to cost \$2.1 million. On a square foot basis, this center will cost \$299 per asf, substantially higher than new science laboratory facilities that are currently being constructed.

CALIFORNIA COMMUNITY COLLEGES—CAPITAL OUTLAY—Continued

Table 2

**California Community Colleges
Proposed Child Care Center Projects
1989-90**

(dollars in thousands)

<i>Project</i>	<i>Phase^b</i>	<i>Total State Cost</i>	<i>Estimated Future Cost^a</i>
Item 6870-301-660:			
Napa Valley CCD-Napa Valley College	c	\$2,111	^c
Item Total		\$2,111	—
Item 6870-301-785:			
Imperial CCD-Imperial Valley College	w	\$68	\$1,231
Saddleback CCD-Saddleback College	w	130	2,101
Saddleback CCD-Irvine Valley College	w	123	1,989
Ventura CCD-Oxnard Valley College	w	60	929
Ventura CCD-Ventura College	w	60	966
Los Rios CCD-Sacramento City College	w	133	2,391
San Diego CCD-Miramar College	w	48	811
Coachella Valley CCD-College of the Desert	c	609	^c
Citrus CCD-Citrus College	w	72	1,201
Mt. San Antonio CCD-Mt. San Antonio College	w	31	633
El Camino CCD-El Camino College	w	54	1,003
Item Total		\$1,388	\$13,255
Totals		\$3,499	\$13,255

^a District estimates.^b Phase: w = working drawings, c = construction.^c Working drawings previously approved in 1987-88.

We make no recommendation on these projects. At issue here is *what priority does the Legislature want to give to the construction of child care centers in the CCC system in view of other facility needs throughout higher education?* We believe that this policy issue should be addressed when the Legislature considers appropriating these additional state funds for these projects. We recommend that the CCC facilitate this decision by submitting to the Legislature, prior to budget hearings, (1) the procedures used in implementing the provisions of Education Code Sections 79122 and 79123 for determining attendees of the centers and for charging fees, (2) policies and procedures for determining attendees and fees not addressed in these code sections (such as children of nonstudents), (3) the guidelines for determining when to build a child care center, (4) the guidelines for determining the size of a center, and (5) five-year plan and cost estimates for planning/constructing new centers. This last item could be incorporated into the CCC statewide five-year capital outlay plan recommended previously in our overview of postsecondary education capital outlay.

Supplemental Report Language

For the purpose of project definition and control, we recommend that the fiscal subcommittees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

DEPARTMENT OF FOOD AND AGRICULTURE—CAPITAL OUTLAY

Item 8570-301 from the
Agriculture Building Fund

Budget p. GG 114

Requested 1989-90	\$326,000
Recommended reduction	326,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

Analysis
page

1. *Sacramento Plant Industry Laboratory. Reduce Item 8570-301-601 by \$326,000.* Recommend deletion of preliminary plans because the Agriculture Building Fund lacks sufficient funds for design of this project. 1109

GENERAL PROGRAM STATEMENT

Five-Year Capital Outlay Plan

The Department of Food and Agriculture capital outlay program includes renovation or replacement of existing office buildings, border inspection stations and laboratories. Table 1 shows that the department plans capital outlay expenditures of about \$13.4 million over the next five years, primarily to construct a new Plant Industry Laboratory in Sacramento.

Table 1
Department of Food and Agriculture
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands)

<i>Projects:</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
Plant Industry Lab	\$326	\$424	\$9,995	—	—	\$10,745
Vidal Land Purchase	5	—	—	—	—	5
Minor Capital Outlay	1,011	400	400	\$400	\$400	2,611
Totals	\$1,342	\$824	\$10,395	\$400	\$400	\$13,361

ANALYSIS AND RECOMMENDATIONS

Sacramento Plant Industry Laboratory

We recommend a reduction of \$326,000 in Item 8570-301-601 to delete preliminary plans for a new Sacramento Plant Industry Laboratory, because the Agriculture Building Fund lacks sufficient funds for design of this project.

Project Description and Background. The budget requests \$326,000 from the Agriculture Building Fund for preliminary plans for a new Plant Industry Laboratory in Sacramento. The administration estimates that the future cost of this major capital outlay project will be about \$10.4 million. The proposed facility, a two-story, 47,470 gross square foot (gsf) structure, would replace the existing Plant Industry Laboratory, located on the third floor of the department's downtown Sacramento office building and annex. The new facility would be located on state-owned land near the department's Sacramento chemistry laboratory. At an *additional* cost of at least \$971,000, the department would reconfigure the

DEPARTMENT OF FOOD AND AGRICULTURE—CAPITAL OUTLAY—Continued

vacated space in its headquarters complex and move into it programs which currently occupy leased office space.

The Plant Industry Laboratory is an element of the department's Plant Pest and Disease Prevention program. The laboratory identifies and analyzes pests and diseases from agricultural plant and seed samples.

Proposed Funding Source Is Inadequate. Our review of the proposed new laboratory indicates that the proposed scope and cost are reasonable. According to the administration, however, the Agriculture Building Fund will not have sufficient funds to support the proposed expenditure for preliminary plans in 1989-90. The Governor's Budget indicates that the expenditures from this fund for building repairs and maintenance and for laboratory preliminary plans will create a *\$1 million deficit* in the fund by the end of 1989-90. Moreover, the Agriculture Building Fund, given its current level of income and current obligations for repair and maintenance, will not support the anticipated \$10.4 million future cost of the project for working drawings and construction. The department, however, has not suggested an alternative funding source for construction of the proposed laboratory.

We have in the past recommended against funding the design of projects for which there is no reasonable identified source of construction funds. Our analysis shows that the state's investment in design documents for such projects is often wasted when such projects do not proceed to construction in a timely fashion. In this case, moreover, there are not sufficient funds available even to *design* the project. Under these circumstances, we recommend deletion of funds for preliminary plans, without prejudice to the proposed new laboratory. If the administration provides a plan for funding the design and construction of the laboratory from an appropriate source, a request for preliminary plan funding would merit consideration by the Legislature.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

MILITARY DEPARTMENT—CAPITAL OUTLAY

Item 8940-301 from the Armory
Fund and the Federal Trust
Fund

Budget p. GC 169

Requested 1989-90	\$471,000
Recommendation pending	471,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS*Analysis
page*

1. Armories: Lakeport and Los Angeles North. Withhold recommendation on \$471,000 in state (\$320,000) and federal (\$151,000) funds for project design, pending receipt of architectural programs and associated cost estimates to substantiate the requested amounts. Further recommend the Legislature adopt Budget Bill language to control expenditure of the requested funds. 1112

GENERAL PROGRAM STATEMENT**Five-Year Capital Outlay Plan**

The capital outlay program of the Military Department supports construction and renovation of California National Guard armories located on state-owned property and the department's headquarters facilities. The program provides new armories where existing armories are no longer adequate to serve the units assigned to them or where the federal National Guard Bureau has authorized formation of new National Guard units. In recent years the department has focused its capital outlay program on consolidating units that occupy small, scattered armories into new larger armories, for improved operational efficiency. In general, the federal government pays 75 percent of the cost of new armory construction on state-owned land, and about 33 percent of design and engineering costs.

Table 1
Military Department
Five-Year Capital Outlay Plan
1989-90 through 1993-94
(dollars in thousands, state share only)

<i>Projects:</i>	<i>1989-90</i>	<i>1990-91</i>	<i>1991-92</i>	<i>1992-93</i>	<i>1993-94</i>	<i>Totals</i>
Armory—Lakeport	\$135	—	\$805	—	—	\$940
Armory—Los Angeles N.	165	\$330	—	\$2,805	—	3,300
Armory—Los Angeles W.	—	185	370	—	\$3,145	3,700
Armory—San Jose	—	—	—	50	140	190
Armory—Redlands	—	—	—	50	1,000	1,050
Armory—Sunnyvale	—	—	—	50	1,000	1,050
Armory—Vista	—	—	—	50	1,000	1,050
Armory—Oxnard	—	—	—	—	50	50
Armory—Napa	—	—	—	—	35	35
Armory—Hemet	—	—	—	—	35	35
Armory—Mt. Shasta	—	—	—	—	30	30
Headquarters—Rancho Cordova ...	656	1,219	—	10,807	—	12,682
Totals	\$956	\$1,734	\$1,175	\$13,812	\$6,435	\$24,112

MILITARY DEPARTMENT—CAPITAL OUTLAY—Continued

Table 1 shows that the department's five-year capital outlay plan calls for state funds of \$24.1 million for design and construction of 11 new armories (\$11.4 million) and a new headquarters complex (\$12.7 million).

ANALYSIS AND RECOMMENDATIONS

The budget requests \$471,000 from the Armory Fund (\$320,000) and from the Federal Trust Fund (\$151,000) for design of two new armories. The Armory Fund receives proceeds from the sale of armories that are no longer needed by the department. The department also proposes to spend \$31.9 million in federal construction funds, which are not subject to state appropriation, for construction of seven projects throughout the state.

New Armories in Lakeport and North Los Angeles

We withhold recommendation on \$320,000 in Item 8940-301-604 and \$151,000 in Item 8940-301-890, pending receipt of documents to substantiate the requested amounts for design of two armories. Moreover, we recommend the Legislature adopt Budget Bill language to make expenditure of these funds contingent on (1) sale of existing armories, and (2) in the case of the Los Angeles North Armory, acquisition of an appropriate site.

The budget requests a total of \$219,000 for preliminary plans and working drawings for a new armory in Lakeport and \$252,000 for preliminary plans for a new armory in north Los Angeles. While both armories appear justified on a program basis, we withhold recommendation on both projects pending receipt of architectural programs and associated cost estimates to substantiate the amounts requested for planning. Moreover, we have concerns about the availability of state funds for both projects, and the site for the Los Angeles North project. A discussion of the two proposed projects and the basis for our recommendation to add Budget Bill language relating to the proposed planning funds follows.

Lakeport. The proposed Lakeport armory would contain 22,598 gross square feet (gsf) to house Company C, 579th Engineer Battalion, a California National Guard unit with a federally authorized strength of 143 personnel. Although the department indicates that the future cost of this project is \$2.3 million (\$800,000 state funds, \$1.5 million federal funds), the administration has not provided an architectural program to substantiate this estimate.

The 1987 Budget Act included \$64,000 (\$40,000 state funds and \$24,000 federal funds) for preliminary plans for an armed forces reserve center to house this engineer company and a 37-member United States Army Reserve unit in Ukiah. This armory was to be built on land donated to the state by the City of Ukiah. Prior to acquisition of the site, however, the department discovered that extension of city utilities to the site would significantly increase the cost of the project. At the same time, the City of Lakeport offered to donate land for this project and provide utilities to the boundary of the site.

The department reassessed its siting decision, and determined that the engineer company could serve its state and federal missions as well in Lakeport as Ukiah. Moreover, the department indicates that recruiting

efforts from Lakeport would draw from substantially the same population as efforts from Ukiah. Consequently, preliminary planning funds for the Ukiah center were reverted and instead the department has proposed a Lakeport armory. As a result of this change, the Army Reserve unit will no longer be a tenant of the project and the proposed Lakeport armory is 11,000 gsf smaller than the project previously approved by the Legislature. The proposed facility appears to be consistent with federal space requirements for an engineer unit of the aforementioned strength.

Los Angeles North. The proposed Los Angeles North armory, a 100,300 gsf facility, would consolidate nine units with a combined authorized strength of 1,106 personnel. Although the department indicates that the future cost of this project is \$9.4 million (\$3.1 million state funds and \$6.3 million federal funds), the administration has not provided an architectural program to substantiate this estimate.

The nine units to be consolidated at this facility currently occupy three leased armories in Glendale, Los Angeles, and Monrovia, and two state-owned armories in Arcadia and Burbank. These armories no longer meet the space requirements for the units assigned to them. The Arcadia armory was recently sold, as approved by the Legislature, to partially finance the department's plan to consolidate California National Guard units in the north Los Angeles area. The department plans to retain the Burbank site after construction of the proposed armory, and lease it for income. The proposed facility appears not to exceed federal space requirements for units of the aforementioned strength.

How Will the Department Fund Design and Construction of These Armories? The availability of funds for planning and construction of the Lakeport and Los Angeles North armories is contingent on the sale of two existing armories in San Francisco and Manhattan Beach. This is because the state share of funding for new armories is to be financed by proceeds from the sale of existing armories. The Armory Fund, into which the department deposits proceeds from the sale of armories, and from which the Legislature appropriates funds for planning construction, is now approximately \$577,000 in debt to the General Fund. The department anticipates sale of the San Francisco armory for \$1.2 million in May 1989. The buyer of the armory has already provided a letter of credit for \$90,000, and will provide the balance at the close of escrow. Sale of the San Francisco armory will pay back the debt to the General Fund and provide sufficient funds for *design* of both proposed armories.

The San Francisco sale, however, will not provide sufficient funds for the state's share of *constructing* the two proposed armories, estimated by the department to be \$3.9 million. The department intends to fund these costs by selling its Manhattan Beach armory in 1991-92 for about \$6 million. The department has not yet sought approval from the Legislature for this sale, but intends to do so in the current legislative session.

In view of these contingencies and to protect the General Fund, we recommend inclusion of the following Budget Bill language under Item 8940-301-604. The portion of the language concerning repayment of loans was included in the 1987 and 1988 Budget Acts.

No expenditures for capital outlay projects included in this item shall be made from the Armory Fund until (1) all outstanding loans to the fund have been repaid and (2) the Legislature has authorized the sale of the Military Department's Manhattan Beach Armory, or sale of another armory that will result in sufficient income to the Armory Fund to support construction of

MILITARY DEPARTMENT—CAPITAL OUTLAY—Continued

capital outlay projects included in this item. Moreover, funds for the construction phase of capital outlay projects in this item shall be provided only if funds for this purpose are available from sale of existing California National Guard armories.

No Site Currently Offered for the Los Angeles North Armory. The department hopes to obtain a 20- to 30-acre site for the Los Angeles North armory, without cost to the state. At this time, however, no such site has been offered. Design of the proposed armory prior to site acquisition would be premature, because money would be wasted on an inappropriate design. Consequently, we recommend the following Budget Bill language under Item 8940-301-604:

No expenditures for the capital outlay project in category (2) shall be made until the Adjutant General provides written assurance to the Chair of the Joint Legislative Budget Committee and the fiscal committees that the Military Department has acquired, at no cost to the state, real property sufficient to accommodate the project.

Supplemental Report Language

For purposes of project definition and control, we recommend that the fiscal committees adopt supplemental report language which describes the scope of each of the capital outlay projects approved under these items.

UNALLOCATED CAPITAL OUTLAY—PROJECT PLANNING

Item 9860-301-036 from the
Special Account for Capital
Outlay

Budget p. GG 214

Requested 1989-90.....	\$300,000
Recommended approval	300,000

ANALYSIS AND RECOMMENDATIONS**Project Planning**

We recommend the Legislature adopt Budget Bill language limiting the expenditure of these funds to projects anticipated to be included in the 1990-91 or 1991-92 Governor's Budget.

The budget requests \$300,000 to finance the development of basic planning documents and cost estimates for new projects which the Department of Finance (DOF) anticipates will be included in *future* Governor's Budgets. The DOF will allocate these funds.

Funds for this purpose have been included in past Budget Acts in an attempt to improve the quality of the information the Legislature will have available when considering capital outlay requests during the budget process. The requested amount is the same as the amount appropriated for this purpose in the current year. We recommend, however, that the use of funds be limited to planning for those projects that are anticipated to be included in the 1990-91 or 1991-92 Governor's

Budget rather than with *no limitation* as proposed by the Department of Finance. This recommended language is identical to the language included under this item in the 1988 Budget Act.

Consequently, we recommend approval of the amount requested for project planning, but recommend substitution of the following Budget Bill language for the language currently included in Provision 1 of Item 9860-301-036:

These funds are to be allocated by the Department of Finance to state agencies to develop design and cost information for new projects for which funds have not been appropriated previously, but are anticipated to be included in the 1990-91 or 1991-92 Governor's Budget. The amount appropriated in this item is not to be construed as a commitment by the Legislature as to the amount of capital outlay funds it will appropriate in any future year.

UNALLOCATED CAPITAL OUTLAY—MATCHING FUNDS FOR ENERGY GRANTS

Item 9860-301-785 from the 1988
Higher Education Capital
Outlay Bond Fund

Budget p. GG 212

Requested 1989-90.....	\$500,000
Recommended approval	500,000

ANALYSIS AND RECOMMENDATIONS

Matching Funds for Energy Grants

We recommend approval.

The budget includes \$500,000 from the 1988 Higher Education Capital Outlay Bond Fund for working drawings/construction of energy projects that are expected to be partially financed through federal grants for energy conservation. The amount proposed is identical to the amount for this purpose contained in the 1988 Budget Act.

These funds will be allocated by the Department of Finance for the highest priority projects identified by the University of California, the California State University, the California Maritime Academy and the California Community Colleges. The Department of Finance would be required to report proposed allocations to the Legislature at least 30 days prior to allocating the funds. This requirement is the same requirement placed on prior appropriations for this purpose.

Prior lump-sum appropriations have enabled the state to realize a high rate of return on its investment through participation in the federal grant program for energy projects. We recommend approval of the proposed \$500,000 to continue this effort.

UNALLOCATED CAPITAL OUTLAY—COFPHE DEFICIT

Item 9860-302 from the 1988
Higher Education Capital
Outlay Bond Fund

Budget p. GG 214

Requested 1989-90.....	\$6,750,000
Recommended approval	5,856,000
Recommended reduction.....	894,000

SUMMARY OF MAJOR ISSUES AND RECOMMENDATIONS

*Analysis
page*

1. *Transfer from the 1988 Higher Education Capital Outlay Bond Fund to the Capital Outlay Fund for Public Higher Education. Reduce Item 9860-302-785 by \$894,000.* 1117
Recommend reduction of amount transferred, because transfer of the full requested amount is not necessary to ensure repayment of a General Fund loan to the Capital Outlay Fund for Public Higher Education.

ANALYSIS AND RECOMMENDATIONS**Deficit in Capital Outlay Fund for Public Higher Education (COFPHE)**

The budget includes \$6,750,000 in Item 9860-302-785 for transfer from the 1988 Higher Education Capital Outlay Bond Fund to the Capital Outlay Fund for Public Higher Education (COFPHE). In December 1988, the Governor, without informing the Legislature, approved a loan of \$6.2 million from the General Fund to COFPHE (pursuant to Government Code Section 16351) to cover a deficit in the latter fund. The transfer from the 1988 bond fund is requested to repay this loan. This proposal raises two issues:

- Fiscal control—how did the deficit in COFPHE develop and how can the Legislature prevent a future occurrence?
- Amount of bond funds needed—our analysis, based on information provided by the administration, indicates that \$5,856,000, not \$6,750,000, is needed to meet the remaining obligations of the COFPHE.

Fiscal Control. The deficit in COFPHE developed over a period of three years. Until 1986-87, COFPHE was the primary funding source for capital outlay for state-supported institutions of higher education. Revenue to COFPHE was appropriated from tidelands oil revenues. The price of oil fell sharply in the mid-1980s and tidelands oil revenues were dramatically reduced. In order to ensure a more dependable source of funds for higher education capital outlay, the Legislature proposed, and the voters approved the 1986 Higher Education Capital Outlay Bond Act. Accordingly, the administration proposed to fund most higher education capital outlay projects requested in the 1986-87 budget from the 1986 bond fund, and transfer the unencumbered balance of COFPHE to the Special Account for Capital Outlay (SAFCO). According to the administration, the unappropriated balance of COFPHE was \$35 million. Section 11.52 of the 1986 Budget Act transferred \$33.5 million from

COFPHE to SAFCO, leaving a reserve in COFPHE for unexpected costs of ongoing projects. The Legislature has made no appropriations to COFPHE since that time.

In November 1988, because of insufficient funds, the State Controller denied COFPHE payments on bills submitted by the higher education segments. At that time, higher education institutions indicated that they had COFPHE encumbrances of \$6.2 million which still would require payment (University of California—\$1,990,000, California State University—\$605,000, California Community Colleges—\$3,261,000). This lack of funds was apparently due to the underestimation of outstanding obligations on COFPHE in 1986 (funds made available by appropriation that were encumbered at the time or could still legally be encumbered). Consequently, payments related to these obligations exhausted COFPHE by November 1988. In view of this insolvency, the Governor authorized a \$6.2 million General Fund loan to COFPHE, effective December 6, 1988. Expenditures from this loan are dependent on billings for contract progress payments that are submitted by each segment and approved by the State Controller. In effect, the loan is an authorization to spend up to \$6.2 million. Any amount excess to the billings will revert to the General Fund.

Based on our review of this situation, we conclude that the Department of Finance is not adequately tracking fund balances for capital outlay purposes. Consequently, in our *Summary of Recommended Legislation*, we recommend enactment of legislation that would require the State Controller to provide written assurance that sufficient unencumbered or otherwise unobligated funds are available to support a proposed expenditure or contract obligation, before the expenditure or contract obligation is authorized by the administration. This would require the Controller to track the cash balances of funds (his staff already does this) *and the obligations on existing cash balances.*

Amount Required from 1988 Bond Fund. The administration has not justified the amount of funds, \$6,750,000, requested for transfer to COFPHE. The Controller informed the administration in November 1988 that COFPHE was exhausted. The administration subsequently obtained lists of projects from the University of California, the California State University and the California Community Colleges that carried outstanding COFPHE obligations. These three institutions indicated that about \$6.2 million was needed to meet *all* COFPHE obligations for ongoing capital outlay projects. The General Fund loan to COFPHE was made in this amount. However, the Chancellor's Office now indicates that the community colleges will require \$344,000 less from COFPHE than assumed in the loan. Thus, this portion of the General Fund loan will not be needed and will revert to the General Fund on June 30, 1989. Consequently, we recommend that the reduced amount of \$5,856,000 be transferred from the 1988 bond fund to COFPHE to repay the aforementioned General Fund loan.
