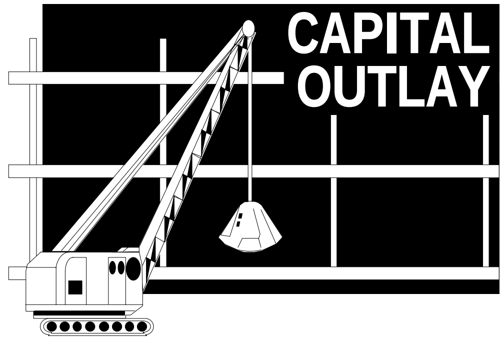


MAJOR ISSUES (February 1994)

%**Debt Service Costs Have Increased Rapidly.** Expenditures for debt service on bonds used to finance capital outlay programs will increase by 27 percent in 1994-95. More than one-half of this increase is the result of a one-time accounting savings in 1993-94. The state's debt ratio has increased rapidly and will reach 5.5 percent of General Fund revenues in 1996-97 without the authorization of new bonds. (See page I-5.)

%**Deferred Maintenance a Growing Problem.** We estimate that nine state agencies and K-12 schools have deferred maintenance backlogs of $1 billion and $2.5 billion, respectively. If not addressed, these backlogs will continue to grow and will result in higher capital outlay costs in the future as facilities wear out faster. (See page I-15.)

%**Health Services Lab Project Should be Reevaluated.** The Department of Health Services proposal for a $145 million laboratory facility should be presented to the Legislature as a single package. We recommend that the Legislature rescind $55 million in existing bond authority for the project and that the department assess alternative locations besides the City of Richmond for the lab facility. (See page I-29.)

%**Budget Committees Should Consider New Prison Proposals.** We note that the Governor has indicated his support for constructing six new prisons, but no proposals are included in the Budget Bill. We recommend that the Legislature not approve proposed funding for capital outlay at existing prisons until the Department of Corrections submits proposals for new prisons to the budget committees for consideration in the 1994-95 budget. (See page I-32.)

%**Legislature Lacks Key Information On Proposed CSU Campus at Fort Ord.** The CSU's proposed new Monterey Bay campus at Fort Ord raises significant fiscal and policy issues, not only with regard to the state's overall policy regarding defense conversion projects and their impact on California's economy, but also with regard to the state's higher education policy. In order to make an informed decision on the statewide and regional implications of the proposed campus, the Legislature needs information from the CSU on the short- and long-run costs and impacts of the proposed new campus. (See page I-43.)

%**Military Department Headquarters Complex.** We recommend that the Legislature not approve funding for design of a new headquarters complex at Mather Air Force Base because the department already has a long-term lease commitment with a relatively low rental cost for its Sacramento offices and the need to consolidate this department should be evaluated on a statewide basis in relation to other departments' needs. (See page I-58.)

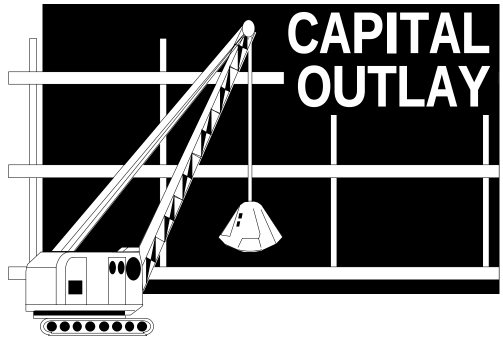
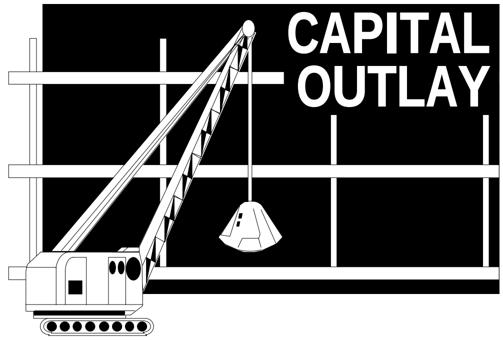


TABLE OF CONTENTS



OVERVIEW

Capital outlay expenditures are expected to increase significantly, as a result of increased debt service payments for bonds that have been used to acquire capital assets. A large portion of the increase, however, is the result of one-time savings in 1993-94 from an accounting change on debt service interest payments.

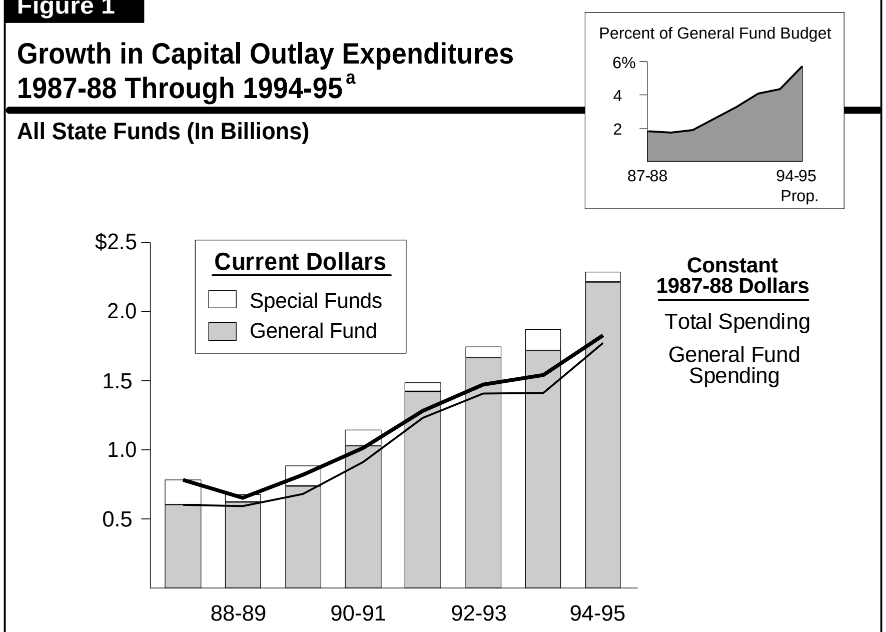
Expenditures for capital outlay are proposed to total $2.3 billion from all state funds in 1994-95. This is about $411 million, or 22 percent, more than estimated current-year expenditures. Capital outlay *expenditures* reflect the state's *current costs* for capital outlay programs, either through debt service payments or direct appropriations (pay-as-you-go financing) to acquire assets. (The expenditure figure *does not* include the proposed appropriations of bond proceeds, because they do not represent a cost to the state until the bonds are paid off in future years.) The $2.3 billion in 1994-95 expenditures has three components: (1) debt service payments for general obligation (GO) bonds ($1.9 billion), (2) payments for debt service on lease-payment bonds ($335 million), and (3) direct appropriations from the General Fund ($25 million) and from various special funds ($46 million).

As shown in Figure 1, expenditures for capital outlay, excluding the state water project and direct expenditures on transportation, have increased significantly since 1987-88—growing from less than $800 million to $2.3 billion in 1994-95. This increase is directly attributable to the increase in debt service payments on GO bonds and lease-payment bonds. Over this same period, debt service payments have increased from $525 million to $2.2 billion, or 320 percent. Figure 1 shows that General Fund expenditures for capital outlay (most of which is debt service) have increased from less than 2 percent of General Fund spending in 1988 to almost 6 percent in the budget year.

Figure 1

Growth in Capital Outlay Expenditures 1987-88 Through 1994-95[a]

All State Funds (In Billions)



[a] Excludes transportation programs and the state water project.

The proposed budget-year changes, by component of capital outlay expenditure, are as follows:

General Obligation Bond Debt Service. The Governor's Budget reflects an estimated $392 million (26 percent) General Fund cost increase over current-year expenditures for general obligation bond debt service. About two-thirds of this increase ($254 million) is the result of a one-time budget savings that was achieved in 1993-94 by an accounting change. Specifically, Ch 63/93 (SB 271), changed the accounting for interest payments on GO bonds from an accrual to a cash basis. (Interest costs are now accounted for in the fiscal year that the semiannual payments are made to bond holders, rather than being accrued as a liability as the interest accumulates.) This action did not change the state's actual debt service payments to bond holders.

Lease-Payment Bond Debt Service. Debt service payments for lease-payment bonds (also called lease-revenue bonds or Public Works Board bonds) are estimated to total $335 million in 1994-95. This is an increase of $79 million, or 31 percent, over the current year. These bonds are primarily used for higher education facilities, prisons, and state office buildings. About 92 percent of the debt service on these bonds comes from the General Fund.

Direct Appropriations. Capital costs through proposed direct appropriations would decrease by $60 million, or 45 percent, in 1994-95. The proposed $71 million in appropriations includes $25 million from the General Fund and $46 million from various special funds, such as the Motor Vehicle Account.

Debt Service Ratio

The amount of debt service as a percentage of state General Fund revenues (that is, the state's debt ratio) is estimated to be 5 percent for the current year. The ratio has risen sharply in recent years, as it was only 2.5 percent in 1990-91. (A significant reason for this increased debt burden has been the decline in General Fund revenues.) As shown in Figure 2, if all currently authorized bonds are sold (but no others are authorized), the state's debt ratio would reach a peak of about 5.5 percent in 1996-97 and then decline to 2.5 percent in 2004-05.

Governor's Bond Package and Other Proposed Bonds

In the budget, the Governor indicates his support for the following GO bond measures ($5.1 billion total) for the 1994 ballots:

$1.6 billion for K-12 school facilities.

$900 million for higher education facilities.

$200 million for an infrastructure bank to assist local governments with critical infrastructure needs.

$1 billion for rail transportation programs. (This bond has already been placed on the November 1994 ballot by previous legislation.)

$1.4 billion for public safety-related facilities for the Departments of Corrections (CDC), Youth Authority, Forestry and Fire Protection, Health Services, Military, for the Office of Emergency Services, and for local flood control.

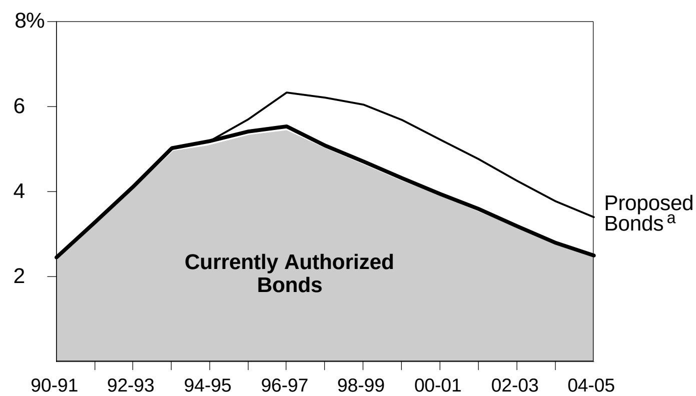
In addition to the above bonds, the Governor has indicated that he supports a total of $2 billion in bonds for the CDC, including funding for six new prisons. According to the Department of Finance (DOF), the $1.4 billion public safety bond listed above includes $870 million for the CDC. An additional $1.1 billion in lease-payment bonds would therefore be needed to fulfill the Governor's intent.

Two other GO bond measures are already on the 1994 ballots. These include $2 billion for parks and natural resource protection programs placed on the June ballot by initiative and $185 million for a first-time homebuyers program that is on the November ballot.

Figure 2 illustrates the impact on the state's debt service ratio if the proposed $7.3 billion in GO bonds were submitted to and approved by the voters and the $1.1 billion in lease-payment bonds for prisons were authorized by the Legislature. We estimate that the ratio would peak at 6.3 percent in 1996-97 and decline to 3.4 percent in 2004-05. Of course, if additional bonds are authorized after 1994, the ratio would increase even further. Actual future debt ratios will depend on the timing, volume, and interest rates on bond sales, and on actual General Fund revenues.

Figure 2

Projected Debt-Service Ratio
1990-91 Through 2004-05



[a] Includes $5.1 billion in general obligation bonds and $1.1 billion in lease-payment bonds endorsed by the Governor and $2.2 billion in other general obligation bonds already qualified for the 1994 ballots.

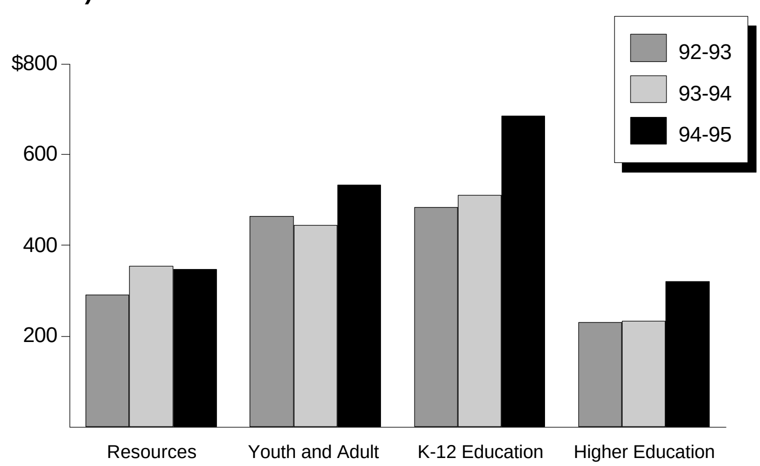
SPENDING BY MAJOR PROGRAMS

About $1.9 billion, or 82 percent, of capital outlay expenditures fall within four areas—K-12 education, youth and adult corrections, resources, and higher education. Figure 3 shows the expenditures in each of these areas over the past three years. These expenditures reflect increased costs to make debt payments on bonds. The expenditures do not necessarily reflect actual construction activity because of the lag between construction, bond sales, and debt payments. As shown in Figure 3, expenditures are increasing most rapidly for K-12 education (42 percent in three years) and higher education (39 percent in three years), with smaller increases for the others.

Figure 3

Capital Outlay Expenditures By Selected Program Areas 1992-93 Through 1994-95

(In Millions)



SUMMARY OF THE 1994-95 CAPITAL OUTLAY PROGRAM

We now turn from a discussion of capital outlay expenditures (the current costs of paying for capital assets) to a summary of the 1994-95 capital outlay program (proposals to obtain capital assets). The budget includes $674 million for capital outlay programs (excluding transportation systems). This is a decrease of $413 million, or 38 percent, over current-year appropriations. Most of this reduction ($397 million) is in the area of higher education capital outlay.

The following overview provides a means for the Legislature to measure the proposed capital outlay program against the long-term capital needs identified for various program areas. The Legislature has two sources of information regarding the general magnitude of those needs: (1) the administration's ten-year capital outlay and infrastructure plan prepared by the DOF and (2) the five-year capital outlay plans developed by various state departments.

The Administration's Plan Contains Limited Useful Information

At the time this analysis was written, the annual update of the administration's ten-year plan was not available. The most recent ten-year plan prepared by the DOF (February 1993) is summarized in Figure 4. The DOF estimated $50 billion in state-funded infrastructure (at the state and local levels) from 1993-94 to 2002-03. This is $10 billion less than the DOF estimated just one year earlier.

Unfortunately, the DOF's estimate of "needs" is not based on an evaluation of identified problems or projects. Rather it is based on an allocation of funding projected to be available over the next ten years. For the most part, the DOF defines the available bond funding level by capping the state's future debt service ratio at 5 percent. (The 5 percent level is commonly used by bond rating agencies as an indication of a relatively high debt burden.) The DOF also assumes that nearly all of the special fund and federal fund expenditures will be in the area of transportation. On these bases, the DOF arrived at a $50 billion expenditure that would be financed from General Fund-supported bonds ($21.6 billion), special funds ($16.6 billion), and federal funds ($11.9 billion). In general, we find that the current DOF plan as well as prior plans developed by the DOF provide little useful information to guide the Legislature in making decisions on infrastructure needs and bond allocations.

Figure 4

Department of Finance Projected Capital Outlay Needs 1993-94 Through 2002-03

(In Billions)

	10-Year Total
Transportation	$30.2[a]
State Office Buildings	1.2
Natural Resources and Enviromental Quality	4.0
Jails and Youth and Adult Corrections	5.8
K-12 Education	—
Higher Education	7.4
Other[b]	1.5
Total	**$50.1**

[a] Includes $26.2 billion to be funded from state and federal gasoline tax revenues, state truck weight fees, and state toll bridge revenues for the Department of Transportation.

[b] Includes state-operated hospitals and laboratories and low-income housing.

Source: Department of Finance, *1993 Capital Outlay and Infrastructure Report* (February 1993).

State Agencies Plans Include Specifics

The five-year capital outlay plans submitted by state agencies provide a project-specific inventory of needs. Figure 5 provides asummary of these five-year plans, which total $40.8 billion for stateagencies and for K-12 education. This amount includes $13 billion from special and federal funds for transportation capital outlay. These five-year estimates should be viewed with caution because some of the plans are incomplete and also may include proposals that, upon examination, do not merit funding. Nevertheless, the plans provide a reasonable assessment of the overall magnitude of the agencies' needs.

Governor's Budget

Figure 6 compares each department's capital outlay funding request for 1994-95 with the Governor's Budget proposal. The budget includes $674 million, or about half of the $1.4 billion requested. As shown in the figure, the projects in the budget have a future completion cost of $540 million.

Figure 5

Projected Five-Year Capital Outlay Needs for the State and K-12 Education 1994-95 Through 1998-99

(In Millions)

	Five-Year Total
Executive	$48
State and Consumer Services	1,510
Transportation	14,937[a]
Resources	560
Health and Welfare	337
Youth and Adult Corrections	1,788
K-12 Education	15,000[b]
Higher Education	6,343
General Government	259
Total	**$40,782**

[a] Includes $13.0 billion to be funded from state and federal gasoline tax revenues, state truck weight fees, and state toll bridge revenues for the Department of Transportation.

[b] General estimate only. No statewide five-year plan.

Figure 7 shows the budget proposal for each department by funding type. About 86 percent of all funding is proposed from bonds—$561 million in GO bonds and $17 million in lease-payment bonds (for higher education). The budget also includes $25 million from the General Fund for capital outlay projects. This funding is for agencies whose capital outlay programs have in recent years been funded from the Special Account for Capital Outlay (SAFCO). There are essentially no proposed capital outlay expenditures from SAFCO due to a decline in estimated 1994-95 tidelands oil revenues and a proposed transfer of most of these revenues to the General Fund under Control Section 11.50 of the Budget Bill. Other capital outlay funding is proposed from various special funds ($57 million) and from federal funds ($14 million).

Figure 6

1994-95 State Capital Outlay[a]
Program Summary

(In Thousands)

Department	1994-95 Department Requests	1994-95 Governor's Budget Proposed Amount	1994-95 Governor's Budget Future Cost
Emergency Services	$11,782	$3,934	$22,751
General Services	1,464	—	—
Veterans' Home of California	11,073	10,485	5,439
Transportation[b]	17,529	14,250	4,302
Highway Patrol	18,039	13,403	—
Motor Vehicles	1,314	1,314	—
Tahoe Conservancy	16,500	3,283	—
Forestry	22,807	19,760	12,867
Fish and Game	3,554	2,522	2,696
Wildlife Conservation Board	15,802	3,803	—
Boating and Waterways	4,989	4,419	—
Coastal Conservancy	10,600	3,430	—
Parks and Recreation	25,000	10,587	4,737
Water Resources	6,725	3,775	—
Health Services	3,880	1,500	88,500
Developmental Services	23,126	3,046	2,544
Mental Health	26,099	477	9,504
Employment Development	12,315	12,146	3,582
Rehabilitation	514	514	—
Corrections	39,823	36,472	13,370
Youth Authority	41,053	16,783	64,756
Education	450	—	—
University of California	258,128	166,765	89,630
California State University	424,377	142,622	58,437
Maritime Academy	5,994	5,563	7,131
Community Colleges	375,175	178,347	109,142
Cal Expo	3,462	2,040	—
Food and Agriculture	4,154	69	434
Military	30,537	11,997	39,985
Unallocated Capital Outlay	—	200	—
Totals	**$1,416,265**	**$673,506**	**$539,807**

[a] Does not include proposed appropriations for highway and transit capital outlay.

[b] For Department of Transportation office buildings.

Figure 7

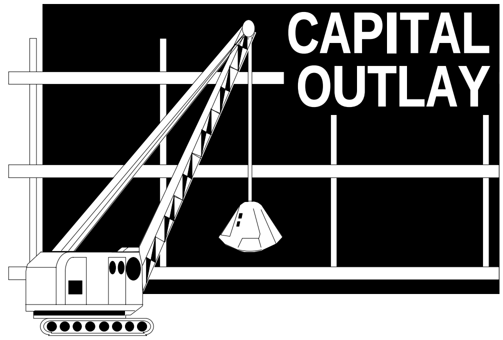
1994-95 Capital Outlay Program Proposed Expenditures by Fund Type[a]

(Dollars in Millions)

Department	Bonds	Special	General	Federal	Total
Emergency Services	—	—	$3.9	—	$3.9
Veterans Affairs	—	—	3.9	$6.6	10.5
Transportation[b]	—	$14.3	—	—	14.3
Highway Patrol	—	13.4	—	—	13.4
Motor Vehicles	—	1.3	—	—	1.3
Tahoe Conservancy	—	0.5	2.8	—	3.3
Forestry	$19.8	—	—	—	19.8
Fish and Game	—	2.5	—	—	2.5
Wildlife Conservation Board	1.6	2.2	—	—	3.8
Boating and Waterways	—	4.4	—	—	4.4
Coastal Conservancy	—	1.4	2.0	—	3.4
Parks and Recreation	6.0	4.0	—	0.6	10.6
Water Resources	—	—	3.8	—	3.8
Health Services	1.5	—	—	—	1.5
Developmental Services	—	—	3.0	—	3.0
Mental Health	—	—	0.5	—	0.5
Employment Development	—	10.3	—	1.8	12.1
Rehabilitation	—	—	0.2	0.3	0.5
Corrections	36.5	—	—	—	36.5
Youth Authority	16.8	—	—	—	16.8
University of California	166.8	—	—	—	166.8
California State University	142.6	—	—	—	142.6
Maritime Academy	5.6	—	—	—	5.6
Community Colleges	178.3	—	—	—	178.3
Cal Expo	—	2.0	—	—	2.0
Food and Agriculture	—	—	0.1	—	0.1
Military	2.4	—	5.1	4.5	12.0
Unallocated Capital Outlay	—	0.2	—	—	0.2
Totals	**$577.9**	**$56.5**	**$25.3**	**$13.8**	**$673.5**

[a] Does not include proposed appropriations for highway and transit capital outlay.

[b] For Department of Transportation office buildings.



Crosscutting Issues

Deferred Maintenance Update

The state and K-12 school districts continue to have large deferred maintenance backlogs. In general, neither the state nor the schools are adequately taking steps to address their backlogs. We urge departments to submit the deferred maintenance plans requested last year by the Legislate through supplemental report language.

Background

In our *Analysis of the 1993-94 Budget Bill* (page I-37), we discussed the state's large and growing backlog of deferred maintenance in state facilities and K-12 schools. Deferred maintenance arises when (1) ongoing maintenance is not sustained at a level needed to keep facilities from deteriorating and (2) "special repair" projects are not accomplished as needed. (Special repairs are maintenance projects, such as replacing roofs and repaving roads, that are required periodically and are above the base level of expenditures needed for annual ongoing maintenance.) If such repairs to key building and infrastructure components are constantly deferred, facilities will eventually require more expensive emergency repairs (when systems break down) or capital improvements such as major renovation or even replacement.

In the 1993-94 *Analysis*, we identified a group of nine General Fund departments that had an estimated backlog of $820 million in deferred maintenance projects. In addition, based on the five-year deferred maintenance plans submitted to the state by K-12 school districts, we estimated that schools needed to spend about $500 million annually on deferred maintenance. We noted that generally there are two reasons for the deferred maintenance backlogs: (1) the underfunding of maintenance and special repairs and (2) the redirection of funds to other support-budget activities that are deemed to be a higher priority.

To begin addressing the deferred maintenance problem, the Legislature took two actions. First, budget control language was adopted under Section 6.10 to prevent the redirection of funding appropriated in 1993-94 for maintenance of facilities and infrastructure. The Governor vetoed this language. Second, supplemental report language was adopted directing the nine General Fund departments to prepare multi-year plans to properly address their maintenance needs and to eliminate their deferred maintenance backlogs over a five- to ten-year period. At the time this analysis was written, only the Departments of Corrections and General Services, the California State University and the community colleges have submitted plans in response to the supplemental language.

Current Situation

Special repair funding for several state departments appears sufficient to prevent a further build-up in deferred maintenance. For the higher education segments and K-12 schools, however, deferred maintenance backlogs will continue to grow unless spending on special repairs is increased.

Figure 8 provides current information on recent and proposed special repair/deferred maintenance expenditures and estimated deferred maintenance backlogs for the nine departments and for K-12 schools. As shown in Figure 8, deferred maintenance expenditures for the departments are relatively level over the three-year period. The budget-year total is *$6 million less than* was spent on special repairs four years ago, however.

Expenditures for the California Youth Authority (CYA) increased significantly (up $3 million) in the current-year with an augmentation of general obligation bond funds for deferred maintenance. The CYA's budget again proposes $3 million in bond funding for this purpose in 1994-95. For K-12 schools, the proposed budget-year deferred maintenance spending represents a one-third reduction from the amount spent in 1992-93. This is mainly the result of eliminating General Fund support in the *1993 Budget Act* and the proposal to continue this action for 1994-95.

As shown in the figure, the estimated backlog of deferred maintenance for these state departments is now $1 billion. The increase over last year's estimate is due primarily to growth at the California State University.

Even though the major portion of deferred maintenance in state departments is within higher education, no increased funding is proposed for the three higher education segments. To their credit, the California State University (CSU) and the community colleges did request budget augmentations of $18 million and $11.3 million, respectively, for special repairs, but the additional funding was not included in the Governor's Budget.

Figure 8

Deferred Maintenance Spending and Backlogs for Selected Departments and K-12 Schools

(In Millions)

	Expenditures			Backlogs	
	1992-93 Actual	1993-94 Estimated	1994-95 Proposed	1992-93	1993-94
State Department					
General Services	$2.6	$2.6	$2.8	$13	$31
Parks and Recreation	2.5	2.9	2.9	31	32
Developmental Services	3.9	3.9	3.9	18	18
Mental Health	1.9	1.9	1.9	11	11
Corrections	10.0	10.0	10.0	20	14
Youth Authority	1.4	4.4	4.4	27	26
University of California	11.9	10.5	10.5	320	348
California State University	3.9	5.3	3.2	180[a]	327
Community Colleges[b]	16.0	16.0	16.0	200	200
Totals	**$54.1**	**$57.5**	**$55.6**	**$820**	**$1,007**
K-12 Schools[b]	**$130.9**	**$101.9**	**$87.4**	**$2,500**	**$2,500**

[a] Due to reporting error, actual amount should have been $235 million.

[b] Expenditures include district matching funds. Backlog estimates based on districts' five-year deferred maintenance/special repair plans.

For some departments—Developmental Services, Mental Health, Parks and Recreation—the level of special repair funding, while not adequate to reduce their backlogs, appears sufficient to prevent a further build-up in the backlogs. We caution, however, that these departments, perceiving the unlikelihood of obtaining additional funds for special repairs/deferred maintenance in the short term, may not have a comprehensive inventory of their maintenance needs.

The Departments of Corrections and Youth Authority have become almost totally dependent on general obligation bond funding for their special repair/deferred maintenance needs. If these bonds are depleted and additional bonds are not authorized, these departments would either need a General Fund augmentation for special repairs, or absent such augmentation, would face a substantial growth in deferred maintenance backlogs.

The biggest deferred maintenance problem facing the state, however, is clearly in education facilities. If current spending trends continue, eliminating the *current* backlogs at the community colleges, the University of California, and the California State University would take 12, 33, and 61 years, respectively. Of course, over these time periods additional repair needs will accumulate.

We do not believe that the state can continue such large deferred maintenance backlogs. In our analyses of the following support budgets, we have recommended increases in special repair/deferred maintenance expenditures for 1994-95.

- Department of General Services—We recommend earmarking any excess Building Rental Account revenues to address the department's backlog.
- University of California—We recommend an increase of $25 million to fund a portion of the UC's highest priority deferred maintenance projects.
- California State University—We recommend an increase of $5 million to fund the CSU's highest priority projects.
- Community colleges—We recommend an increase of $5 million in state funding. Including district matching shares, this will provide about $9 million more statewide for community college deferred maintenance.

In addition, we note that, at current spending levels, it would take 29 years to eliminate the $2.5 billion backlog for K-12 schools. We urge the Legislature to develop a long-term strategy to address this problem.

HIGHER EDUCATION CAPITAL OUTLAY

Despite recent enrollment declines, the three higher education segments have identified several billion dollars in capital needs over the next five years. The Governor's capital outlay program proposes a significant reduction in funding for 1994-95. Even at the reduced level, the proposed program is almost totally dependent on voter approval of additional general obligation bonds. The use of lease-payment bonds has been drastically reduced from recent levels, which is appropriate given the higher cost associated with these bonds.

The Department of Finance (DOF) projects that enrollments at the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC) will increase significantly over the next 16 years. Over the five years from fall 1993 to fall 1998, however, the DOF foresees much slower growth, and even an enrollment decline at the CSU. Specifically, the UC and the CCC enrollments are projected to grow by only 5.3 percent and 7.4 percent, respectively, and the CSU enrollment is projected to *decline* by 3.9 percent over this period.

While this slower short-term growth has deferred some of the previously identified need for *new* higher education facilities, many of California's college campuses have aging infrastructure and buildings requiring repair, major renovation, or in some cases, replacement. For example:

- The underfunding of ongoing maintenance and the subsequent build-up of huge deferred maintenance backlogs (as discussed elsewhere in this chapter) have probably shortened the useful life of some facilities. Thus, the state will have to spend monies earlier than necessary, and it will have to spend more money than it otherwise would.
- In addition, increases in the use of computers and other instructional technologies have strained the capabilities of older buildings and utility systems.
- Moreover, in some cases these building/utility systems have restricted the use of current technology.
- Finally, there is a need to continue ongoing efforts to assure access for disabled individuals, enhance seismic safety, and meet certain

regulatory requirements such as handling and disposing of toxic substances.

Thus, at a time when enrollment pressures have lessened, the state has an opportunity to devote more of its higher education capital resources to renewing existing physical plants.

In the following overview of capital outlay programs for higher education, we discuss: (1) the segments' five-year plans, (2) the Governor's Budget proposal, (3) the unfunded cost to complete proposed and previously approved projects, and (4) the uncertain impact of the Northridge earthquake on the segments' short-term capital needs.

Five-Year Capital Outlay Plans

As summarized in Figure 9, the segments' five-year plans propose expenditures of $6.3 billion between 1994-95 and 1998-99. Because most capital outlay projects are funded in phases over two to four years, these plans are similar to previous five-year plans, but are updated to reflect 1993 budget actions, revised priorities, and the addition of new projects. The $6.3 billion is $300 million higher than the totals summarized in our *Analysis of the 1993-94 Budget Bill* (page I-43). This increase is attributable entirely to a higher amount for the community colleges. Moreover, as we noted last year, the five-year plan total was about $800 million higher than in 1992-93 and $550 million of that increase was attributable to the community colleges.

To fully fund the current five-year plans, the Legislature would have to appropriate almost $1.3 billion per year—more than twice as large as average annual capital outlay expenditures for higher education over the past five years.

Figure 9

Higher Education Capital Outlay
Five-Year Capital Outlay Plans
1994-95 Through 1998-99

(In Millions)[a]

Segment	1994-95	1995-96	1996-97	1997-98	1998-99	Totals
University of California	$258	$235	$246	$216	$258	$1,213
California State University	424	354	245	727	485	2,235
Community Colleges	418	1,109	742	458	156	2,883
Totals	**$1,100**	**$1,698**	**$1,233**	**$1,401**	**$899**	**$6,331**

[a] All amounts adjusted to ENR 5341, the construction cost index in use for the budget.

Budget Proposals

The budget for higher education capital outlay includes little funding from lease-payment bonds but is almost totally dependent on voter approval of a new general obligation bond measure in 1994.

As summarized in Figure 10, the budget proposes $493 million in capital outlay funding for the three segments and the California Maritime Academy. This is a decrease of $397 million (45 percent) from the current-year level and is less than one-half of the segments' requests for 1994-95. The budget includes $477 million in general obligation bonds and $16 million in General Fund lease-payment bonds.

Figure 10

Higher Education Capital Outlay
1994-95 Capital Outlay Programs

(In Thousands)

	Budget Bill Amounts		
	General Obilgation Bonds	Lease-Payment Bonds	Total
University of California	$161,879	$4,886	$166,765
California State University	130,938	11,684	142,622
California Maritime Academy	5,563	—	5,563
California Community Colleges	178,347	—	178,347
Totals	**$476,727**[a]	**$16,570**	**$493,297**

[a] Amount includes $67 million from previously authorized bonds and $410 million in bonds proposed for the 1994 ballot(s).

Lease-Payment Bonds. Over the last five years, the Legislature has provided an average of $300 million per year in lease-payment bonds for higher education facilities. The Governor's proposal, which only funds the equipment phase of 10 projects, is thus a drastic reduction in funding from this source.

For several years, we have pointed out that lease-payment bonds have several features which make them more costly for the state than general obligation bonds. For example, a $100 million project would cost $118 million (in total payments over the life of the bonds after adjusting for inflation) if funded using general obligation bonds and $129 million if funded with lease-payment bonds. The debt service for both types of bonds is paid by the General Fund. Therefore, the more lease-payment bonds the state issues in lieu of general obligation bonds the higher the General Fund debt service cost. Thus, the use of lease-payment bonds increases the state debt as a ratio to General Fund revenues at a faster rate than general obligation bonds and, therefore, uses up the state's debt capacity faster with no added program benefit. Consequently, we applaud the administration's decision not to continue recent spending patterns with regard to the use of lease-payment bonds.

General Obligation Bonds. According to the DOF, about $99 million in previously authorized general obligation bonds for higher education have not been appropriated. This amount clearly will not go very far toward funding the segments' capital outlay programs. The Governor, in his budget summary document, has expressed support for placing a $900 million bond issue before the voters in 1994. About 83 percent of the Governor's Budget proposal for higher education capital outlay in 1994-95 is dependent on voter approval of additional bonds.

Future Costs. Figure 11 shows that it will cost an estimated $1 billion to complete projects that are either (1) proposed in the Governor's Budget or (2) have been partially funded (generally for design documents) in previous budgets but are not included for further funding in 1994-95. More than one-half of this amount ($570 million) consists of CSU projects that were funded for design in 1992-93 but for which construction has been deferred in part because of enrollment declines in the state university system.

Figure 11

Higher Education Capital Outlay Costs to Complete Projects[a]

(In Thousands)

	Costs to Complete Projects		
Segment	**Governor's Budget**	**Previously Funded**	**Total**
University of California	$89,630	$164,410	$254,040
California State University	58,437	577,911	636,348
California Community Colleges	109,142	17,077	126,219
Totals	**$257,209**	**$759,398**	**$1,016,607**

[a] These are the costs that will have to be appropriated in the future to complete projects already started or proposed in the budget. Segment estimates, adjusted to ENR 5341, the cost index in use for the budget.

It is important to note that the $1 billion does not include any funding that would be needed for new projects after 1994-95. Assuming voter approval of the $900 million in bonds endorsed by the Governor and approval of the Governor's 1994-95 budget proposal (which would obligate $410 million of these bonds), about $500 million in general obligation bonds would remain available for future appropriations—or about one-half of the cost to complete all funded projects.

To address this gap, the Legislature has several options, including (1) proposing more than $900 million in general obligation bonds for the 1994 ballots, (2) not approving all proposed projects and/or deferring some projects for a longer time period, and (3) authorizing more lease-payment bond funding (as discussed earlier, this option is costly).

Funding Needs for Earthquake Repairs Uncertain

Existing unallocated bonds might be needed for the state's share of costs to repair/replace facilities damaged by the Northridge earthquake. No specific projects or costs had been identified at the time this analysis was written.

When this analysis was written, damage to higher education facilities from the Northridge earthquake was still being assessed and cost estimates were being developed. At this time, it appears that the most severe damage occurred at CSU Northridge, though significant damage also occurred at several community colleges—Santa Monica, Los Angeles Pierce College, and the College of the Canyons (Santa Clarita). It had not been determined to what extent any state facilities would require major repair or replacement or would need state capital outlay funding. (Construction of facilities such as the collapsed parking structure at CSU Northridge is not funded with state capital outlay monies.)

The need for state capital outlay funds would depend on the extent to which repair/replacement is not covered by federal funds or by other state funding sources. (At the time this analysis was written, the federal government was considering providing 90 percent of the repair costs.) It is our understanding that the UC and the CSU are reevaluating their 1994-95 capital outlay program in light of the earthquake and may request revisions to the Budget Bill as introduced. In the event that state capital outlay bond funds are needed for earthquake-related projects, we would recommend that these projects be considered as the first priority for use of unallocated higher education general obligation bonds. This might require a shift of funding source for some other projects already proposed by the Governor for funding from these existing bond funds.

Priorities for Using Existing Bonds

We recommend that the Legislature earmark $88.1 million in existing higher education bonds to be used for (1) movable equipment to complete building projects and (2) construction funds for seismic retrofitting, infrastructure improvements, and correction of code deficiencies rather than fund these high priority projects from a proposed bond issue.

At the time this analysis was written, about $99 million of previously authorized higher education bond funds had not been allocated. As mentioned above, most of the capital outlay program for 1994-95 depends on voter-approval of additional general obligation bonds in 1994. It is important, therefore, that the Legislature direct available bond funds to the highest priority needs in case additional bonds are not approved. We recommend that, in general, available bonds be used to *complete* projects for which the state has already invested funding to complete design and/or construction.

Unfortunately, there are insufficient funds available to complete all such projects. We therefore recommend that the Legislature target $88.1 million in available bond funds to the following types of projects and that all other projects be funded with the 1994 bonds (except for equipment proposed in the Governor's Budget for funding from lease-payment bonds):

- Equipment to make constructed buildings usable. This would include $1.7 million for six UC projects, $4.9 million for five CSU projects, and $24.5 million for 39 community college projects.
- Construction funding for seismic retrofit projects. This includes $6.1 million for two UC projects and $20.4 million for seven CSU projects.
- Construction funding for infrastructure projects. This includes $4.3 million for two UC projects, $1.8 million for one CSU project and $20.5 million for four community college projects.
- Construction to correct code deficiencies, which includes $3.9 million for three community college projects.

Funding these projects will leave an unallocated reserve of about $11 million in the higher education bond funds. At the time of budget hearings, this amount could be greater or less depending on any augmentations or reversions of previous appropriations that may be approved through administrative actions. In addition, as discussed above, unallocated bonds might be needed for higher education capital costs associated with the Northridge earthquake. Our recommendations therefore might have to be adjusted as more current information on bond fund balances and earthquake needs is available.

CONTROL SECTION 2.00

Time Period for Availability of Construction Funds

We recommend the Legislature reinstate Budget Bill language, as included in previous Budget Acts, to revert funds appropriated for construction projects if the Department of Finance has not approved proceeding to bid in the budget year.

Control Section 2.00 of the Budget Bill includes language establishing the time periods for which capital outlay appropriations or reappropriations are available for expenditure. In general, appropriations for the construction phase of capital outlay projects are made available for expenditure in the budget year and the following two fiscal years. Appropriations or reappropriations for studies, planning, working drawings, or minor capital outlay projects (total cost less than $250,000) are available only for the budget year.

In each budget act since 1985, Control Section 2.00 has also included the following language:

> In addition, the balance of every appropriation made in this act which contains funding for construction that has not been allocated, through fund transfer or approval to proceed to bid, by the Department of Finance on or before [last day of the budget year], except as provided herein, shall revert as of that date to the fund from which the appropriation was made.

In appropriating construction funds for capital outlay projects, it is the Legislature's understanding that the monies will be needed for construction in the budget year. With the above language, the administration must receive legislative approval, through reappropriations, to proceed with construction projects that are unable to advance to the bidding stage in the year in which the projects are budgeted. This gives the Legislature an opportunity to review why projects have not proceeded as scheduled and to reassess whether providing funding for construction is still a legislative priority. Without this language the construction funds would be available for three years regardless of the status of the project and without further legislative involvement. We believe that the long standing practice of requiring legislative involvement in the funding and reevaluation of delayed projects should continue. We therefore recommend that the Legislature reinstate the above language in Control Section 2.00

CAPITAL OUTLAY

DEPARTMENTAL ISSUES

VETERANS' HOME OF CALIFORNIA (1970)

The Department of Veterans Affairs (DVA) operates the Veterans' Home of California in Yountville. The Yountville facility provides five levels of care, ranging from dormitory to acute care nursing care. The DVA's five-year capital outlay plan includes six major projects (total cost of $28 million) that would complete the department's master plan for correcting fire and life safety deficiencies and complying with licensing and accreditation requirements. The federal government funds 65 percent of project costs.

The Governor's Budget includes $10.5 million ($3.9 million General Fund and $6.6 million federal funds) for the DVA's 1994-95 capital outlay program. This amount includes $10 million for three major projects (total cost over $250,000), $0.3 million for minor projects, and $0.2 million for management of the renovation program.

Major Renovation Projects

Consistent with our analysis of the department's support budget, we withhold recommendation on $3,339,000 in Item 1970-301-001 and $6,631,000 in Item 1970-301-890 for three projects, pending information from the DVA on the demand for additional bed capacity and the costs of operating the second veterans home plus a fully-renovated Yountville Home.

The budget proposes funding for three renovation projects as shown in Figure 12.

In our analysis of the DVA's support budget, we note the following:

- The Yountville facility currently has the capacity to accommodate 125 more veterans than the estimated budget-year population of 1,125. An additional 150 beds will be available by 1995 once already funded projects at the home are completed.
- Completing the three renovation projects in Figure 12 would provide 272 more licensed beds. This would bring total capacity to 1,673 veterans, 548 more veterans than the estimated budget-year population.
- Construction will soon begin on a new 400-bed veterans' home in Barstow with scheduled completion for January 1996.
- The DVA currently has *no waiting list* of veterans requesting residency at either the existing Yountville home or the new Barstow facility.

Figure 12

Veterans' Home of California
1994-95 Major Projects

(Dollars in Thousands)

Project	Phase[a]	General Fund	Federal Funds	Future Cost
Correct code deficiencies in section L	w	$193	—	$1,836
Annex I	w	437	—	3,603
Remodel wards 1, 2, 3C, and 1, 2, 3D	ce	2,709	$6,631	—
Total	**—**	**$3,339**	**$6,631**	**$5,439**

[a] Phase symbols indicate: w = working drawings; ce = construction and equipment.

Our support-budget analysis recommends that the DVA report at budget hearings on (1) the need for proceeding with the Barstow Home given the current lack of demand and (2) the additional operating costs for the Yountville Home when all renovation is completed. We also list several actions that the Legislature could take in order to limit future General Fund costs. One potential action is to deny further funding for renovation of the Yountville Home, thus not increasing capacity at the home until additional demand and funding capability is demonstrated.

Consistent with our recommendation in the DVA's support budget, we withhold recommendation on these projects pending the DVA's report to the Legislature as discussed above.

DEPARTMENT OF HEALTH SERVICES (4260)

The Department of Health Services (DHS) owns and operates laboratory facilities in Berkeley, Los Angeles, and Fairfield. Aside from a small renovation project in Los Angeles, the department's five-year capital outlay plan consists of a two-phase, $145 million project to replace its existing laboratory facilities in Berkeley. This proposal is discussed below.

New Laboratory Complex

We recommend deletion of $1.5 million in study and planning funds for a laboratory facility because the DHS has not defined how the funds will be used. We also recommend that the Legislature rescind $54.5 million in existing bond authority for DHS facilities and direct the administration to evaluate other locations besides Richmond for its facilities needs. Delete $1,500,000 under Item 4260-301-754.

Background. In Ch 1584/90 (AB 3708, Campell), the Legislature authorized $54.5 million in lease-payment bonds for the DHS to undertake two projects: $11.5 million to renovate the department's main laboratory in Berkeley and $43 million to acquire laboratory and office facilities in the City of Richmond. The intent of this legislation was, in part, for the state to purchase a research center in Richmond owned by the Chevron Corporation. In January 1992, however, Chevron sold this facility to a private corporation. In September 1992, the DHS completed an evaluation of its Berkeley laboratory which concluded that the condition of this building precluded cost-effective renovation.

In March 1993, a consultant's study outlined the department's laboratory and office space needs for the next ten years for DHS functions currently located in three state-owned facilities and seven leased facilities in Berkeley, Emeryville, and Fairfield. The report concludes that the department would need a total of about 670,000 gross square feet (gsf)—400,000 gsf of laboratory and support space and 270,000 gsf of offices. The report proposes to fulfill these needs in three phases at an estimated total cost of about $200 million. Phases I and II are proposed to be developed in Richmond and would address almost all of the department's laboratory needs and a portion of its office space needs. Phase III would be mainly office space and is not being proposed by the DHS at this time.

Phase I. In order to go forward with Phase I, the DHS intends to seek legislation to redirect the entire $55 million in lease-payment bond authority from the purposes called for in Chapter 1584 to construct a new 160,000 gsf facility in Richmond. Thus, there is no proposal in the budget for this facility.

Phase II. The second phase would provide a 286,000 gsf facility. The budget includes $1.5 million from the Governor's proposed Public Safety Bond Act of 1994 (general obligation bonds) for study and preliminary plans for this project. The estimated future cost to complete the project is $90 million. According to the Governor's Budget summary, this cost would also be funded from the Public Safety Bond. We have several concerns with the DHS proposal.

Budget Proposal Not Defined. The department's capital outlay proposal calls for developing the Phase II project using a design/build approach with funding from lease-payment bonds and not with general obligation bonds as proposed by the Governor. (This lease-payment bond authority would have to be provided by the Legislature.) The DHS indicates that the design/build process requires ". . . some upfront work by the state . . ." Therefore, in addition to receiving the additional lease-payment bond authority, the DHS requests ". . . $1.5 million in seed money in advance of a bond loan or sale." The Budget Bill, however, does not reflect a design/build approach, but rather is compatible with the state capital outlay process, in which departments are typically provided with project funding for preliminary plans, working drawings, and/or construction. Thus, the DHS's proposal contradicts both the funding method and purpose of funds as shown in the Budget Bill. We therefore recommend deletion of the $1.5 million because the administration has not clearly defined how these funds will be used.

Project Location Should Not Be Constrained. As discussed above, the original legislation was intended to allow the state to purchase the Chevron facility in Richmond. Now that this option is no longer available, we see no reason why the state should be constrained to the City of Richmond in siting new facilities for the DHS. The DHS should work with the Department of General Services to evaluate alternative locations that might be preferable in terms of costs for land, infrastructure, environmental mitigation, and seismic risk.

Remove Bond Authority. The scope of the department's Phase I proposal is based on the size of a facility that could be developed with the $55 million in existing lease-payment bond authority. A single project, encompassing the programs included in Phases I and II, may be more programmatically and cost beneficial, however. We believe that the DHS should prepare a single, complete package to the Legislature based on this approach and the location analysis discussed above. This would allow the Legislature to assess the department's total laboratory needs and finance projects accordingly. As a first step, we recommend that the

Legislature rescind the lease-payment bond authority provided in Chapter 1584.

Project Increases Lab Space. Phases I and II combined will provide the DHS with significantly more laboratory space than it currently operates in the East Bay. (We estimate an increase of 60 to 70 percent.) According to the consultant's study, the laboratory space requirements were determined through discussions with staff within each DHS laboratory function. It is not clear what, if any, constraints were applied in determining how much laboratory space was actually needed for the DHS to perform its duties. Prior to budget hearings, we will have discussions with DHS staff to assess the basis for the amount of laboratory space requested so that we can inform the Legislature of the department's needs.

Status of Hazardous Materials Lab Unclear. The Hazardous Materials Lab (HML) provides analytical support and consultation for enforcement, site mitigation, permitting, and hazardous waste management programs. This unit is physically located in the existing DHS facilities, but the program was transferred to the Department of Toxic Substances Control within the California Environmental Protection Agency effective July 1, 1993. The consultant's report indicates that the HML has a ten-year need of 76,000 gsf. The report states that the HML collaborates with three of the DHS's laboratory branches and recommends that the HML be located in the same facility with these branches. The DHS's three-phase project, however, does not include space for the HML. We recommend that the administration resolve this conflict and determine the future status of the HML with respect to collocation with the DHS's functions.

Summary. The Legislature should not approve the $1.5 million because it is not clear how the department intends to use these funds. (Delete $1.5 million from Item 4260-301-754.) The Legislature should also rescind the $55 million in bond authority and the department should provide a single development proposal based on its laboratory needs and on a site search that extends beyond the City of Richmond. Finally, the administration should determine the proper location of the HML with respect to the DHS's laboratory project.

DEPARTMENT OF CORRECTIONS (5240)

The Governor's Budget requests $36.5 million for capital outlay projects at existing state prisons. This amount consists of $22.1 million from existing general obligation bond funds and $14.4 million from a Public Safety Bond measure that the Governor has proposed to place before the voters in 1994. The budget would fund 15 major capital outlay projects ($31.7 million), including $15.6 million for a data communications infrastructure project at 19 institutions, $4.5 million for minor projects (those costing less than $250,000), and $0.3 million for advance planning. *As usual, the most significant part of the CDC's capital outlay program—the development of new prisons—is not included in the budget.* As discussed below, we believe that consideration of new prison projects should be returned to the budget process.

Budget Committees Should Consider Requests for New Prisons

We recommend that the department provide the fiscal subcommittees with a detailed proposal for authorizing and funding new prisons projects as part of the 1994-95 budget. We recommend that the fiscal committees withhold approval of the department's capital outlay budget for existing prison projects pending receipt of this proposal for new prisons.

New Prisons Needed to Accommodate Growth. Since 1980, the Legislature has authorized $4.3 billion to design and construct new prison facilities. Even with this multibillion building program, the state has not been able to keep pace with an inmate population that had grown to 120,000 in January 1994. The state currently has overcrowding in state prisons and conservation camps of 176 percent of design capacity.

The CDC's fall 1993 inmate population projections show population increasing by 43 percent, to 171,000, by mid-1999. With completion of all prison projects authorized to date, system capacity will be only 85,400 beds. Thus, without the authorization and construction of additional prisons, the system would be operating at over 200 percent of design bed capacity at that time. It is important to note that the CDC's projections do not assume any changes in existing sentencing policies. At the time this analysis was written, the Legislature was considering several pieces of legislation that could significantly increase the inmate population.

Proposal for New Prisons. The Governor has indicated that he supports the construction of six new prisons to accommodate increased inmate population. At the time this analysis was written, the CDC had not released its annual five-year master plan for new facilities. Based on information in the CDC's latest master plan (February 1993), however, the six prisons would have a design capacity of about 13,500 beds and would cost about $1.5 billion. Completion of these prisons over the next five years would put systemwide overcrowding at about 173 percent of design capacity—essentially at its current level of overcrowding.

According to the Department of Finance, only two of the six proposed prisons would be funded from the Governor's proposed public safety general obligation bonds. The other four prisons would therefore have to be funded with General Fund lease-payment bonds (commonly referred to as lease-revenue bonds or Public Works Board bonds). As we have noted many times in the past, lease-payment bonds are more costly to the state than general obligation bonds. We estimate that financing the four prisons with lease-payment bonds will cost the state around $400 million more in General Fund monies over the 25-year life of the bonds.

New Prisons Should Be Part of Budget Considerations. It is clear that, given the expected inmate population growth, the state will have to construct additional prisons. These facilities will cost billions of dollars to build, for which the state will have to dedicate General Fund resources (to pay bond debt service for either general obligation or lease-payment bonds) for about 25 years. In keeping with recent practice, wherein new prisons have been authorized in separate legislation, there are no proposals for new prisons in the 1994-95 Budget Bill.

There is no reason why decisions regarding new prison authorization and construction should not be considered by the budget committees as part of the budget process. Specifically, we believe that:

- The one-time costs for new prison construction should be considered in relation to the ongoing support costs needed to operate these facilities.
- The costs of *building and operating* new prisons should be considered in the context of the entire state budget and statewide priorities.
- The need for new prisons, including appropriate financing, should be considered in context with the state's other capital outlay needs.

The current process provides no opportunity for such an examination.

We therefore recommend that the CDC provide a proposal to the budget committees for those new prisons that it believes require authorization in 1994-95 and, hence, inclusion in the 1994-95 Budget Bill. For each proposed prison, the CDC should indicate (1) location, (2) number of beds and levels of inmates to be housed, (3) a cost estimate and development schedule, and (4) estimated operating and maintenance costs upon completion. In order to ensure that the department will respond to the committee needs for this information, we also recommend that the fiscal committees withhold approval on the CDC's $36.5 million capital outlay request for existing prisons pending receipt of this proposal for new prisons.

CALIFORNIA YOUTH AUTHORITY (5460)

The California Youth Authority operates 11 institutions, including two reception centers, and six conservation camps throughout the state. The CYA's five-year plan proposes expenditures totaling $203 million between 1994-95 and 1998-99. About two-thirds of this amount would be for the design and construction of facilities to provide 1,550 additional beds at various existing institutions. The department's capital outlay budget proposal includes $16.8 million—$12.5 million for 15 major projects, $3.5 million for minor projects (those costing less than $250,000), and $0.8 million for planning. Funding would come from existing general obligation bonds ($10 million) and from the Governor's proposed 1994 Public Safety Bond Act ($6.8 million).

Projects for New Beds

Consistent with a recommendation in our analysis of the CYA's support budget, we recommend that the Legislature delete funding for additional beds because the transfer of most "M cases" to the Department of Corrections will alleviate the need for these beds. (Delete $636,000 in Item 5460-301-746 and $3,882,000 in Item 5460-301-754.)

At the time this analysis was written, population at CYA institutions was 8,774, or 131 percent, of current design capacity—ranging from 99 percent at the Karl Holton School to 144 percent at the N.A. Chaderjian School. The CYA's Fall 1993 projections estimate that ward population will increase to 154 percent of current capacity by the end of 1997-98.

To accommodate this projected increase, the CYA, in its "Population Management and Facilities Master Plan" January 1993, proposed to add 1,550 beds. The Governor's Budget supports funding for preliminary plans and working drawings for 950 of these beds. This funding involves six separate projects at existing institutions as shown in Figure 13. Completion of these beds at an estimated construction cost of $70 million would bring overcrowding at the institutions to about 135 percent of design capacity by July 1998—roughly the current level of overcrowding.

Figure 13

California Youth Authority
1994-95 Capital Outlay Program
New Bed Projects

(Dollars in Thousands)

Institution	Beds	Budget Amount	Future Cost
Preston School of Industry	200	$700	$14,100
Dewitt Nelson School	100	778	9,053
O.H. Close School	100	609	7,049
El Paso De Robles School	300	800	21,150
Fred C. Nelles School	200	700	14,100
Southern Reception Center and Clinic	50	431	4,161
Totals	**950**	**$4,018**	**$69,613**

Absent any policy changes to either reduce the growth in ward population or operate at higher overcrowding levels, it seems that the CYA will need these additional beds. In our analysis of the department's support budget, we recommend that the Legislature enact legislation that would limit the housing of Department of Corrections (CDC) "M cases" in CYA institutions to those "M cases" under 18 years old. ("M cases" are individuals under age 21 committed to the CDC who are ordered by the court to be transferred to the CYA to serve all or a portion of their commitment time.) With this legislation (1) CYA's population would be reduced initially by about 1,400 by transferring current inmates to the CDC and (2) CYA's population would grow more slowly as most "M cases" would not spend time at the CYA.

The effect of this legislation would be to reduce the CYA's overcrowding level to 117 percent of current capacity in the budget year and to 130 percent in 1997-98 *without* the need to construct additional beds. Since 130 percent was the level of overcrowding that the CYA was planning in its facilities master plan, we do not believe that, with the proposed legislation, the CYA would have to undertake a new building program for the foreseeable future. The CYA therefore would not need (1) the proposed budget appropriations for the six projects for new beds and (2) $500,000 requested for preplanning for future bed needs. We recommend a reduction of $626,000 in Item 5460-301-746 and $3,882,000 in Item 5460-301-754.

UNIVERSITY OF CALIFORNIA (6440)

The budget proposes $167 million in appropriations for the state's share of the University of California's (UC) 1994-95 capital outlay program. This total includes $21 million in previously-authorized general obligation bonds, $141 million in general obligation bonds that the Governor has proposed to place before the voters in 1994, and $5 million in lease-payment bonds.

Five-Year Capital Outlay Plan

The UC's five-year plan reflects a deferral of enrollment-related projects in response to flat enrollment levels projected over the next few years.

The UC's five-year capital outlay plan—summarized in Figure 14—proposes expenditures totaling $1.2 billion between 1994-95 and 1998-99. While the funding level is almost identical to the UC's previous five-year plan, the plan reflects a reordering of priorities in response to lower enrollment levels. In its 1993-94 budget request, the UC proposed to keep enrollments essentially flat over the following five years. The UC's five-year plan reflects deferral of all projects related to enrollment growth to the last two years of the plan. Conversely, some projects to renovate existing facilities or to address code-related deficiencies have been in advanced in the program relative to the previous five-year plan.

Figure 14

**University of California
Five-Year Capital Outlay Plan
1994-95 Through 1998-99**

(In Millions)

	1994-95	1995-96	1996-97	1997-98	1998-99	Total
Planned expenditures	$257.8	$234.8	$245.6	$215.7	$258.6	$1,212.5

1994-95 Capital Outlay Program

The $167 million budget proposal provides about two-thirds of the $258 million and funds 38 of the 74 projects requested by the UC for1994-95. The future cost to complete the projects in the budget is $90 million. Figure 15 summarizes the budget proposal by project type. (Most UC projects include a mix of research/office space and teaching space. We have categorized projects as primarily one or the other based on the relative amounts of square feet dedicated to these purposes.)

About three-fourths of the program costs are for research/offices, instructional, or library facilities. Of the 38 proposed projects, six are *new* projects for which preliminary plans are requested. These include two projects to improve infrastructure, one seismic retrofit project, two projects to renovate space in buildings vacated upon the construction of new facilities (one project also involves seismic improvements), and one project to replace a 70-year-old building at the UC San Diego Medical Center.

In our *Overview of Higher Education Capital Outlay* we recommend that the Legislature fund specific projects, including $12.1 million for ten UC projects, from existing bonds as opposed to proposed bonds. This would affect six projects to equip buildings under construction ($1.7 million), two projects to improve the earthquake resistance of existing buildings ($6.1 million), and two projects to improve campus infrastructure ($4.3 million).

Figure 15

University of California
1994-95 Capital Outlay Program

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost[a]	Total
Research/office facilities	8	$39,065	$32,032	$71,097
Instructional facilities	5	51,448	28,585	80,033
Library facilities	2	40,288	1,727	42,015
Mitigate hazards	6	11,840	14,355	26,195
Equipment	10	6,604	1,000	7,604
Utilities/infrastructure	6	11,520	11,931	23,451
Minor capital outlay/disabled access	1	6,000	—	6,000
Totals	**38**	**$166,765**	**$89,630**	**$256,395**

[a] University estimate.

Modify Proposed Budget Bill Language

We recommend that the Legislature modify proposed Budget Bill language in order to (1) more clearly define project savings, (2) change the proposed use of savings, and (3) require a report to the Legislature.

The budget proposes language allowing UC (and CSU) to use "identified savings" in funds appropriated from general obligation bonds funds for one of the following purposes:

- To begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board and the project remains in budget and scope.
- To fund additional minor capital outlay projects.
- To continue with the underground storage tank corrections program.

Under current state practice, savings on general obligation bond-funded projects revert to the bond fund and then can be appropriated by the Legislature for additional capital outlay needs. According to the Governor's budget summary document, the intent of this language is to provide additional flexibility for the use of savings. In addition, according to the UC, the intent of the language is to provide campuses with incentives to achieve project savings wherever possible and to prevent discontinuity between the approval of preliminary plans and the start of working drawings.

This proposal has merit and we believe it is appropriate for the Legislature to adopt this language *as a pilot approach*. We recommend, however, that the Legislature modify the language in four ways.

- The language should be made more explicit by defining "identified savings" as monies remaining after all project change orders and claims are resolved and by expressing "scope and budget" as that approved by the Legislature in supplemental report language as adjusted only for inflation.
- We do not believe that the flexibility should be extended to minor capital outlay projects. The level of funding for minor capital outlay projects should instead be considered annually on a priority basis with other higher education capital outlay needs.
- We believe that the language should also allow the UC or CSU to use identified savings for engineering evaluations of buildings that have been identified as potentially in need of seismic upgrading.

- The language should require a report to the Legislature on the sources (by project) and uses of the savings.

Our recommended language is presented below.

Identified savings in funds encumbered for construction contracts from this General Obligation Bond Fund after completion of a project—upon resolution of all change orders and claims—may be used (1) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only, or (2) to proceed further with the underground tank corrections program, or (3) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting.

By March 1 and November 1, 1995, the University of California shall prepare a report (1) showing the identified savings by project and (2) showing the purposes for which the identified savings were used. These reports shall be submitted to the chair of the Joint Legislative Budget Committee and to the chairs of the fiscal committees in each house.

CALIFORNIA STATE UNIVERSITY (6610)

The budget includes $143 million in proposed appropriations for the California State University (CSU) 1994-95 capital outlay program. This amount includes $1 million in previously authorized general obligation bonds, $130 million in general obligation bonds the Governor has proposed to place before the voters in 1994, and $12 million in lease-payment bonds.

FIVE-YEAR CAPITAL OUTLAY PLAN

Given recent enrollment declines and uncertainty over future enrollments, the CSU's five-year plan defers construction of several previously-funded projects.

Capital Outlay Plan. The CSU's five-year capital outlay plan, as summarized in Figure 16, proposes expenditures totaling $2.2 billion between 1994-95 and 1998-99.

Figure 16

California State University
Five-Year Capital Outlay Plan
1994-95 Through 1998-99

(In Millions)

	1994-95	1995-96	1996-97	1997-98	1998-99	Total
Planned expenditures	$424.4	$354.1	$244.9	$726.6	$484.5	$2,234.5

Enrollments. For 1993-94, CSU enrollment is estimated to be 247,000 FTE, a reduction of 9,000 FTE from the previous year and 31,000 FTE from 1990-91. The CSU's five-year plan, released in September 1993, is based on an assumption that enrollment will grow to 277,000 FTE by 1998-99. The Department of Finance's (DOF's) most recent projections, however, estimate that the CSU will have only 238,000 FTE in 1998-99. (The DOF projects enrollment declines in each of the next three years and small increases in the following two years.) The DOF's enrollment estimate in 1998-99 is 39,000 FTE less than the CSU assumed in developing its five-year plan.

In our analysis of the CSU's support budget, we indicate that enrollments in the CSU have declined at a time when there has been little change in the population groups that typically attend the CSU. The decline is thus attributed to changes in "participation rates"—the proportion of (1) eligible students who enroll and (2) existing students who continue their education at the CSU. The CSU disagrees with the DOF's conclusion that enrollment will continue to decline in the short-term. The CSU believes participation rates can be increased if funding is provided for additional students. In our support budget analysis, we recommend that the Legislature direct the CSU to enroll an additional 4,000 FTE undergraduates within specified funding parameters.

In light of the recent declines in enrollment, the CSU has deferred construction on 18 facilities previously funded for design documents. Given the optimistic enrollment assumptions in the CSU five-year plan, we would expect that the CSU's next five-year plan will show continued deferral of enrollment-related projects.

BUDGET PROPOSAL

The budget reflects an emphasis on infrastructure renewal and mitigation of potential seismic safety hazards.

The CSU's 1994-95 capital outlay program is summarized by project type in Figure 17. As shown in the figure, the largest funding category is "utility/infrastructure" projects, which is almost one-half the $200 million total cost (budget-year plus future cost) of the program. Funding is also proposed for the construction phase of seven seismic retrofit projects. The budget does not include construction funding as originally requested for 1994-95 by the CSU for 13 building projects. (These are in addition to the 18 construction projects that the CSU itself deferred in its five-year plan.) Funding for only two new projects is proposed—a 53,000 assignable square foot (asf) Business and Public Administration building at the Bakersfield campus and a 55,000 asf science building addition at the Long Beach campus. The budget also provides funding to complete design documents for a renovation of the science building at the Hayward campus.

In our *Overview of Higher Education Capital Outlay*, earlier in this chapter, we recommend specific projects at all three segments that should be funded with existing bonds as opposed to proposed 1994 bond funds. This would affect five equipment projects ($4.9 million), one infrastructure project($1.8 million), and seven construction projects to retrofit buildings for seismic safety ($20.4 million) at the CSU.

Figure 17

California State University
1994-95 Capital Outlay Program
Funding Summary by Category

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Instructional facilities	3	$2,082	$48,026	$50,108
Utilities/infrastructure	18	79,709	10,411	90,120
Mitigate hazards	9	22,494	—	22,494
Equipment	11	16,587	—	16,587
Minor capital outlay/statewide planning	5	21,750	—	21,750
Totals	**46**	**$142,622**	**$58,437**	**$201,059**

NEW CAMPUS PROPOSED AT FORT ORD

In order to make an informed decision on the statewide and regional implications of the proposed new campus at Monterey Bay, the Legislature needs information from the CSU on the specific short- and long-run costs and impacts of the proposed new campus.

The CSU intends to seek legislative authorization this spring to establish the system's 21st campus on 1,300 acres at Fort Ord, a former military base in Monterey County. The budget proposes no support or capital outlay funding in 1994-95 related to the Fort Ord site. In its budget request to the state, however, the CSU asked for—but did not receive—$15 million for support costs at Fort Ord. The CSU also intends to redirect an additional $3 million from within its proposed budget for support costs. In partial response to a CSU request, the federal government has provided $15 million in 1994 for capital outlay related to initial building alterations needed to open the campus.

Significant Fiscal and Policy Issues. The CSU's proposed new campus raises some significant fiscal and policy issues for the Legislature, not only with regard to the state's overall policy regarding defense conversion projects and their impact on California's economy, but also with regard to the state's higher education policy. Specifically, the Legislature needs to have information from the CSU on the specific short- and long-run costs and impacts of the proposed new campus in order to evaluate its statewide and regional implications. Some of the key questions that must be answered are:

- Is a new CSU campus needed to accommodate future enrollments?
- How does the proposed new Monterey Bay campus fit with existing and potential capacity at other CSU campuses?
- What are the potential short-term tradeoffs with regard to student access?
- What are the state's capital outlay costs for the new campus?
- Does the Monterey Bay enrollment plan and "vision" meet the state's needs?

As we discuss in a later section, the CSU's negotiations with the federal government also raise significant legislative oversight concerns. The overview that follows outlines the status of the CSU plan for the new campus and discusses the key questions noted.

History of and Plan for the Proposed New Campus

Fort Ord was designated for closure by the federal government in 1991. In the summer of 1991, the CSU began exploring the possibility of establishing a new campus at Fort Ord. From March through July 1992, the Governor and the CSU trustees provided various written materials to the federal government in support of the proposed new campus.

In the 1992 Budget Act (enacted in September 1992), the Legislature provided $1 million in higher education bond funds to begin master planning, undertake feasibility studies, and develop cost benefit analyses for a possible Monterey County campus.

In early 1993, the CSU began seeking transfer of the property. There are two federal property transfer processes. The CSU is pursuing both.

The *first process*, based on longstanding federal law, is through the federal Department of Education (DOE). In February 1993 the CSU submitted its official request to the DOE for transfer of land and facilities. The DOE approved the request in September. The DOE approval letter requires the CSU to use the property for "educational purposes." In addition, CSU staff indicated that, under the DOE approval, the system cannot (1) sell any of the property, (2) lease any property except for educational purposes or (3) realize any profit from the property. Under the DOE transfer process, the property is scheduled for transfer to the CSU sometime in April 1994.

The *second process* is based on federal legislation enacted in December 1993, that allows the Department of Defense (DOD) to convey property at Fort Ord directly to the CSU. (This legislation also authorized direct conveyance of some Fort Ord land to the University of California for a research center.) With direct DOD conveyance, the CSU believes it will have more flexibility regarding property use than if the transfer occurs through the DOE. The DOD has not yet issued regulations to convey the land. According to CSU staff, the DOD will probably issue interim regulations sometime this spring that will govern use of the property until final regulations are eventually adopted.

At the time of this analysis (early February), it was not clear which transfer process will be used and what restrictions there will be on the use of the land.

Planned Enrollment

The CSU intends that Monterey Bay be established as a full campus with a student body consisting of 30 percent lower division, 50 percent upper division, and 20 percent graduate students. The CSU is planning to open the Monterey Bay campus in fall 1995 with about 2,000 students (1,000 full-time equivalent [FTE]). According to CSU staff, this total would include relocation of the San Jose State University off-campus center in Salinas, which currently serves about 550 upper division and graduate students.

CSU staff at Monterey Bay are projecting that after 1995, the campus will grow by 500 to 1,000 FTE per year. In the short term, the campus's ability to grow would depend on the levels of funding provided. The CSU intends that the Monterey Bay site will eventually become a 25,000-student campus.

The CSU indicates that the proposed campus will be primarily residential, with 80 percent of students residing on campus. In fact, the CSU is considering the establishment of some type of on-campus student residence requirement (with a waiver process).

Campus Vision

The CSU has a broad "vision" for the proposed new campus. The campus is intended to be a model for educational technology, institutional collaboration, and multicultural education. For example, the CSU's draft vision statement indicates that the campus "will develop a culture of innovation . . . including distance learning." Furthermore, the "identity of the university will be framed by a substantive commitment to multilingual, multicultural, and gender-equitable learning." The campus will also be "collaborative in its orientation, and active in seeking partnerships across institutional boundaries." An evaluation conducted for the CSU cites the new campus as an opportunity to create a "new institution of higher learning." Specifically:

> *The 21st Campus for the 21st Century is being planned at a time of great change facing our society. It will open its doors on the eve of the Third Millennium; it will be established on the grounds where soldiers had been taught the art of killing; it will develop at the same time that the Nation is rapidly becoming technologically oriented and knowledge based.*
>
> *The California State University system has the opportunity to create a new institution of higher learning, under the conditions mentioned above, and at the same time to break the mold, to change the paradigm, and to give in to change.*

Facilities Renovation

The property will include about 1,300 acres and numerous facilities, including 1,253 housing units, 21 three-story barracks (planned to be altered for academic uses), 23 dormitory-style barracks buildings (planned for use as dormitories), and several one- and two-story buildings to be used for academic and administrative functions. Based on the CSU's most recent estimate, the renovation will cost $142 million for 84 buildings, including associated infrastructure improvements. The renovations would provide for programmatic needs and include seismic upgrading and other changes required to conform to building codes and Americans with Disabilities Act requirements. At this time, no state capital outlay funds are contemplated for facilities renovation. The CSU is seeking federal funds to renovate the Fort Ord facilities for campus operations.

The CSU sought $25 million in federal funding to begin renovation, but the federal budget for fiscal year 1994 (ending September 30, 1994) provides only $15 million. With these funds, the CSU plans to renovate 14 buildings, including a 93-room dormitory complex. The renovation is scheduled to begin by August 1994 and be completed in time to allow occupancy in fall 1995.

Support Funding

No support funding was earmarked in the 1993 Budget Act for any activities relating to Monterey Bay. The Chancellor, however, allocated $3 million for continued campus planning from the $16 million reserved by the CSU for new initiatives. The CSU expects to encumber about $2.7 million of these funds in the current year. At the time this analysis was written, 12 staff were assigned to Monterey Bay. This number is expected to increase to about 46 staff by April, including ten faculty positions related to the proposed campus' academic program.

Staff at the CSU indicate that the system most likely will continue to provide the existing level of support ($3 million annually) from internal resources into the foreseeable future. For 1994-95, the CSU trustees requested an additional $15 million from the General Fund for operating costs. This amount was proposed to support almost 300 positions but not to provide for any furniture or equipment. The Governor did not provide any support funding although the Governor's Budget document indicates that the administration supports the proposed new campus. The CSU estimates that in three years (1997-98), the new campus will require a total operating budget of $48 million and 750 positions to support 4,000 FTE students.

The Legislature Lacks Key Information On Proposed Monterey Bay Campus

The CSU cites Fort Ord as a unique opportunity because it is large, contains significant numbers of facilities and allows development of a new campus that would meet enrollment demands and act as a model of educational innovation. While there is certainly an opportunity to acquire a large amount of land and facilities, it is not clear how the acquisition and development of a CSU campus at Fort Ord meets the Legislature's goals, objectives, and priorities for the CSU system in particular and the state's higher education system in general.

We believe that the Legislature should have information on the short- and long-term costs and implications of this proposal in order to evaluate its statewide and regional implications. Moreover, the Legislature needs this information in order to evaluate its options on how best to proceed. In the following sections, we discuss various policy and fiscal issues related to the CSU's proposal.

Is a New Campus Needed to Accommodate Future Enrollments?

The CSU indicates that a new campus is needed to meet future enrollment needs, both statewide and for the Monterey region. However, the CSU has not provided projections to demonstrate this need. To place the proposal for a new campus in an overall CSU context, the Legislature needs information both on projected short-term and long-term enrollments and on the CSU's existing and planned capacity to serve students. CSU staff indicate that the system will issue new plans sometime this spring.

In *The 1990-91 Budget: Perspectives and Issues*, we found no demonstrated need to plan for any new CSU campuses based on the Department of Finance (DOF) Demographic Unit's enrollment projections and the CSU's capacity projections through 2005-06. Since that time, the DOF has revised its enrollment projections for 2005-06 *downward* by 5 percent. This tends to support our previous conclusion for this time period.

The CSU has also justified the need for a new campus in the Monterey area in part due to regional enrollment needs. However, four community colleges in the Fort Ord vicinity currently have the capacity to serve several thousand more lower-division students. Specifically, the most recent enrollment projections and facilities inventories for Cabrillo, Gavilan, Hartnell, and Monterey Peninsula Community Colleges show that these campuses could accommodate about 9,000 more FTE in 1994-95. Even with projected growth and no additional facilities, the four campuses could still accommodate about 7,000 more FTE in 1998-99. Based on these data, we conclude that no additional lower-division capacity is needed in the area, at least until after the turn of the century.

The CSU also indicates that additional upper division and graduate enrollments will need to be accommodated in the region. Generally, an off-campus center connected with an existing university campus is a significantly less costly alternative than development of a new campus. This is because there is no need to duplicate central administrative functions or to construct various facilities (such as gymnasia, theaters, support services, etc.). For example, a new campus requires a campus president, staff and various student support services. An off-campus center does not, because it relies on the provision of such services from the main campus.

As mentioned, the San Jose State University already operates an off-campus center in leased space in Salinas. Additional upper division and graduate students could be served at this center, either in the existing or additional leased space, to meet the regional need cited by the CSU.

How Does Monterey Bay Fit With Existing and Potential Capacity at Other CSU Campuses?

The proposed new campus at the Fort Ord site raises some significant issues for the Legislature regarding the capacity at existing campuses and centers and their potential for expansion. The Legislature needs to know how the proposed Monterey Bay campus fits in with other CSU expansion plans, and whether other campus expansion plans will be delayed or cut back if the proposed new campus is established.

For example, the CSU plans to continue expanding the San Marcos campus and has proposed to establish a new campus in Ventura County around the year 2000. (Purchase of about 250 acres is in the final stages.) The CSU also owns a 380-acre site in Contra Costa County which is currently the site of a CSU, Hayward off-campus center. While the CSU indicates it has no plans within the foreseeable future to create a campus at the site, the acreage available certainly makes such a project conceivable.

What are the Potential Short-Term Trade-Offs With Regard to Student Access

The development of the proposed new campus could significantly limit the CSU's ability to provide access to additional students in the immediate future. For example, the CSU estimates that it will need $21 million in 1995-96 to serve 1,000 FTE students at the proposed campus. This same funding level could be used to support roughly 4,500 students on existing campuses, because support services are already in place. This fiscal trade-off becomes even more significant by 1998-99. At that time, the CSU's proposed budget of $48 million to serve 4,000 FTE students at the Fort Ord site could be used instead to serve about 10,000 FTE students on existing campuses.

In late January, the CSU provided detailed support cost information on the proposed campus for the next five years. We are currently analyzing the information and will report to the Legislature as appropriate. The major issue here is how the Legislature views the student access trade-offs associated with the proposed new campus in light of its priorities for higher education generally and the CSU system specifically.

What Are the State's Capital Outlay Costs for the New Campus?

An obvious benefit of the Fort Ord proposal is that the state would obtain a significant amount of property and buildings at no cost. This includes 1.4 million square feet of existing space that the CSU plans to alter to accommodate academic and administrative functions. It is important to note, however, that the federal government has so far only provided about 10 percent of the $142 million the CSU estimates is needed to renovate the facilities for educational purposes. Failure of the federal government to provide all renovation funds might instead require state capital outlay funding in order to allow continued expansion of the campus. The Monterey Bay campus would then be competing with other CSU campuses for limited state capital outlay funding available for higher education. In addition, over the long term we estimate that a large amount of state funding would be needed to develop a 25,000-student campus.

Does the Monterey Bay Enrollment Plan and "Vision" Meet the State's Needs?

The specific implementation details for the campus are still being developed. For example, with regard to its residential campus proposal, the CSU has provided widely varying estimates as to how many students can be accommodated in the existing housing spaces, depending on the number of single students compared to student-headed families served.

The CSU indicates that roughly 20 percent of the students served at the proposed campus will be graduate students, which is roughly in line with the CSU average. The CSU indicates that the region contains significant graduate research opportunities in the environmental, foreign languages, and fine arts areas. However, given the differing roles of the University of California and the CSU, it is unclear why serving *additional* graduate students at the CSU should be a high priority for the state.

Finally, it is not clear why the CSU's "vision" for the future requires development of a new campus. For example, several CSU campuses (most notably, Chico State) use educational technology extensively and could already be considered "models." Many of the proposed campus' goals, such as serving the needs of a multicultural society and establishing collaborative relationships with other institutions, are worthwhile and have been supported by the Legislature in the past. The CSU has stated that these goals are being pursued on all of its existing campuses.

Conclusion

Defense conversion presents the state with opportunities as well as risks. In this analysis, we focus on the short- and long-run costs and impacts of the proposed new CSU campus at Fort Ord. Over the past several months we have been meeting with the CSU concerning the Fort Ord proposal, and have advised the CSU staff of the information needs discussed above.

The Legislature needs this information in order to evaluate the statewide and regional implications of this proposal. To properly inform the Legislature and assist it in the evaluation of options on how best to proceed, the CSU should identify how Fort Ord fits into its systemwide plans, particularly with regard to enrollment projections and campus capacities, capital outlay and support costs, and student access trade-offs.

LEGISLATION NEEDED TO REQUIRE PRIOR AUTHORIZATION FOR MAJOR PROPERTY NEGOTIATIONS

We recommend the enactment of legislation requiring the CSU to obtain prior legislative authorization before negotiating the establishment of new campuses or permanent off-campus centers, because the CSU has made commitments related to Fort Ord to the federal government and local governments that place the Legislature in a bind.

The CSU has negotiated with the federal government over the use of the Fort Ord site for a new campus since fall 1991. In its negotiations, the CSU has essentially committed the state to proceeding with a new campus. It is only now—about two and one-half years later—that the CSU is seeking legislative authorization.

We recognize that the CSU was participating in a regional planning process for conversion of the Fort Ord site, and that it has consulted with a number of legislators, various local governments, and members of Congress. However, this does not change the fact that the CSU has made commitments which should have been authorized by the entire Legislature.

As we discussed in the previous section, the DOE has approved the transfer of the Fort Ord property to the CSU for general educational purposes. According to CSU staff, the DOE has indicated that it will take back the Fort Ord site if CSU operations do not begin within three years after the site is transferred to the CSU. The staff also indicate the DOE is developing a schedule of fiscal penalties if the land is not used for CSU educational purposes. (Although the approval letter refers to general educational purposes, it also cites the CSU plan to use the property for a campus that will eventually serve 20,000 to 25,000 students. It is not known to what extent implementing this plan will be a part of the requirements ultimately imposed on the state in connection with the transfer.)

Various local governments in the Monterey Bay region have committed significant amounts of time and resources to assist the CSU in developing plans for the proposed new campus. The local governments have acted under the assumption that a new campus will be developed on the Fort Ord site.

Clearly, the CSU's actions have put the Legislature in an awkward position and significantly limited its options. Specifically, the state will appear not to have negotiated "in good faith" with the federal and local governments if a new campus is not approved.

The CSU should not put the Legislature in such a bind in the future. To prevent such problems, we recommend that the Legislature enact legislation clarifying that the CSU cannot enter into negotiations for a new campus or a permanent off-campus center without prior legislative authorization.

CALIFORNIA COMMUNITY COLLEGES (6870)

The budget proposes $178 million for the California Community Colleges (CCC) 1994-95 capital outlay program. This amount includes $39 million in previously authorized general obligation bonds and $139 million in general obligation bonds that the Governor has proposed to place before the voters in 1994.

Five-Year Capital Outlay Plan

The CCC's five-year plan is larger than its previous plan even though enrollments will be less than previously projected.

The CCC's five-year capital outlay plan (see Figure 18) totals $2.9 billion for the period 1994-95 through 1998-99. This amount is about $300 million more than the CCC's previous five-year plan and $850 million higher than the plan submitted just two years before.

Figure 18

California Community Colleges
Five-Year Capital Outlay Plan
1994-95 Through 1998-99

(In Millions)

	1994-95	1995-96	1996-97	1997-98	1998-99	Total
Planned expenditures	$417.7	$1,109.5	$741.4	$458.5	$155.7	$2,882.8

Enrollment Projections. The CCC estimates that current-year enrollment will be 888,000 full-time equivalent students (FTEs)—a decline of 39,000 FTEs over the prior year and 65,000 FTEs (7 percent) since 1991-92. Both the Department of Finance (DOF) and the Chancellor's Office have recently completed statewide enrollment projections covering the next 15 years. The DOF and the Chancellor's Office project significant growth over the 15-year period, but in the short-term both entities see further declines followed by slow growth. These projections show enrollment levels in 1998-99 to be 9 percent to 11 percent *less* for that year than was projected by the DOF just two years ago.

With lower community college enrollment now expected in the short-term, the community colleges might not have as great a need for new facilities over the next five years. It is important to note that certain districts could experience more rapid growth even in light of statewide declines. Nevertheless, slower growth might provide an opportunity to direct more state resources towards upgrading existing community colleges facilities and infrastructure.

Budget Proposal

The CCC's capital outlay program for 1994-95 is summarized by project type in Figure 19. The budget includes funding for 128 of the 316 projects and $178 million of the $334 million requested by the Chancellor's Office. The budget program is distributed among a wide range of categories, with the largest in terms of total costs (budget-year plus future cost) being for infrastructure ($51 million), removing architectural barriers for disabled individuals ($41 million), and upgrading of instructional facilities ($50 million). Of the proposed projects, 88 have been partially funded by the Legislature in previous Budget Acts and 40 are new projects for which funding is in most cases only requested to complete design documents.

Figure 19

California Community Colleges
1994-95 Capital Outlay Program

(Dollars in Thousands)

Category	Number of Projects	Budget Bill Amount	Estimated Future Cost	Total
Mitigate code deficiencies	8	$4,847	$11,629	$16,476
Disabled access	28	40,861	30	40,891
Equipment	39	24,518	—	24,518
Utilities/infrastructure	12	33,457	17,248	50,705
Add instructional facilities	6	26,922	9,681	36,603
Upgrade instructional facilities	14	7,397	42,579	49,976
Support facilities	8	8,011	13,762	21,773
Physical education facilities	1	13,931	—	13,931
One new off-campus center	3	16,577	3,156	19,733
Child care centers	3	668	9,329	9,997
Other	6	1,158	1,728	2,886
Totals	**128**	**$178,347**	**$109,142**	**$287,489**

In our *Overview of Higher Education Capital Outlay* we recommend that the Legislature fund specific projects, including 46 CCC projects, with existing bonds as opposed to proposed bonds. For the CCC, this recommendation affects 39 requests to equip projects under construction ($24.5 million), four projects to construct infrastructure previously approved by the Legislature ($20.5 million), and three projects to correct building code deficiencies ($3.9 million).

Antelope Valley CCD—Site Safety Improvements Phase II

We recommend deletion of $116,000 in Item 6870-301-842 for utilities and site development at Antelope Valley College because this work is not needed until funding for additional instructional facilities is also funded.

The budget requests $116,000 for preliminary plans and working drawings for expansion of roads and utilities to the undeveloped, northern part of the Antelope Valley College campus. The estimated future construction cost for this work is $1.3 million. Last year this work was proposed as part of a larger, $4 million infrastructure project for the college. The Legislature funded the portion of that project associated with providing utilities needed to serve new buildings that had been approved for construction. The Legislature, however, specifically disapproved funding for the work included in this proposal because it is needed only for future campus expansion.

There are again no proposals before the Legislature for building projects that would expand the developed portion of the campus. ListWe believe it is still premature to fund site development at this time. Therefore, we recommend that the Legislature delete the $116,000 for this project under Item 6870-301-842. In the future, the Chancellor's Office should couple this utility work with new projects to be sited in the undeveloped portion of the campus.

Mt. San Jacinto CCD—Site Safety Improvements

We withhold recommendation on $983,000 in Item 6870-301-842 for infrastructure/utility improvements pending discussions with the district and the Chancellor's Office on the appropriate scope of the project.

The budget includes $983,000 for preliminary plans and working drawings for additional site development and utility work at Mt. San Jacinto College. The estimated future construction cost of this project is $10.5 million. The work includes replacement/expansion of all major campus utilities and construction of a loop road around the campus. According to the district, some of this work is needed to improve fire protection, drainage, and ingress and egress from the campus.

Enrollment at this college is growing and the district is planning to add several new buildings to the campus. No new building projects are included in the Governor's Budget, however. While we believe that some utility improvements are needed, it is not clear that the entire project scope as proposed is necessary at this stage of the college's development. For example, it does not appear that a complete loop road around the campus is necessary given current ingress and egress capabilities. We will have discussions with the Chancellor's Office and the district prior to budget hearings and attempt to better define what utility/site development improvements might be meritorious of state funding in 1994-95. Pending these discussions, we withhold recommendation on the budget proposal.

Palomar CCD and San Francisco CCD—Master Plans

We recommend deletion of $204,000 in Item 6870-301-842 for master planning at Palomar College and San Francisco City College because funding for plans of this type is a district responsibilty.

The budget includes $204,000 to prepare facilities master plans for Palomar College and San Francisco City College ($102,000 for each college). In recent years, we have recognized the significant strides that the CCC has made in facilities planning. Many districts throughout the state have completed facilities master plans for the campus or campuses within their districts. Each of these districts have been responsible for establishing and financing these master plans. We believe that this practice should continue and, therefore, recommend deletion of $204,000 under Item 6870-301-842.

DeAnza College and East Los Angeles College—Child Care Centers

We recommend deletion of $470,000 in Item 6870-301-842 to design two child care centers because the projects have been improperly prioritized as health and safety projects.

The budget includes $470,000 to prepare preliminary plans and working drawings for child care/development centers at DeAnza College ($202,000) and East Los Angeles College ($268,000). The future costs to complete these projects are $3.3 million at DeAnza and $3.2 million at East Los Angeles.

The CCC Board of Governors has established criteria for the Chancellor's Office to apply in setting priorities among capital outlay requests submitted by the districts. The highest priorities are designated for projects to address safety requirements, correct hazardous conditions, and provide basic access for disabled persons. The districts' proposals for these two projects focus on current deficiencies related to the capacity of the campuses' existing child care facilities. On this basis, the projects would warrant legislative consideration for state funding, but *not* as a critical health and safety priority. The Chancellor's office, however, placed these projects in this high-priority category.

These two projects instead should have been placed at a priority level similar to 23 other child care projects submitted by districts. These 23 projects were judged to be low priorities by the Chancellor's Office and therefore not included in the Governor's Budget.

Our review therefore indicates that these two projects were improperly placed in the high priority category and should not receive state funds ahead of projects that otherwise would be higher priority under the CCC's priority criteria. Thus, we recommend that the Legislature delete the $470,000 included in Item 6870-301-842 for these projects.

Los Angeles CCD and San Francisco CCD—Library Books

We recommend reductions of $456,000 and $54,000 for purchase of library books at Los Angeles Mission College and San Francisco City College because purchase of library books is funded through the support budget.

The budget proposes $2,381,000 to equip a new library at Los Angeles Mission College. Included in this amount is $456,000 to purchase books for the library. State budget practice for all of higher education has been to fund the *initial complement* of library books at *new* campuses through the capital outlay program. Additional library books at existing campuses are purchased over time though support budget allocations. To be consistent with this practice, we recommend a reduction of $456,000 from the amount requested for Mission College. For the same reason, we recommend deletion of $54,000 for purchasing books for a new library at San Francisco City College. Reduce Item 6870-301-842 (38) by $456,000 and delete $54,000 from Item 6870-301-842(72).

MILITARY DEPARTMENT (8940)

The Military Department is responsible for the command and management of the California Army and Air National Guard. To support its operations, the department maintains a headquarters complex in Sacramento, 123 armories and 38 maintenance shops throughout the state. The deparment's five-year capital outlay plan for 1994-95 through 1998-99 totals $177 million for 17 armory projects plus one project to develop a new state headquarters complex. The Governor's Budget proposes appropriations totaling $12 million—$5.1 General Fund, $2.4 bond funds, and $4.5 million in federal funds—for two major projects and for planning, design, and supervision costs for 15 projects in which construction is fully funded by the federal government.

New Headquarters Complex

We recommend deletion of $2.8 million for a headquarters complex because (1) the department has a long-term lease commitment at a relatively low rental rate, (2) the department's consolidation needs should be prioritized with other state agencies' consolidation needs and (3) the department has other capital outlay needs which might be more meritorious for funding with proceeds from a Public Safety Bond. Delete $2,314,000 in Item 8940-301-754 and $467,000 in Item 8940-301-890.

The budget requests $2.8 million for preliminary plans and working drawings for a new Military Department headquarters complex at Mather Air Force Base in Rancho Cordova. This funding includes $467,000 in federal funds and $2,314,000 from the Governor's proposed 1994 Public Safety Bond. Estimated future costs for construction are $36.5 million ($24 million state and $12.5 million federal). The project would include a headquarters office building, a 400-person armory, a warehouse and storage building, a vehicle maintenance shop, and a flammable materials storage building.

Headquarters functions that the department wishes to consolidate are currently located at three sites in the Sacramento area—a leased office building and two state-owned sites—and at a state-owned building at Camp San Luis Obispo. According to the department, this fragmentation complicates routine operations and could be problematic if communications and transportation links between the command functions in Sacramento and the logistics functions in San Luis Obispo were interrupted by natural disaster. In addition, the department indicates that, if this project is not completed, the state will have to continue to pay rent for the leased facility. We have several concerns with this proposal.

Department Has Long-Term Lease. In April 1993, the department entered into a lease for 110,000 square feet of office space in Rancho Cordova. The department's current monthly rent for this space is $1.13 per square foot. The firm term of the lease extends to April 2001, when monthly rent will have increased to $1.89 per square foot. It is unclear how the department's need to move forward with consolidation fits with its commitment to remain at this site for seven more years.

Lease Rate Is Relatively Low. When compared to amounts that the state is paying to rent other office space in Sacramento and around the state, the department's current $1.13 per month is quite low. The state is currently paying rents of $1.50 to $1.90 per square foot for leased space in downtown Sacramento. Consolidation of the Military Department into state-owned space, therefore, will not save the *state* as much as if state facilities were built to accommodate other departments located in higher-priced leased space.

Consolidation Needs Should be Prioritized. While consolidation of departmental units is generally beneficial, for some departments it may neither be necessary nor cost beneficial. The Department of General Services (DGS) is responsible for procuring the office and real estate needs of state agencies. The Military Department's need for consolidation should be evaluated by the DGS on a statewide basis in relation to other departments' needs and in the context of the greatest benefit to the state. Based on the information presented by the Military Department it is unclear why its consolidation should be considered a high statewide priority. The department also has not quantified the benefits of consolidation, nor has it proposed alternatives to consolidation, such as enhancing its emergency communications capabilities.

Department Has Other Capital Needs. For 1994-95, the department requested $30.5 million in funding for 10 major capital outlay projects (those with total cost over $250,000). Besides this headquarters project, the Governor's Budget only proposes funding for one other project—a new armory in Culver City. The budget does not include funding for eight other armory-related projects. Moreover, the department's five-year capital outlay plan lists projects estimated to cost $150 million (not including the headquarters project) between 1994-95 and 1998-99. While all these proposals might not merit state funding, it is clear that the department has other capital outlay needs which (1) might be more necessary to enhance public safety than a headquarters consolidation and (2) could be addressed with proceeds from a Public Safety Bond as proposed by the Governor.

Conclusion. Given (1) the deparment's seven-year lease commitment and relatively low lease rate, (2) the lack of assessment of where the consolidation proposal fits among statewide consolidation priorities, and (3) the deparment's other significant capital outlay needs, we recommend that the Legislature not approve this headquarters project. Delete $2,314,000 in Item 8940-301-754 and $467,000 in Item 8940-301-890.

CONTROL SECTION 11.50—DISTRIBUTION OF TIDELANDS OIL REVENUES

We withhold recommendation on the proposed distribution of tidelands oil revenues, pending legislative proposals in the Budget Bill.

This section would modify existing law governing the allocation of tidelands oil revenues for the budget year. Figure 20 compares the allocation of these revenues under existing law with the allocation proposed in this section.

Figure 20

Distribution of 1994-95 Tidelands Oil Revenues Comparison of Current Law with Section 11.50

(In Thousands)

Allocation	Current Law	Section 11.50
State Lands Commission	$9,427	$9,427
California Water Fund	22,148	—
Housing Trust Fund	—	2,000
Subtotals	($31,575)	($11,427)
General Fund	—	$20,148
Totals	**$31,575**	**$31,575**

Until the Legislature has determined how it intends to spend these revenues, it would be premature to allocate them through Control Section 11.50. Once the spending decisions have been made, revenues should be allocated in a conforming manner.

Reduction in Current-Year General Fund Transfer

In addition to proposing an allocation of projected budget-year revenues, the administration also proposes to amend Section 11.50 of the *1993 Budget Act* in order to reduce the transfer of 1993-94 tidelands oil revenues to the General Fund. This $42 million reduction in the General Fund transfer is attributable to reduced crude oil prices in the current year.

LIST OF FINDINGS AND RECOMMENDATIONS

Analysis Page

Crosscutting Issues

Deferred Maintenance Update

1. **Deferred Maintenance Still a Problem.** The state and K-12 school districts continue to have large deferred maintenance backlogs. In general, neither the state nor the schools are adequately taking steps to address their backlogs. We urge departments to submit the deferred maintenance plans requested last year by the Legislature through supplemental report language. I-15

2. **Education Facilities Have the Worst Problems.** Special repair funding for several state departments appears sufficient to prevent a further build-up in deferred maintenance. For the higher education segments and K-12 schools, however, deferred maintenance backlogs will continue to grow unless spending on special repairs is increased. I-16

Higher Education Capital Outlay

3. **Budget Proposals.** The budget for higher education capital outlay is almost totally dependent on voter approval of a new general obligation bond measure in 1994. I-19

4. **Funding Needs for Earthquake Repairs Uncertain.** Existing unallocated bonds might be needed for the state's share of costs to repair/replace facilities damaged by the Northridge earthquake. No specific projects or costs had been identified at the time this analysis was written. I-23

5. **Priorities for Using Existing Bond Funds.** Recommend the Legislature earmark $88.1 million in existing higher education bonds to be used for (1) movable equipment to complete building projects and (2) construction funds for seismic retrofitting, infrastructure improvements, and correction of code deficiencies rather than fund these high priority projects from a proposed bond issue. I-23

Analysis Page

Control Section 2.00

6. **Time Period for Availability of Construction Funds.** Recommend the Legislature add Budget Bill language, as included in previous budget acts, to revert funds appropriated for construction projects if the Department of Finance has not approved proceeding to bid in the budget year. I-25

Veterans' Home of California

7. **Major Renovation Projects.** Withhold recommendation on three projects pending information from the Department of Veterans Affairs on the demand for additional bed capacity and the costs of operating the second veterans home plus a fully-renovated Yountville Home. I-27

Department of Health Services

8. **Planning for New Laboratory Complex.** Recommend deletion of $1.5 million in study and planning funds because the department has not defined how the funds will be used. I-29

9. **Remove Restrictions on Location of New Laboratory Complex.** Recommend the Legislature rescind $54.5 million in existing bond authority and direct the administration to evaluate other locations besides Richmond for the department's facility needs. I-29

Department of Corrections

10. **Budget Committees Should Consider New Prisons.** Recommend that the department provide the fiscal subcommittees with a proposal for authorizing and funding new prisons projects as part of the 1994-95 budget. Recommend that the fiscal committees withhold approval of the department's capital outlay budget for existing prison projects pending receipt of this proposal for new prisons. I-32

California Youth Authority

	Analysis Page
11. **Projects for New Beds.** Consistent with a recommendation in our analysis of the CYA's support budget, recommend deletion of $4.5 million for planning and design of new beds because the beds will not be needed if most "M cases" are transferred to the Department of Corrections. Delete $636,000 in Item 5460-301-746 and $3,882,000 in Item 5460-301-754.	I-35

University of California

12. **Five-Year Capital Outlay Plan.** The UC's five-year plan reflects a deferral of enrollment-related projects in response to flat enrollment levels projected over the next few years.	I-37
13. **Proposed Language to Increase Flexibility.** Recommend a modification to proposed Budget Bill language in order to more clearly define project savings and to require a report to the Legislature.	I-39

California State University

14. **Five-Year Capital Outlay Plan.** Given recent enrollment declines and uncertainty over future enrollments, the CSU's five-year plan defers construction of several previously-funded projects.	I-41
15. **Budget Proposal.** The budget reflects an emphasis on infrastructure renewal and mitigation of potential seismic safety hazards.	I-42
16. **New Campus at Fort Ord.** In order to make an informed decision on the statewide and regional implications of the proposed new campus at Monterey Bay, the Legislature needs information from the CSU on the specific short- and long-run costs and impacts of the proposed new campus.	I-43
17. **Major Property Negotiations.** We recommend the enactment of legislation requiring the CSU to obtain prior legislative authorization before negotiating the establishment of new campuses or permanent off-campus	I-51

Analysis Page

centers, because the CSU has made commitments related to Fort Ord to the federal government and local governments that place the Legislature in a bind.

California Community Colleges

18. **Five-Year Capital Outlay Plan.** The community colleges' five-year plan is larger than its previous plan even though enrollments will be less than previously projected. I-53

19. **Antelope Valley CCD—Site Safety Improvements.** Recommend deletion of $116,000 in Item 6870-301-842 for utilities and site development at Antelope Valley College because this work is not needed until funding for additional instructional facilities is funded. I-55

20. **Mt. San Jacinto CCD—Site Safety Improvements.** Withhold recommendation on $983,000 in Item 6870-301-842 for infrastructure/utility improvements pending discussions with the district and the Chancellor's Office on the appropriate scope of the project. I-55

21. **Palomar CCD and San Francisco CCD—Master Plans.** Recommend deletion of $204,000 in Item 6870-301-842 for master planning at Palomar College and San Francisco City College because funding for plans of this type is a district responsibility. I-56

22. **DeAnza College and East Los Angeles College—Child Care Centers.** Recommend deletion of $470,000 in Item 6870-301-842 to design two child care centers because the projects have been improperly prioritized as health and safety projects and should not receive state funds ahead of higher-priority projects. I-56

23. **Los Angeles CCD and San Francisco CCD—Library Books.** Recommend reductions of $456,000 and $54,000 for purchase of library books at Los Angeles Mission College and San Francisco City College because purchase of library books is funded through the support budget. I-57

Military Department

24. **New Headquarters Complex.** Recommend deletion of $2.8 million for a headquarters complex because (1) the department has a long-term lease commitment at a relatively low rental rate, (2) the department's consolidation I-58

Analysis Page

needs should be prioritized with other state agencies' consolidation needs and (3) the department has other capital outlay needs which might be more meritorious for funding with proceeds from a Public Safety Bond. Delete $2,314,000 in Item 8940-301-754 and $467,000 in Item 8940-301-890.

Control Section 11.50—Distribution of Tidelands Oil Revenues

25. **Distribution of Tidelands Oil Revenues.** Withhold recommendation on the proposed distribution of tidelands oil revenues, pending legislative proposals in the Budget Bill. I-61