

MAJOR ISSUES

Capital Outlay

The State Needs a Better Planning and Financing Process for Capital Outlay

- In recent years the state has relied heavily on the use of bonds for addressing its capital outlay needs. Over the last five years, less than 0.1 percent of General Fund expenditures have been used to fund projects on a “pay-as-you-go” basis. The state needs a better balance between debt financing and pay-as-you-go-financing.
- The lack of a predictable funding source and a coordinated set of priorities has meant some high priority projects have been deferred.
- We recommend the Legislature dedicate a portion of annual General Fund revenues to provide a pay-as-you-go funding source for capital outlay. (See page H-15.)

Set Priorities Instead of Allocating Equal Amounts for Capital Outlay in Higher Education

- The administration and the Legislature for the past several years have allocated funds to the segments of higher education based on an equal amount rather than based on relative needs.
- We have recommended specific criteria and priorities for the Legislature to use when evaluating higher education capital outlay across all three segments. (See page H-18.)

The Legislature Needs a Better Way to Assess Seismic Risk in Higher Education Buildings

- The Department of General Services has developed a method for evaluating the relative seismic risk of state buildings that the Legislature has used to fund structural improvements for the highest risk state buildings.
- To give the Legislature a common evaluation system, we recommend that the Legislature require the University of California and the California State University to reevaluate their buildings for seismic safety using the Department of General Services' methodology. (See page H-27.)

A Plan Is Needed for Housing Judicially Committed and Penal Code Patients in State Hospitals

- The number of judicially committed and penal code committed patients in the Department of Mental Health are expected to grow by about 300 each year.
 - The administration has not developed a long range plan for accommodating this population and instead is proposing to expand Atascadero State Hospital in two 250-bed units.
 - The Legislature needs to address this need in a comprehensive manner that considers various alternatives including construction of more facilities. We recommend the Legislature not approve additional beds for these patients until a comprehensive plan is presented. (See page H-51.)
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OVERVIEW

Capital Outlay

Funding for capital outlay would increase significantly in the budget year, mainly as a result of General Fund increases for capital outlay programs and new authorizations of lease-payment bonds for three large projects. Nearly one-half of the proposed appropriations are from a general obligation bond that has not yet been approved by the Legislature or the voters.

The 1998-99 Governor's Budget proposes \$958 million for capital outlay programs (excluding highway and rail programs which are discussed in the Transportation section of this *Analysis*). This is spending on physical assets—college lecture halls, parklands, and prisons. (Spending to pay off those assets that have been financed with bonds is discussed later in this section.) The proposed amount is an increase of \$200 million (27 percent) over current-year appropriations. Figure 1 compares the amounts appropriated for capital outlay in the current year to the amounts proposed in the budget for each general organizational area. As shown in the figure, the largest increase (\$147 million) is in the area of Health and Social Services.

Figure 1

State Capital Outlay Programs

1997-98 and 1998-99
(In Millions)

	1997-98	1998-99	Difference
Legislative, Judicial, and Executive	\$19.8	\$32.7	\$12.9
State and Consumer Services	79.2	55.8	-23.4
Transportation (excluding highways and rail)	3.5	15.6	12.1
Resources	90.3	145.0	54.7
Health and Social Services	18.8	165.3	146.5
Youth and Adult Corrections	51.8	54.9	3.1
Higher Education	490.4	470.8	-19.6
General Government	0.6	18.2	17.6
Totals	\$754.4	\$958.3	\$203.9

Figure 2 shows the amounts each department requested for capital outlay funding in 1998-99, the amounts approved for inclusion in the Governor's budget, and the future cost for the approved projects. As shown in the figure, an estimated \$418 million will need to be appropriated in the future in order to complete these projects. Thus, the request before the Legislature represents a total cost of almost \$1.4 billion.

The Governor's budget proposes funding the capital outlay program from bonds, the General Fund, special funds, and federal funds. Figure 3 (see page 8) shows the proposed funding for each department by fund source.

Bonds. Over 70 percent of all proposed funding for capital outlay (\$710 million) is from bonds. This includes \$75 million from previously approved general obligation bonds, \$450 million from proposed general obligation bonds (for higher education), \$11 million in previously issued lease-payment bonds for the California State University, and \$174 million from proposed lease-payment bond authorizations. (The debt service on all general obligation and virtually all these lease-payment bonds would be a General Fund obligation.)

Direct General Fund Appropriations. The proposed \$152 million from the General Fund is almost four times the General Fund appropriations in the current year for capital outlay.

Special Funds. The \$81 million proposed from various special funds are mainly for resources and transportation-related programs. This amount includes \$7.5 million from the state's tidelands oil revenues that are placed in the Natural Resources Infrastructure Fund. This fund was created by Chapter 293, Statutes of 1997 (SB 271, Thompson). For a more detailed discussion of all proposed uses of this fund, please see the Cross-cutting Issues section of the Resources chapter of this *Analysis*.

OVERVIEW OF CAPITAL OUTLAY NEEDS

Those departments funded under the state's capital outlay program—excluding the land conservancies and the Wildlife Conservation Board—annually prepare project-specific five-year capital outlay plans. These five-year estimates should be viewed with caution because some of the plans are incomplete and also may include proposals that, upon examination, would not merit funding. Nevertheless, the plans provide at least a reasonable assessment of the overall magnitude of the state's capital outlay needs.

Figure 2				
1998-99 Capital Outlay Summary				
<i>All Funds (In Thousands)</i>				
Department	Request	Governor's Budget		Totals
		Proposed 1998-99	Future Cost	
Legislative, Executive, and Judicial				
Emergency Services	\$27,312	\$27,083	\$7,644	\$34,727
Justice	5,962	5,602	18,233	23,835
State and Consumer Services				
Franchise Tax Board	\$3,945	—	—	—
General Services	63,497	\$55,834	—	\$55,834
Business, Housing, and Transportation				
Transportation	\$18,661	\$3,033	—	\$3,033
Highway Patrol	12,150	140	—	140
Motor Vehicles	12,474	12,474	\$6,452	18,926
Stephen P. Teale Data Center	2,100	—	—	—
Resources				
Tahoe Conservancy	\$16,473	\$16,473	—	\$16,473
Conservation Corps	430	—	—	—
Forestry and Fire Protection	36,802	32,286	\$21,051	53,337
Fish and Game	2,050	1,789	—	1,789
Wildlife Conservation Board	25,683	24,183	—	24,183
Boating and Waterways	7,121	6,100	9,489	15,589
Coastal Conservancy	20,718	23,440	—	23,440
Parks and Recreation	33,658	20,892	15,296	36,188
Santa Monica Mountains Conservancy	30,165	—	—	—
Coachella Valley Mountains Conservancy	40	40	—	40
Water Resources	47,558	19,760	13,360	33,120
Health and Social Services				
Health and Welfare Data Center	\$5,236	\$5,236	—	\$5,236
Health Services	115,668	115,668	—	115,668
Developmental Services	7,541	2,191	\$1,869	4,060
Mental Health	48,000	34,262	52,222	86,484
Employment Development	8,996	7,907	2,000	9,907
Youth and Adult Corrections				
Corrections	\$47,648	\$40,679	\$52,258	\$92,937
Youth Authority	38,285	14,211	21,002	35,213
Higher Education				
University of California	\$150,940	\$151,043	\$126,972	\$278,015
California State University	150,000	161,303	6,649	167,952
Community Colleges	206,491	158,445	43,935	202,380
General Government				
Food and Agriculture	\$6,797	\$650	\$6,498	\$7,148
Military	29,445	16,836	13,255	30,091
Veterans' Home of California	6,614	—	—	—
Unallocated capital outlay	831	744	—	744
Totals	\$1,189,291	\$958,304	\$418,185	\$1,376,489

Figure 3					
1998-99 Capital Outlay Program					
Proposed Expenditures by Fund Type					
<i>(In Thousands)</i>					
Department	Bonds	General	Special	Federal	Total
Emergency Services	\$25,841	\$1,242	—	—	\$27,083
Justice	—	5,602	—	—	5,602
General Services	55,834	—	—	—	55,834
Transportation	—	—	\$3,033	—	3,033
Highway Patrol	—	—	140	—	140
Motor Vehicles	—	—	12,474	—	12,474
Tahoe Conservancy	5,000	2,500	8,973	—	16,473
Forestry and Fire Protection	—	32,286	—	—	32,286
Fish and Game	550	—	1,239	—	1,789
Wildlife Conservation Board	—	—	24,183	—	24,183
Boating and Waterways	—	—	6,100	—	6,100
Coastal Conservancy	850	11,590	9,000	\$2,000	23,440
Parks and Recreation	1,457	5,890	12,945	600	20,892
Coachella Valley Mountains Conservancy	—	—	40	—	40
Water Resources	1,650	18,110	—	—	19,760
Health and Welfare Data Center	—	5,236	—	—	5,236
Health Services	115,668	—	—	—	115,668
Developmental Services	—	2,191	—	—	2,191
Mental Health	32,956	1,306	—	—	34,262
Employment Development	—	—	3,000	4,907	7,907
Corrections	—	40,679	—	—	40,679
Youth Authority	—	14,211	—	—	14,211
University of California	151,043	—	—	—	151,043
California State University	161,303	—	—	—	161,303
Community Colleges	158,445	—	—	—	158,445
Food and Agriculture	—	650	—	—	650
Military	—	9,470	—	7,366	16,836
Unallocated	—	744	—	—	744
Totals	\$710,597	\$151,707	\$81,127	\$14,873	\$958,304

Figure 4 compares the five-year estimates with proposed 1998-99 appropriations. (In addition to the programs in Figure 4, we estimate five-year capital outlay needs of about \$15.6 billion for highway and rail

programs and about \$11 billion for K-12 education facilities. These programs are not funded through project-specific appropriations in the budget, however, and thus are not part of our discussion in this chapter of the state capital outlay program.) In aggregate terms, the Governor's budget proposal funds about 9 percent of the identified five-year capital outlay needs. As the figure shows, the budget would fund a significant share of the five-year needs in the areas of Resources; Health and Social Services; and Executive, Legislative, and Judicial. On the other hand, the budget would fund a small portion of the five-year need for Youth and Adult Corrections and Higher Education. The Governor, however, is proposing a total of \$1.3 billion in bond funding and federal funds for new prisons through legislation separate from the budget. This would fund nearly 70 percent of the estimated five-year need for Youth and Adult Corrections.

Figure 4		
Five-Year Capital Outlay Plans Compared to Budget Bill Proposal		
<i>(In Millions)</i>		
	Five-Year Total^a	Budget Bill Amounts
Legislative, Judicial, and Executive	\$64	\$33
State and Consumer Services	609	56
Transportation (excluding highways and rail)	134	15
Resources	736	145
Health and Social Services	359	165
Youth and Adult Corrections	1,944 ^b	55
Higher Education	6,484	471
General Government	176	18
Totals	\$10,506	\$958

^a 1998-99 through 2002-03. Total does not include estimated five-year needs of \$15.6 billion for highway and rails programs and \$11 billion for K-12 education facilities.

^b Incorporates Legislative Analyst's Office estimate for new prison construction.

For higher education, the budget includes about 7 percent of the identified five-year need. The Governor's proposed \$1 billion bond measure (\$100 million would be set aside to match federal hazard mitigation funds) for higher education—from which the segments' 1998-99 program would be funded—would cover less than 15 percent of the estimated need. This five-year total may be overstated, however. Last year, the

California Community Colleges (CCC) reported a five-year need of \$750 million, which was based on an assumed future funding level of \$150 million each year. This year the CCC indicates a five-year need of \$3.6 billion. As discussed in our review of the CCC's capital outlay program (later in this chapter), this amount probably overstates the segment's need over the next five years.

BOND FUNDING AND DEBT SERVICE

Over the last several years, the majority of capital outlay has been funded with bonds. In the 1990s, the voters have authorized \$16.4 billion in general obligation bonds. While this amount is a substantial level of bond funding, only about \$3 billion was to finance the state's capital outlay programs discussed above. The other \$13.4 billion included \$5 billion for transportation and rail programs and \$8.4 billion for facilities, such as K-12 schools, water quality enhancements, and veterans' housing loans. In addition to these general obligation bonds, the Legislature has authorized \$5.6 billion in lease-payment bonds since 1990. These bonds have funded higher education facilities, prisons, state office buildings, state laboratories, and state homes for veterans.

Governor's 1998-99 Bond Proposals

The Governor proposes new bond authorizations over the next several years totaling \$13.2 billion:

- **General Obligation Bonds (\$11.7 Billion).** The Governor proposes \$5.7 billion in general obligation bonds in 1998 (see Figure 5). The Governor also proposes that the Legislature authorize an additional \$6 billion in general obligation bonds for K-12 schools, with bond measures of \$2 billion each to be placed on the ballots for the 2000, 2002, and 2004 elections.
- **Lease-Payment Bonds (\$1.5 Billion).** Figure 6 summarizes the administration's proposed use of lease-payment bonds. These bonds are authorized for specific projects and do not require voter approval. Of the total, \$300 million is for as-yet unspecified state capital outlay projects. (The administration indicates that projects could include crime laboratories for the Department of Justice, additional beds at the Atascadero State Hospital, and state office building construction or renovation.)

Figure 5

Governor's General Obligation Bond Proposal for 1998 Elections

(In Millions)

Program	Amount
K-12 Schools	\$2,000
Higher Education	1,000
Local Juvenile Facilities	350
Infrastructure Bank	200
Water	1,300
Watershed, Wildlife, and Parks Improvement	800
Total	\$5,650

Figure 6

Governor's Proposed 1998 Lease-Payment Bonds

(In Millions)

Department/Project(s)	Amount
Department of Corrections	
New state prisons	\$1,024 ^a
California Youth Authority	
Security housing units	33 ^a
Department of Health Services	
Richmond Laboratory, Phase II	116
Office of Emergency Services	
Headquarters facility	26
Department of Mental Health	
Atascadero State Hospital addition	33
Unspecified projects	300 ^b
Total	\$1,532

^a The administration indicates that a final decision has not been made as to whether these will be general obligation or lease-payment bonds. In calculating the fiscal effect of the \$13.7 billion in bonds on the state's debt service costs, however, the Department of Finance assumed lease-payment financing for these bonds.

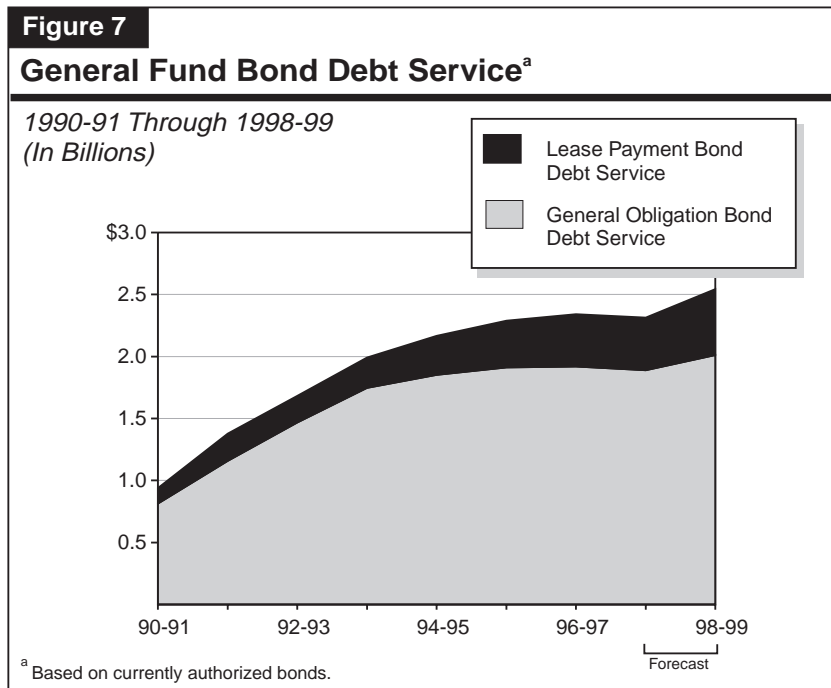
^b Authorization in 1998 and/or 1999.

Debt Service

The state's debt-service payments on bonds will be \$2.6 billion in the budget year—10 percent over current-year costs. There are two debt-service components:

- **General Obligation Bonds.** The Governor's budget reflects a General Fund cost increase of \$123 million over current-year debt-service expenditures of \$1.9 billion.
- **Lease-Payment Bonds.** The state's cost for debt service on lease-payment bonds will be about \$551 million in 1998-99—25 percent over the current year. We estimate that about 93 percent of this debt service is paid by the General Fund.

Debt service for lease-payment bonds is becoming a greater portion of total debt-service costs, as shown in Figure 7. For example, lease-payment debt service was 13 percent of total debt service in 1990-91 and will increase to 21 percent in the budget year.



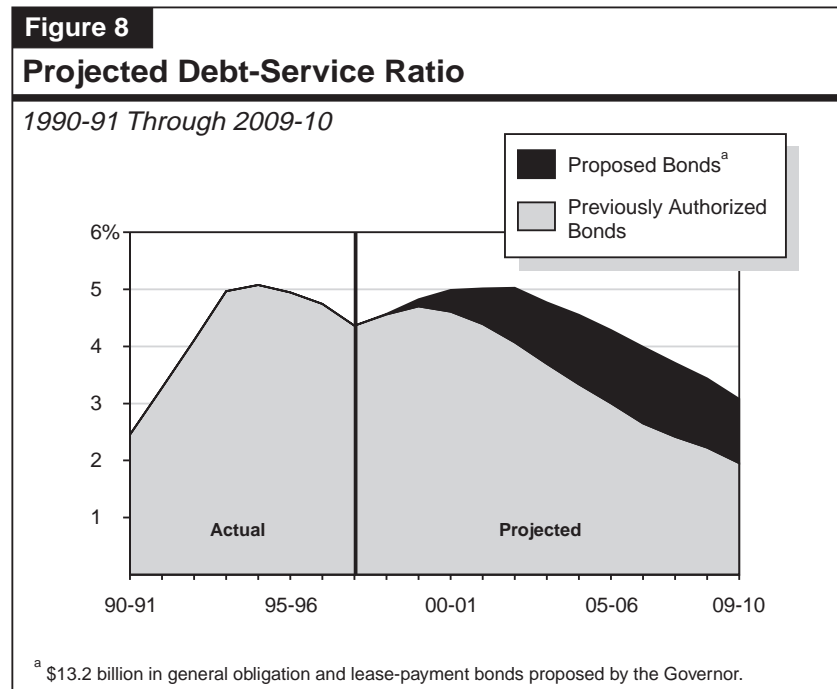
As currently authorized bonds are sold, debt-service payments will increase to \$2.8 billion in 2000-01 and decline thereafter if no new bonds are authorized. If the Governor's proposed \$13.2 billion in additional

general obligation and lease-payment bond are authorized, we estimate that debt payments would increase to \$3.5 billion by 2004-05 and decline thereafter.

Debt Service Ratio

We estimate that the amount of debt service on General Fund-backed bonds as a percentage of state General Fund revenues (that is, the state's *debt ratio*) will be 4.3 percent for the current year. As shown in Figure 8, this ratio rose significantly in the early 1990s, but has been declining since 1994-95. This decline has occurred because of stronger General Fund revenue growth and relatively stable debt-service payments. We estimate that, as currently authorized bonds continue to be sold, the debt ratio will increase in the budget year, rise to 4.7 percent in 1999-00, and decline thereafter. (This projection uses our General Fund revenue estimates.)

Figure 8 also shows the impact on the debt ratio if the Governor's proposed \$13.2 billion in general obligation and lease-payment bonds are authorized. We estimate that, as these bonds are sold over the next decade or so, the debt ratio would peak at 5.1 percent in 2001-02. After that time the debt ratio would gradually decline.



The Department of Finance has indicated that sales of the proposed bond would increase the debt ratio to a peak of 5.9 percent—as compared to our estimated peak of 5 percent. There are two reasons for this difference. First, the department’s calculations included General Fund revenue estimates that in future years are less than our estimates. Second, the department assumed—contrary to historical experience—that a much greater share of the proposed bonds would be sold within two years after receiving voter approval.

MAINTENANCE AND DEFERRED MAINTENANCE

In recent years, we have discussed the underfunding of routine maintenance in state facilities and K-12 schools and the resulting backlogs of deferred maintenance. Over the last two years, funding for maintenance and/or deferred maintenance has increased at certain agencies—the community colleges, California State University (CSU), the Department of General Services (for state office buildings), and K-12 schools (a one-time increase in 1997-98 for deferred maintenance).

For 1998-99, the Governor’s budget is taking a very positive step in addressing these problems by including the following increases in maintenance-related funding:

- \$900,000 for repairs to state office buildings.
- \$5 million to address deferred maintenance in the state park system.
- \$6 million each for ongoing maintenance and for deferred maintenance at the University of California.
- \$1.7 million for ongoing maintenance at the CSU.
- \$40 million in one-time funds available for deferred maintenance, among other purposes, at the community colleges.
- \$135 million as a new base funding level for deferred maintenance in K-12 schools, coupled with increased minimum requirements for maintenance spending by school districts.

Though in some cases these increases are modest in relation to the overall need, the administration’s effort to improve the condition of state and K-12 school facilities is encouraging. A key element to providing this funding, however, is an assurance from each agency that these funds, as well as other maintenance funds in their budget, will be used for these purposes.

CROSSCUTTING ISSUES

Capital Outlay

FINANCING PRIORITY CAPITAL OUTLAY PROJECTS

BACKGROUND

California's economic growth and quality of life are in part dependent on the adequacy of the state's public infrastructure. Moreover, providing adequate facilities is integral to the success of programs and services funded with state resources. In addition to the state's transportation, water, and parks systems, the state has an immense inventory of other physical facilities. For example, the three segments of higher education alone have about 120 million square feet of building space. About 55 million square feet of this space was built or renovated more than 28 years ago. Given the magnitude of the public infrastructure in California, decisions about building or renovating facilities, acquiring and selling property, or expanding and replacing utility systems should be considered with a long-term perspective.

If the state is to get the "biggest-bang-for-its-buck" in addressing state infrastructure needs, the state must adopt a more deliberate capital outlay planning and financing process. In our view, this requires development of an integrated five-year state capital outlay plan, which sets priorities and identifies financing alternatives, and presentation of this plan as part of the annual budget. This approach would provide a statewide context of needs and priorities, and highlight the financing tradeoffs to meet the state's highest priorities.

The state generally finances its infrastructure projects in one of two ways: “pay-as-you-go” or bonds. Pay-as-you-go is the least costly method of financing. Under this approach, direct appropriations to fund a project or acquisition are made on an annual basis. Bonds, on the other hand, generally allow the state to acquire expensive assets that it could not afford on a pay-as-you-go basis. Under this financing method, the state borrows money and then repays the borrowed money (principal) plus interest, over a period of years. These are the state’s debt service payments.

In recent years, the state has placed before the voters single-purpose bond issues; the proceeds of which can only be used for a given program (for example, higher education). For certain projects outside these program areas, the state commonly has relied on lease-payment bonds authorized by the Legislature for a specific purpose, such as the construction of a state office building. To a far lesser extent, the state has used direct appropriations (pay-as-you-go funding). For example, over the previous five years, *less than 0.1 percent* of total General Fund expenditures have been used in this manner for capital outlay. The lack of a predictable funding source and a coordinated set of priorities for all capital outlay programs has meant that some high priority projects have been deferred.

ACHIEVING A BETTER BALANCE FOR INFRASTRUCTURE FINANCE

We recommend that the Legislature dedicate a portion of annual General Fund revenues to a special account to provide a “pay-as-you-go” funding source for capital outlay. We further recommend that in 1998-99 the Legislature substitute General Fund appropriations for the new lease-payment bonds proposed in the budget for specific capital outlay projects.

Given the large demand for new capital outlay projects to serve a growing population and the inventory of existing state infrastructure, the state will probably always rely to some extent on bond financing for capital outlay. We believe it is important, however, to have a better balance between bond funding and pay-as-you-go financing than the state has had in recent years. Increasing pay-as-you-go funding would allow the Legislature to address more higher priority infrastructure needs across program areas, in a more timely and cost effective manner.

The Legislature used direct appropriations for many years to fund higher education facilities. Specifically, a large portion of tidelands oil revenues was transferred to the Capital Outlay Fund for Public Higher Education to address capital needs of the higher education segments. More recently, as discussed in the Crosscutting Issues section of the Re-

sources chapter in this *Analysis*, the Legislature has transferred tidelands revenues to the Natural Resources Infrastructure Fund to meet program needs in that area.

As discussed in our companion publication, the *1998-99 Budget: Perspectives and Issues*, we estimate that General Fund revenues, in the current and budget year combined, will be approximately \$1 billion higher than the Governor's budget estimate. This situation gives the Legislature an opportunity to allocate a portion of these additional revenues to fund a greater portion of capital outlay through direct General Fund appropriations rather than through bond financing. Accordingly, we recommend that the Legislature use this opportunity to dedicate a portion of annual General Fund revenues to a special account for capital outlay to provide a stable funding source for priority capital outlay projects. The Legislature would then have a reliable funding source to annually address the state's highest priority infrastructure needs rather than be overly dependent on bonds.

This approach would have several advantages compared to bond financing.

- First, the state would avoid the cost of paying interest on bonds. By avoiding future interest costs, a greater portion of future General Fund revenues would be available for other state purposes.
- Second, meeting the need for high priority capital outlay projects would not be subject to the uncertainty of obtaining voter approval of bonds.
- Third, the Legislature would be assured of having funds available to address its most critical capital outlay needs across all program areas and not just those areas that have available bond funds or other dedicated special funds.

Future Savings From Budget Year Investments. In the budget year, we recommend that the Legislature substitute General Fund appropriations for the new lease-payment bonds proposed in the budget for specific capital outlay projects. Our recommended cost for these projects is \$165 million. By using direct General Fund appropriations, the state would save the additional future interest costs of around \$180 million associated with bond financing. For future years, we recommend that the Legislature gradually increase the amount of annual revenues set aside in a capital outlay account. As discussed in the Capital Outlay Overview in this chapter of the *Analysis*, the state's debt service ratio will begin to decline after 1999-00 as approved bonds are paid off. The Legislature could dedicate some or all of this reduced debt burden for this purpose.

FUNDING HIGHER EDUCATION CAPITAL OUTLAY

The state is faced with the challenge of providing adequate facilities for higher education enrollment growth with limited funds. To address these needs, it is essential that the Legislature establish criteria for ranking capital outlay proposals in order to fund the highest priority projects. We recommend such criteria, and rank the budget proposals using them. In addition, to avoid starting projects that cannot be completed, the Legislature should consider their full cost and the availability of funds at the time the first commitments are made to fund projects.

The Governor's budget proposes \$471 million of capital outlay for the three segments of public higher education. The future cost to complete these projects is \$176 million. In addition, it would cost \$569 million to complete projects previously approved by the Legislature (but which are not funded for additional phases in the budget). Thus, over \$1.2 billion is needed to complete all proposed and previously approved projects. With only \$65 million in existing bond funds available, the Legislature will have to provide new funding sources to finance these projects. Given this demand and the projected growth in undergraduate enrollments, it is essential that the Legislature establish criteria to carefully evaluate all capital outlay proposals.

ESTABLISHING PRIORITIES

For several years, the administration and the Legislature have adopted a general policy of allocating one-third of all higher education bond funds to each of the segments. The Governor's budget would continue this approach. On the surface, this policy has the appearance of being equitable to each segment. However, it fails to consider differences among the segments in the overall condition of their existing facilities, and their capacity to accommodate current and future undergraduate enrollment. Undergraduate enrollments in higher education are expected to increase at a moderate, but manageable pace, over the next several years. While

demand for graduate education is also expected to increase, the degree to which the state addresses that demand is a policy decision separate from the state's commitment to supply undergraduate educational opportunity. If the state is to meet this commitment, however, it must focus its capital outlay resources on providing instructional facilities to meet undergraduate needs.

The state currently does not evaluate and fund all higher education capital outlay proposals on a priority basis. Instead, each system has an internal process for determining *its* priorities. The process used by the California Community Colleges (CCC) is based on fairly explicit criteria adopted by the Board of Governors. The California State University (CSU) uses very general guidelines to set priorities. The University of California's (UC's) criteria for setting priorities is unclear (it appears to use a per-campus allocation of anticipated state funds).

We believe that the state needs a "common yardstick" with which to judge capital outlay proposals *across* the segments. Only in this way can the Legislature be assured that the state is (1) getting the "biggest-bang-for-its-buck" for the investments made in higher education facilities and (2) meeting undergraduate enrollment demand. As discussed below, we have developed a specific priority list for funding *all* higher education projects. We hope that this will assist the Legislature in upcoming budget deliberations.

Given the above, we therefore recommend that the Legislature:

- Discontinue the arbitrary allocation of available bond resources among the segments and instead base its funding decisions on how effectively each proposed project meets the highest priority state-wide needs in higher education.
- Use our suggested priority list in making its funding decisions for 1998-99 and in succeeding years. In evaluating the Governor's budget, we reviewed each project in the higher education capital outlay program based on these priorities. To assure that the priorities are met *throughout* higher education, projects of a lower priority from one segment should not be funded before those of the other segments of higher priority.

Recommended Priorities

Our recommended funding priorities are summarized in Figure 9 and discussed in more detail below. Using these priorities, available funds for higher education would first be used to assure the safety of existing facilities and their operability. After addressing these basic requirements, highest priority would go to accommodating the facility needs of the undergraduate student.

Figure 9

LAO Recommended Priorities for Funding Higher Education Capital Outlay Projects

Priority Order	Description of Priority
1	Critical Fire, Life Safety, and Seismic Deficiencies
2	Necessary Equipment
3	Critical Deficiencies in Utility Systems
4	Improvements for Undergraduate Academic Programs^a <ul style="list-style-type: none"> ✓ New construction or renovations that increase instructional capacity. ✓ Libraries. ✓ Renovation of existing instructional buildings. <ul style="list-style-type: none"> • Enrollment shifts in wet laboratories. • Enrollment shifts in other instructional spaces. • Buildings 30 years or older (that no longer can accommodate the academic program). • Instructional program changes.
5	Integrity of Operationally Important Facilities
6	Administrative, Research, and Support Facilities^a <ul style="list-style-type: none"> ✓ Faculty and administrative offices. ✓ Research facilities. ✓ Support facilities.

^a Projects in these ranks are recommended for funding in the order of priority listed.

The following is a brief description of the types of projects that would fall within each priority.

Priority No. 1: Critical Fire, Life Safety and Seismic Deficiencies. These projects correct critical fire, life safety and seismic deficiencies where there is an immediate threat of personal injury. Critical seismic deficiencies are those that would be rated as a level V or VI risk using the evaluation methods developed by the Department of General Services. (Please see “Assessing Seismic Risk in Higher Education Buildings” also

in this Crosscutting Issues section.) Projects for seismic strengthening in this priority address seismic deficiencies and directly related building code corrections only. This category also includes satisfaction of legal claims based on judgments or settlements.

Priority No. 2: Necessary Equipment. Projects in this rank fund equipment purchases needed to complete and make operational newly constructed projects. In effect, these proposals “finish off” prior commitments.

Priority No. 3: Critical Deficiencies in Utility Systems. These projects correct utility system deficiencies that have rendered, or pose the *immediate threat* of rendering, a significant part of a campus inoperable.

Priority No. 4: Improvements for Undergraduate Academic Programs. Projects of this priority are intended to achieve facilities improvements for undergraduate academic programs by providing new and renovated buildings. Projects would not be funded if they increase a campus’ instructional capacity (classrooms and laboratories) to more than 95 percent of that justified by campus (or community college district) enrollment at the time the project is planned for completion. Libraries would be addressed on a case-by-case basis because library standards are in a state of transition due to changes in information technology.

Priority No. 5: Integrity of Operationally Important Facilities. These projects would upgrade important facilities to assure they continue to meet the needs of the campus. Examples would be upgrading of libraries, central plants, data processing centers, and utility systems.

Priority No. 6: Administrative, Research, and Support Facilities. We recommend first priority in this category be given to faculty and administrative offices, then research facilities, and then other support facilities. In view of the high cost of research facilities and competing needs for undergraduate enrollments, we recommend that new research facilities be funded only to the extent that existing campus research space is below 90 percent of that justified by campus enrollments at the time the project is planned for completion, or if existing space is 30 years old or older and no longer can accommodate the research activities.

We believe the consistent use of these priorities would not only focus funding on meeting the state’s need to provide adequate facilities for projected undergraduate enrollment growth, but would also provide a stable and rational framework within which the three segments can undertake their capital planning.

LAO ASSESSMENT OF PROJECTS IN GOVERNOR’S BUDGET

Figure 10 summarizes our evaluation of how the projects in the Governor’s budget meet these priorities. As shown in Figure 10, the vast major-

Figure 10			
Evaluation of Higher Education Capital Outlay Proposals Using Proposed Priorities			
<i>(Dollars in Thousands)</i>			
Priority	Number of Projects	Budget Bill Amount	Cost to Complete
Projects Satisfying Criteria			
Priority No. 1—Critical Fire, Life Safety, and Seismic Deficiencies			
CSU	2	\$1,270	\$0
UC	0	0	0
CCC	0	0	0
Subtotals, Priority No. 1	2	\$1,270	\$0
Priority No. 2—Necessary Equipment			
CSU	6	\$8,677	\$0
UC	3	2,167	0
CCC	15	11,715	0
Subtotals, Priority No. 2	24	\$22,559	\$0
Priority No. 3—Critical Deficiencies in Utility Systems			
CSU	1	\$19,618	\$0
UC	0	0	0
CCC	1	2,119	0
Subtotals, Priority No. 3	2	\$21,737	\$0
Priority No. 4—Undergraduate Academic Improvements			
New buildings and renovations that increase instructional capacity			
CSU	0	\$0	\$0
UC	0	0	0
CCC	11	54,425	20,155
Subtotals	(11)	(\$54,425)	(\$20,155)
Libraries			
CSU	0	\$0	\$0
UC	0	0	0
CCC	2	11,442	9,145
Subtotals	(2)	(\$11,442)	(\$9,145)
Renovation of instructional space—enrollment shifts (other than wet labs)			
CSU	0	\$0	\$0
UC	0	0	0
CCC	2	2,423	4,608
Subtotals	(2)	(\$2,423)	(\$4,608)

Priority	Number of Projects	Budget Bill Amount	Cost to Complete
Renovation of existing instructional buildings—buildings 30 years or older			
CSU	3	\$38,921	\$2,026
UC	1	712	10,257
CCC	1	14,443	2,128
Subtotals	(5)	(\$54,076)	(\$14,411)
Subtotals, Priority No. 4	20	\$122,366	\$48,319
Priority No. 5—Operationally Important Facilities			
CSU	5	\$23,425	\$0
UC	5	12,557	0
CCC	0	0	0
Subtotals, Priority No. 5	10	\$35,982	\$0
Priority No. 6— Administrative, Research, and Support Facilities			
Administrative and Support Facilities			
CSU	1	\$30,915	\$3,574
UC	0	0	0
CCC ^a	2	3,933	0
Subtotals	(3)	(\$34,848)	(\$3,574)
Research Facilities			
CSU	0	\$0	\$0
UC	4	\$50,281	\$27,664
CCC	0	0	0
Subtotals	(4)	(\$50,281)	(\$27,664)
Subtotals, Priority No. 6	7	\$85,129	\$31,238
Totals	65	\$289,043	\$79,557
Projects Requiring Reevaluation			
CSU	4	\$22,039	\$0
UC	9	41,654	64,302
CCC	0	0	0
Totals	13	\$63,693	\$64,302
Projects Not Meeting Criteria			
CSU	2	\$16,438	\$1,049
UC	4	43,672	24,749
CCC	7	57,945	7,899
Totals	13	\$118,055	\$33,697
GRAND TOTALS, ALL PROJECTS	91	\$470,791	\$177,556
^a Includes one support facility that is a lower priority than the research facilities.			

ity of proposed projects (65 out 91) meet the priority criteria, and we therefore recommend approval. There are also four CSU and nine UC projects that we have recommended the segments reevaluate. All of the UC projects and two of the CSU projects are seismic retrofit projects that should be reevaluated to determine their seismic risk and to assure that the work consists of structural corrections only. The other two CSU projects are discussed in detail under our analysis of the CSU capital outlay program. There are, however, 26 major projects totaling \$182 million in budget-year costs that do *not* meet these priorities. A discussion of these projects and our recommendations are provided under the capital outlay program for each segment.

FUNDING THE CAPITAL PROGRAM

Limited Remaining Bond Funds

Since 1986, capital outlay programs for the three segments of higher education have been financed with \$3.3 billion in voter-approved general obligation bonds and \$2.5 billion in lease-payment bonds authorized by the Legislature. There is approximately \$65 million of unobligated funds remaining in the 1996 and 1992 higher education general obligation bond funds. We recommend reserving about \$10 million of this amount for augmentations, interest, and costs of bond issuance, which leaves about \$55 million to fund completion of some of the proposals in this budget.

The Governor's budget proposes \$471 million in new spending—\$450 million from a proposed 1998 bond, \$10 million from the 1996 bond and \$11 million from proceeds of lease-payment bonds that were authorized by the Legislature and sold for other purposes.

Total Cost of the Governor's Proposal

Failure to consider the cost to complete projects results in more projects being approved than there are funds available to complete them. The cost to complete projects in the 1998-99 budget is about \$176 million. To complete projects that have been partially funded in earlier years (but not proposed for other phases in 1998-99) would cost an additional \$569 million. Many of these projects were funded in 1991 through 1994. Given the considerable passage of time since these projects were initiated, we recommend that the systems reevaluate them to determine their priority in light of current needs.

Considering the future costs of all prior projects and those proposed in the budget, there is a \$1.2 billion shortfall (see Figure 11). If the Gover-

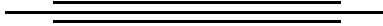
nor's proposal for a \$1 billion general obligation bond (of which \$100 million is proposed to be set aside to match Federal Emergency Management Agency [FEMA] grants) is approved, the funding shortfall would be about \$262 million. Under this scenario, a large number of approved projects could not be completed. In our analysis of the capital outlay program for each segment, we have recommended that the Legislature reduce the budget requests by a total of \$182 million (with additional future savings of \$98 million). If these recommendations are approved, there would be sufficient funds to complete *all* approved projects, leaving a balance of about \$18 million. Even under this situation, there would essentially be no funds available for any new projects in 1999-00.

Figure 11	
Higher Education Capital Outlay Funding Shortfall	
<i>(In Millions)</i>	
Cost of projects in 1998-99 Governor's budget	\$470.8
Cost to complete projects in Governor's budget	176.5
Cost to complete projects approved in earlier years	569.5
Subtotal	\$1,216.8
Available general obligation bond funds	-55.0
Funding shortfall	\$1,161.8
Proposed Higher Education Capital Outlay Bond Fund of 1998	-900.0 ^a
Funding shortfall if 1998 bond approved	\$261.8
Recommended reductions in Governor's budget	-181.7
Future cost savings from recommended reductions in Governor's budget	-98.4
Funds available after recommended reductions	\$18.3

^a The Governor's higher education capital outlay bond proposal is for \$1 billion, but \$100 million is designated to match federal funds for hazard mitigation.

Our concern is that the state has in essence “overcommitted” itself by starting projects without having the funding resources to complete them. To address this problem, we recommend that the Legislature budget higher education capital outlay so that an available fund source is identified to complete projects before approving the initial phase of any project. (We also recommend this for all other state capital outlay programs.) The Legislature should not initiate higher education projects that are depend-

ent on a future bond in order to complete the project. In keeping with this recommendation, we have recommended that existing bond funds be used to *complete* the highest priority projects included in the budget across the three segments and that the balance of the projects approved by the Legislature be funded from the proposed bond issue. The bond measure should be of sufficient size to complete all projects approved by the Legislature—plus any amount that the Legislature wishes to reserve for new projects in 1999-00. Further, we recommend that the Legislature appropriate \$55 million from existing general obligation bonds (leaving \$10 million in reserve) rather than the \$9.5 million in the Governor's budget.



ASSESSING SEISMIC RISK IN HIGHER EDUCATION BUILDINGS

A high percentage of capital outlay funding is going to retrofit buildings for seismic safety. To prioritize buildings for funding, it is important that the Legislature have information to assess the risk posed by each building based on a uniform procedure and risk assessment system applied to all buildings. The Department of General Services (DGS) has developed such a system that is used to evaluate the seismic risk for all state buildings except those for California State University (CSU) and University of California (UC) campuses. Both CSU and UC use their own individual systems. In order to assess the seismic risk of all state buildings on a comparable basis, we recommend that prior to funding any seismic retrofit projects at CSU and UC, the buildings be evaluated using the DGS system.

Comparison of Seismic Risk Evaluation Methods

DGS Method. Under the provisions of Proposition 122 (approved by the voters in 1990) the State Architect (within the DGS) was required to establish criteria for assessing the life safety risk of state buildings in the event of an earthquake. These criteria were to be used to determine which state buildings to structurally strengthen within the \$250 million in bonds provided by Proposition 122. The criteria and five-step evaluation process that was developed have been used by the Legislature to assess relative risk of state buildings and to fund those buildings that pose a risk to the occupants during a major earthquake.

These criteria identify seven levels of seismic risk (I lowest, VII highest). Based on the DGS evaluation of state buildings using these criteria, the Legislature decided to seismically strengthen all buildings rated at risk levels VI and V (level VII buildings are unstable and no state buildings that were evaluated fall into this category). Buildings rated lower than risk level V are not considered a high life safety risk and have not

been funded under this program. Figure 12 summarizes the DGS seismic risk levels III through VI.

Figure 12			
State Building Seismic Safety Program			
Risk Level Characteristics for a 7.0 Magnitude Earthquake			
Level III	Level IV	Level V	Level VI
Risk to Life			
Minor.	Moderate.	Substantial.	Extensive, but not imminent; extrication protracted and difficult.
Building Structural System			
Minor damage; repairable.	Moderate damage; substantial repair.	Substantial damage; repair may not be cost-effective.	Extensive damage; collapse likely.
Other Building Systems			
Disrupted for days to months.	Disrupted for months to years.	Total disruption; repair may not be cost-effective.	Total disruption; repair probably not cost-effective.
Occupancy			
Within weeks, with minor disruptions.	Partially to totally vacated during repairs.	Totally vacated during repairs.	Totally vacated during repairs (if repairable).

UC Method. The UC uses a ranking system of its own device. In the UC rating system, buildings are characterized as good, fair, poor, and very poor. The lesser number of ranks and the words used to describe projects that fit them tend to give some projects the appearance of being of sufficient seismic risk as to warrant funding, when such may not be the case. The seven levels of rank in the DGS system allow more refinement in classifying buildings than the four used by UC. In characterizing a building's life safety risk, the UC system requires the evaluator to classify it at one key point as "low" or "appreciable" with no intermediate ranking such as "moderate" allowed.

An additional concern is that it appears the UC system considers only the structural condition of the building and does not take into account the

presence or absence of people in a building in a meaningful way in evaluating life safety risk. The length of time people are in a building is as important as the number present. The five-step evaluation process developed by the DGS does a better job of addressing this consideration, although there is still room for improvement. We believe the UC rating system is less useful than that of the DGS and does not give the Legislature the information it needs to assess the relative life safety risk of buildings in the UC system and the CSU system.

CSU Method. The CSU uses a well documented process to guide the engineers who evaluate the seismic risk of CSU buildings. The CSU process also involves peer review of the engineer's evaluation. Thus, the CSU system is technically sound. An important weakness, however, is that it results in a listing of buildings from highest to lowest risk without identifying the level of risk. Consequently, it is possible only to know that one project is of higher priority than another, but the ranking says nothing about whether one, both, or neither are of sufficient seismic risk to warrant funding.

DGS Method Should Be Used For Higher Education Buildings

We recommend that prior to funding any further seismic retrofit projects, the Legislature direct the University of California and the California State University to evaluate all projects for seismic retrofit using the Department of General Services method.

The driving consideration in retrofitting a building for seismic safety is the risk to human life—property damage is secondary. In order to have a high degree of confidence that the evaluation of buildings will identify the highest risk buildings the evaluation system must include (1) clear guidance on the evaluation process, (2) common definition of risk levels, (3) consideration of building occupancy, and (4) a common method for placing the buildings in relative priorities based on life safety risks. The DGS method contains all these elements whereas the UC and CSU methods do not. Lacking a common evaluation system, the Legislature does not have the information it needs to weigh the relative merits and risks of projects when making funding decisions. The DGS system of evaluation is not a burdensome procedure and the UC and CSU should be able to undertake this reevaluation within existing resources and in a short period of time. Consequently, we recommend that prior to funding any further seismic retrofit projects, the Legislature direct the UC and CSU to evaluate all projects for seismic retrofit using the DGS method.

DEPARTMENTAL ISSUES

Capital Outlay

OFFICE OF EMERGENCY SERVICES (0690)

Headquarters and State Operations Center

We recommend a reduction of \$2.2 million for working drawings and construction of the headquarters facility because a proposed cost increase for the project is not justified. We also recommend that increased General Fund revenues be used to fund construction from the General Fund instead of lease-payment bonds in order to avoid future debt-service costs. (Increase Item 0690-301-0001 by \$23,638,000 and delete \$25,841,000 under Item 0690-301-0660.)

The budget includes \$1.2 million from the General Fund for working drawings and \$25.8 million in lease-payment bonds for construction of a 111,000 gross square foot (gsf) headquarters facility for the Office of Emergency Services (OES). The estimated future costs for furniture and equipment is \$7.6 million. The project consists of an emergency operations center, an office building, and associated site development.

Background. In the 1996-97 Budget Act, the Legislature appropriated \$5,348,000 for land acquisition (\$3,414,000), preliminary plans (\$813,000), and working drawings (\$1,121,000) for the project. (The size of the project was based on a consultant's study completed in 1991.) In 1997, the state acquired a site at the former Mather Air Force Base near Sacramento.

The 1997-98 Governor's Budget initially proposed \$22.8 million in funding for construction of the headquarters. In March 1997, the administra-

tion proposed a change in the project scope and a construction cost increase. Figure 13 compares the original project scope with the changes proposed in 1997.

The proposed size of the administration building and the state emergency operations center increased because of growth in department personnel. Also, there was no longer a need for a warehouse and shop because fire trucks previously stored and serviced by the OES will instead be stored and serviced by the County of Sacramento. According to the OES, the project cost increased by about \$2.2 million because the original budget did not provide for the cost of certain fixed equipment, such as display consoles in the emergency operations center, and for data and telecommunications systems in the buildings.

Figure 13				
Office of Emergency Services Headquarters Comparison of Original and Proposed Scope				
<i>(Gross Square Feet)</i>				
	State Operations Center	Administration Building	Warehouse and Shop	Total Project
Original, 1996-97 Budget Act	54,467	39,689	32,160	126,316
Proposed, March 1997	67,622	43,051	—	110,673
Difference	13,155	3,362	-32,160	-15,643

1997-98 Budget Actions. During its deliberations on the budget, the Legislature considered shifting several of OES’s responsibilities to other state agencies. These changes could have reduced the number of personnel that would work in the new headquarters and hence required changes to the project scope. Though no major shifts of responsibility were adopted, the Legislature enacted a budget trailer bill—Chapter 338, Statutes of 1997 (SB 959, Kopp)—which directed the OES to do the following:

- Provide a plan to limit the role of the OES with respect to disaster claims processing and transfer this function to another state agency.
- Provide a detailed schedule for accomplishing this transition of responsibility.

The Legislature did not approve any funding for the headquarters in 1997-98 and funds appropriated in 1996-97 for working drawings were

reverted. The Legislature adopted supplemental report language stating its intent that the scope of the headquarters project and the project's preliminary plans be modified to be consistent with the plan required by Chapter 338.

Office of Emergency Services Plan. In developing a plan pursuant to the requirements of Chapter 338, the OES assessed the feasibility of transferring its disaster claims processing function to one of three state agencies—the Board of Control, the Department of General Services, and the State Controller's Office. The OES concluded that all three agencies have the ability to perform the claims processing functions, but that any marginal efficiencies in processing time would be offset by increased time for coordination between another agency, the OES, and the Federal Emergency Management Agency (FEMA). The report indicates that OES will therefore retain the disaster claims and grants processing services. In general, we concur with this conclusion and thus believe that the proposed scope of the headquarters facility is appropriate.

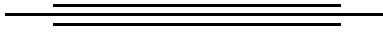
Cost Increase Not Warranted. We do not believe, however, that the department has justified a \$2 million cost increase for this project. When compared to the original project budget (as adjusted for inflation), the cost of the administration building has remained at about \$130 per gsf. In contrast, the estimated cost of the emergency operations center has increased from \$162 per gsf to \$216 per gsf—a 33 percent increase.

In reviewing the schematic design and the cost estimate for the project, we believe that the costs could be brought back in line with the original budget. The department could reduce costs, for example, by (1) eliminating a glass-enclosed atrium linking the two buildings, (2) reducing site development costs (currently estimated at \$4 million), and (3) reducing the size and costs of the state operations center.

We therefore recommend reductions of \$94,000 in the amount budgeted for working drawings and \$2,109,000 in the amount budgeted for construction. This would budget the project at an amount consistent with that originally proposed in the *1997-98 Governor's Budget* with an adjustment for inflation.

Recommended Funding Shift. In addition, as discussed in our Crosscutting Issue, "Financing Priority Capital Outlay Projects," we recommend that the Legislature take advantage of increased General Fund revenues to finance a greater portion of capital outlay on a "pay-as-you-go" basis rather than use additional bond financing. We therefore recommend that the Legislature fund construction of the OES headquarters from the General Fund instead of from lease-payment bonds. This will eliminate the state's future burden to pay debt-service costs for this project. We esti-

mate that the state would avoid about \$24 million in total interest costs that it would otherwise incur with bond financing. The net effect of our recommendations would be to increase Item 0690-301-0001 by \$23,638,000 and delete \$25,841,000 from Item 0690-301-0660.



DEPARTMENT OF JUSTICE (0820)

The Department of Justice (DOJ) operates ten regional criminalistic laboratories throughout the state. The laboratories provide analysis of all types of physical evidence and controlled substances and, when requested, assist local law enforcement agencies in processing and analyzing crime scenes (including clandestine drug laboratories). The department also operates a state DNA analysis laboratory in Berkeley. The department's Hawkins Data Center operates the Criminal Justice Information System and the California Law Enforcement Telecommunications System.

The 1998-99 Governor's Budget proposes \$5.6 million from the General Fund for the following five projects:

- \$1.6 million to upgrade the emergency power system at the Hawkins Data Center.
- \$1.5 million to exercise an option to purchase the regional laboratory that the DOJ currently leases in Eureka.
- \$2.5 million to acquire property and preliminary plans for new laboratories to replace the existing laboratories in Fresno, Santa Barbara, and Santa Rosa. We discuss these three projects below.

Crime Laboratory Replacement

We recommend approval of the amounts proposed for preliminary plans for the Fresno and Santa Rosa laboratories, but recommend that supplemental report language recognize reductions of \$116,000 and \$674,000, respectively, for the future costs of working drawings and construction so that these projects will be budgeted consistent with budgets for the other laboratory projects. (Estimated future savings of \$790,000.) We also recommend a reduction of \$871,000 to acquire property for the Fresno laboratory because the department is planning to locate the laboratory on the campus of California State University at Fresno. (Reduce Item 0820-0301-0001 [3] by \$871,000.)

The budget proposes continuation of the DOJ's efforts to replace six of its regional crime laboratories. In the *1996-97* and *1997-98 Budget Acts*, the Legislature provided a total of \$19.3 million to acquire property, design, and construct new laboratories in the Central Valley (near Modesto) and in Riverside County. For 1998-99 the budget includes funding for three more laboratory projects, as shown in Figure 14. The department indicates that it intends to request funding for the sixth laboratory replacement project (located in Redding) in 1999-00.

Figure 14			
Department of Justice Laboratory Replacement Projects			
<i>(Dollars in Thousands)</i>			
Location	Building Size^a	1998-99 Cost^b	Future Cost^c
Fresno	36,007	\$1,268	\$9,907
Santa Barbara	13,804	646	3,733
Santa Rosa	14,646	542	4,593
Totals	—	\$2,456	\$18,233

^a Gross square feet.
^b For land acquisition and preliminary plans.
^c For working drawings and construction.

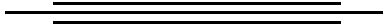
In March 1997, the department released needs assessments for each of the six laboratories to be replaced. As part of these assessments, the size of each new laboratory building was determined based on the staffing levels and laboratory operations to be housed at each site. The scope of the three projects proposed in the budget is consistent with the needs assessments.

The state does not have any cost guidelines specifically for crime laboratory buildings. To establish a construction budget for the first two laboratory projects—Central Valley and Riverside County—the Legislature assumed building costs (on a square foot basis) for laboratory and office space equal to those for recently funded California State University laboratory and office building projects. We recommend that the Legislature continue this practice for the three projects proposed in the budget. The building cost for Santa Barbara laboratory is consistent with this approach. (The Santa Barbara laboratory was considered by the Legislature for funding in 1997-98, but was deferred by the budget conference

committee to help offset the one-time payment of deferred contributions to the Public Employees Retirement System.)

In contrast, the Fresno and Santa Rosa laboratories are proposed for funding at levels exceeding those previously approved by the Legislature. In order to budget these two laboratories in a manner consistent with the others, we recommend that the Legislature, through supplemental report language describing the scope and costs of these projects, recognize future costs for working drawings and construction that are reduced by \$116,000 for the Fresno project and \$674,000 for the Santa Rosa project from the amounts shown in Figure 14.

Land Acquisition. The budget proposal for the Fresno laboratory includes \$871,000 to purchase property for the new facility. The DOJ indicates that its intent is to locate the new laboratory on the campus of the California State University, Fresno. The laboratory would be part of a planned science center at the university that, according to the university, could include a combination of university, community, state, and federal facilities. Since the new laboratory would be located on state property, there is no need to fund land acquisition. We therefore recommend a reduction of \$871,000 under Item 0820-301-0001 (3).



DEPARTMENT OF GENERAL SERVICES (1760)

The budget includes \$55.8 million from the Earthquake Safety and Public Buildings Rehabilitation Bond Fund of 1990 (general obligation bonds) to structurally strengthen state buildings. This program is administered by the Real Estate Services Division within the Department of General Services (DGS). The budget amount includes:

- \$52.6 million for working drawings and construction for structural upgrading of 18 buildings.
- \$1.3 million for demolition of the Legislative Office Building Annex in Sacramento.
- \$250,000 to identify additional state buildings that require seismic retrofit and to develop a retrofit scheme for each building.
- \$1 million to prepare preliminary plans for those buildings identified as needing seismic retrofit.
- \$700,000 for management of the program.

Seismic Retrofit Projects

We withhold recommendation on \$52.6 million to structurally strengthen 18 state buildings pending review of refined scope and cost estimates for each project that will be available in the spring.

As required by the bond measure, the DGS surveys and evaluates the structural safety characteristics of state buildings. Through a multistep screening process, the highest priority projects are identified for expenditure of the bond funds. Those buildings that, through the initial screening steps, have been identified as potential structural safety hazards, are then evaluated by structural engineers and assigned a risk level of 1 through 7 (the highest risk). Only buildings that have been rated either a risk level 5 or 6 are being retrofitted using the bond funds. (No buildings have been rated a risk level 7.)

In the fall 1997, the DGS, using funds provided in the *1997-98 Budget Act*, identified the 18 risk level 5 and 6 buildings that are included in the Governor's budget for retrofitting in 1998-99. The amount proposed in the budget for each project is based on initial cost estimates from the structural engineers. The DGS is currently preparing preliminary plans for these 18 projects and, by May 1998, will have a more refined cost estimate for each project. We therefore withhold recommendation on the budget proposal pending review of the revised estimates in the spring.

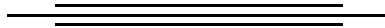
Reappropriation of Funds for Local Assistance

We recommend deletion of Item 1760-491 to reappropriate funding for all local government seismic projects because the bond funds should no longer be available for projects that have not proceeded on schedule.

The Earthquake Safety and Public Buildings Rehabilitation Bond Act of 1990 provided \$50 million to assist with seismic safety upgrading of certain local government buildings. The program is administered by DGS. Projects funded with these bonds must include a 25 percent local matching contribution.

In the *1997-98 Budget Act*, the Legislature reappropriated \$17.8 million of the bond funds for 47 local government projects. The Governor's budget proposes to reappropriate the unencumbered funds for all of these projects, making the funds available for another year. The Legislature provided funding for these projects on the assumption that they were needed to address seismic safety hazards and that the local entities would make every effort to expedite design and construction. The local entities should be able to encumber the funds for these projects in the current year. If not, the funds should be made available for other local projects that are ready to go.

We therefore recommend that the Legislature delete Item 1760-491 and not reappropriate funds for any projects. To the extent that this action makes bond funds available for new local projects, the DGS has already developed a priority list of projects that would be eligible for funding. This list of projects to be funded from available funds should be submitted to the Legislature for consideration.



DEPARTMENT OF FORESTRY AND FIRE PROTECTION (3540)

The California Department of Forestry and Fire Protection operates 460 facilities—consisting of 2,500 structures, many of which were built before 1960. The department’s five-year capital outlay plan totals \$363 million and emphasizes replacement of older facilities, relocations where conditions have changed, and acquisition of leased sites. The Governor’s budget proposes \$32.3 million (all General Fund) in capital outlay for the department—including \$25.8 million for 32 major projects and \$6.5 million for 27 minor projects. The future cost to complete projects proposed for partial funding in this budget is \$16 million.

Statewide: Construct Telecommunication Towers and Vaults, Phase 2

We recommend the Legislature delete this \$9,148,000 request for preliminary plans, working drawings, and construction of telecommunication towers and vaults because the department has not specified which facilities it proposes to construct or provided cost estimates to justify the amount of this proposal. (Delete \$9,148,000 from Item 3540-301-0001 [32].)

The department operates 103 telecommunications facilities, which generally consist of an antenna tower, communications equipment building, emergency power generator, and microwave dishes. These are used to support not only the department’s fire and emergency response activities but the telecommunications needs of numerous federal, state, and local agencies.

Background. The 1995-96 Budget Act appropriated \$10 million to construct 22 towers. Those facilities did not proceed on schedule and the \$10 million was reappropriated in the 1996-97 Budget Act. At the time the Legislature reappropriated these funds, the department gave no indica-

tion the \$10 million would not be sufficient to construct all 22 towers. When bids were received for this work in October 1996, the bids were significantly *higher* than the appropriation authority so they did not proceed with the projects. Consequently, in the *1997-98 Governor's Budget* the department requested a \$12.4 million augmentation (a 124 percent increase) to undertake the original project. The Legislature denied this request and adopted supplemental report language directing the department to fund the 11 highest priority towers with the original \$10 million appropriation.

Current Proposal. The \$9 million budget request is to fund the replacement of ten of the remaining 11 towers the Legislature denied in 1997-98. The department has provided limited information in support of this request. It has not (1) specified which towers it proposes to construct, (2) addressed the need to replace more towers in view of the Legislature's directive in the current year to replace the highest priority towers with the original \$10 million, or (3) provided project-specific cost estimates. Given the history of this tower replacement project and prior legislative action, we recommend the Legislature delete the requested \$9,148,000. If the department provides more definitive information as described above, a proposal to replace some towers may warrant legislative consideration.



DEPARTMENT OF FISH AND GAME (3600)

The budget includes \$2.4 million for capital outlay for the Department of Fish and Game. This amount consists of \$1.2 million from the Fish and Game Preservation Fund, \$0.6 million from bond funds, and \$0.6 million in reimbursement expenditures. The proposal includes two major projects (\$0.9 million) and five minor projects (\$1.5 million).

Napa-Sonoma Marsh Wildlife Area—Water Control Structures

We recommend the Legislature delete funding for this project because the department has not provided any information to substantiate the amount requested. We also recommend the Legislature delete Budget Bill language that would allow this project to be designed and constructed without complying with the contract provisions of the Public Contract Code. (Delete \$300,000 from Item 3600-301-0200 [3] and \$155,000 reimbursement from Item 3600-301-0200 [5].)

The budget includes \$300,000 (from the Fish and Game Preservation Fund) for the planning, design, and construction of water control structures and fish screens to manage wetlands and marsh restoration activities in the Napa-Sonoma Marsh Wildlife Area. The budget also includes a \$155,000 reimbursement from Ducks Unlimited to offset approximately one-half of the project cost.

According to the department, it plans to enter into an agreement with Ducks Unlimited whereby Ducks Unlimited will design and manage construction of the project with its own funds and the department will reimburse Ducks Unlimited for \$145,000 of the cost. Under this scenario, it is not clear why the budget would propose a \$300,000 appropriation with a \$155,000 reimbursement to the state from Ducks Unlimited. Instead, only a \$145,000 appropriation would be needed for the state's share of the cost.

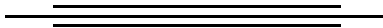
In any case, we have two concerns with this proposal. First, the department has provided no information to substantiate the estimated \$300,000

project cost. Second, the proposed Budget Bill language exempts the project from the contract provisions of the Public Contract Code, thereby giving Ducks Unlimited the authority to undertake design and construction without any competition. We do not believe this is a prudent way to proceed with the expenditure of state funds. If the department develops the necessary information to justify the project, then the state could proceed with the project and receive reimbursement from Ducks Unlimited. Under the circumstances, however, we recommend the Legislature delete the \$300,000 appropriation and corresponding \$155,000 reimbursement.

Fisheries Restoration Project

We recommend the Legislature delete \$550,000 (and associated budget language making these funds available for ten years) for this project because no specific project has been proposed and no construction cost estimate has been submitted to support the proposal. (Delete \$550,000 from Item 3600-301-0786 [1].)

The budget includes \$550,000 from the California Wildlife, Coastal, and Parkland Conservation Act of 1988. Proposed budget language would make these funds available to the department for ten years. The department has not identified either what work would be accomplished with the requested funds or the basis for the amount requested. The department is merely proposing to spend these funds on an undefined project or projects consistent with the source of funds. Furthermore, Public Resources Code Section 5922 specifically requires that the department submit a plan to the Legislature for spending any funds from the act that have not been spent by July 1, 1998. Lacking any such plan or a description of proposed work and a cost estimate, we recommend the Legislature delete the \$550,000 and the proposed budget language.



DEPARTMENT OF PARKS AND RECREATION (3790)

The budget proposes almost \$24.9 million for capital outlay for the Department of Parks and Recreation (DPR). This amount includes \$5.9 million from the General Fund, \$10.4 million from the Off Highway Vehicle Trust Fund, \$2.5 million from the Habitat Conservation Fund, \$0.6 million in federal funds, \$1.5 million from two existing bond funds, and \$4 million from reimbursements. The future cost of off-highway vehicle recreation projects in this budget is about \$13 million and of other projects is \$10 million.

Schedule Projects Rather Than Lump-Sum Appropriation

We recommend the Legislature delete the request for a lump-sum \$4 million of “reimbursement” funds for capital outlay projects because specific projects have not been identified, cost estimates have not been received to support the amount of this proposal, and the department has a large amount of uncompleted work. (Delete \$4,000,000 from Items 3790-301-0001 [6] and [9].)

The budget includes a proposed \$4 million lump-sum appropriation from the General Fund offset by reimbursements from two funding programs under the Department of Transportation—the federal Transportation Enhancement Activities Program (TEAP) and the Environmental Enhancement Mitigation Demonstration Program (EEMDP). In addition, proposed budget language would allow the DPR to borrow funds from the State Parks and Recreation Fund at no interest cost to advance cash for authorized reimbursement-funded projects. There is no information in the budget as to what capital outlay projects will be undertaken with this \$4 million.

In support of this request, the DPR has provided only a list of titles and costs for projects for which grant applications have already been submitted, with an indication the projects to be funded under this \$4 million

appropriation would be similar. Such a list, however, has not been submitted to support this proposal. The department should prepare one that includes schematic sketches, a definition of the scope of the work, and reasonably definitive cost estimates. Lacking information on the proposed expenditure of \$4 million, we recommend the Legislature delete this amount from Item 3790-301-0001.

These projects would normally warrant legislative consideration if the department were to provide the appropriate information for each project. We are, however, concerned that the department has such a large backlog of work that it could not complete any new projects during 1998-99. For example, the department has not been able to undertake the projects funded in a similar manner in the current year. In the Budget Bill, the department is asking the Legislature to reappropriate \$9.6 million of the \$10 million appropriated for this same purpose in the *1997-98 Budget Act*. In addition, the department is asking for reappropriation of funds from other sources for another 15 projects that the department has not been able to complete. We believe the department should concentrate its efforts on completing these previously funded projects before attempting to undertake more projects.

Fresno Area—Site Acquisition

We recommend the Legislature delete this \$3 million request to acquire an off-highway vehicle recreation area in the Fresno County region because a site has not been identified for this acquisition. (Delete \$3 million from Item 3790-301-0263 [6].)

This request is for acquisition of an undefined amount of land for an off-highway vehicle (OHV) recreation area in the Fresno County region to meet demand generated by both population growth and the closure of alternate sites such as those in the Stanislaus National Forest.

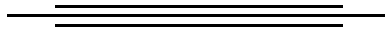
The only information provided by the department is that the project would be in the Fresno region. Lacking any subsequent information to evaluate this proposal, we recommend the Legislature delete the requested \$3 million. Elsewhere in the budget the department has requested \$195,000 for planning this acquisition, and we recommend approval of that request. This planning effort will identify the site, provide an acquisition cost estimate, conceptual development drawings, and development cost estimates. When this work is complete, the department should be able to provide the Legislature the information it needs to assess a request for site acquisition. A proposal for acquisition funding at that time would warrant the Legislature's consideration.

**Oceano Dunes State Vehicular
Recreation Area—LaGrande Tract**

We recommend the Legislature delete this \$2.2 million request because the property to be acquired is currently in public ownership and operated as an State Vehicular Recreation Area, and there is no need for the state to acquire title to the property. (Delete \$2.2 million from Item 3790-301-0263 [8].)

Oceano Dunes State Vehicular Recreation Area (SVRA) is located in San Luis Obispo County and provides OHV recreation for central Californians. It consists of two areas, north and south. The project in question, the La Grande Tract, consists of 500 acres located on beach sand dunes between the two areas. The La Grande Tract became a subdivision at the turn of the century but was never successfully marketed, and parcels totaling 317 acres are now owned by San Luis Obispo County. It has been managed as part of Oceano Dunes SVRA by the DPR since the early 1980s under the terms of an agreement with the county.

The DPR is currently working to acquire the La Grande Tract parcels that are still privately owned, but this proposal is to acquire those parcels already owned by San Luis Obispo County. Given the current public ownership and operating agreement, we see no reason for the state to spend \$2.2 million to acquire the property. Consequently, we recommend that the Legislature delete this \$2.2 million from Item 3790-301-0263 (8).



HEALTH AND WELFARE AGENCY DATA CENTER (4130)

The Health and Welfare Agency Data Center (HWDC) provides computer processing and telecommunications services to those department's within the agency.

Acquisition of Leased Facility

We recommend deletion of \$5.2 million from the General Fund because the state first needs a policy regarding whether consolidation of the state's data centers is appropriate. (Delete \$5,236,000 under Item 4130-301-0001.)

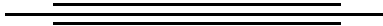
The HWDC's operations are housed in two leased buildings in the City of Sacramento. The total rentable space for the two leases is 118,000 square feet and 75,000 square feet, respectively. Each lease provides an option for the state to purchase the buildings during a specific time period. The state cannot purchase the smaller of the two buildings prior to July 2000. The lease for the larger building allows for purchase from May 1993 until the end of the lease in June 2003. The budget proposes \$5.2 million from the General Fund to purchase this building. Of this amount, \$3.8 million is a loan to be repaid from the HWDC Revolving Fund.

The purchase option price was initially \$3 million and escalates by \$25,000 each month. If the state exercises the purchase option, it would also have to pay off the costs of building improvements that were made by the building owner at the request of the state. (The amount that the state would have to pay for these improvements declines over time, and thus partially offsets the monthly increases in the base purchase price.) The budget proposal of \$5.2 million for acquisition is based on the purchase option price as of July 1998 (\$4.5 million) plus about \$700,000 to pay for the building improvements.

As mentioned above, under the administration's proposal, about \$3.8 million of the General Fund amount would be a loan to be repaid by the HWDC Revolving Fund. This loan would be repaid over an eight-year period with annual payments of \$471,000 plus interest. The amount that will not be repaid from the revolving fund (\$1.4 million) represents the estimated land costs associated with the acquisition. Under federal cost standards, land value cannot be reimbursed by the federal funds that flow into the revolving fund. In addition to the \$5.2 million capital outlay proposal, the HWDC's support budget includes a \$455,000 augmentation to cover the state's costs for maintenance and operations of the property upon acquisition. We discuss this proposal in our analysis of the HWDC's support budget (see the General Government chapter of this *Analysis*).

Assuming this building would meet the state's long-term needs for the data center, then the purchase of the site would make sense. However, we believe that because of two major issues, it is premature to consider purchasing the site this year. First, the state lacks an overarching policy guiding the future of its data centers. Specifically, the administration has yet to decide whether the state's two main data centers (Stephen P. Teale and HWDC) should be consolidated. Second, while the HWDC is pursuing acquisition of property that is located within a flood plain, the Teale Data Center has cited its current location within a flood plain as a major reason for its need to relocate to new facilities. These two major issues—consolidation and locating data centers in a flood plain—need to be resolved before the state purchases the HWDC building. Otherwise the state, in purchasing the building, could forestall potential consolidation efforts in the future and end up owning a building in a location that is inappropriate for a data center. We therefore recommend that the Department of Information Technology (DOIT) provide the Legislature with a plan regarding configuration of the data centers, including whether locating in a flood plain is appropriate. If consolidation is proposed, the DOIT should indicate a time frame for accomplishing the consolidation.

Pending a policy decision and schedule regarding consolidation, we recommend deletion of the \$5.2 million proposed for the acquisition.



DEPARTMENT OF HEALTH SERVICES (4260)

The Department of Health Services (DHS) owns and operates laboratory facilities in Berkeley, Los Angeles, and Fairfield. The *1998-99 Governor's Budget* for DHS capital outlay consists of \$115.7 million in a proposed authorization of lease-payment bonds for construction of the second phase of the department's new laboratory facilities in Richmond. Construction is scheduled to begin in January 1999 and be completed in August 2001.

Richmond Laboratory, Phase II

We recommend a reduction of \$7.2 million because the budget proposal is not consistent with the amount for construction previously approved by the Legislature. We also recommend that increased General Fund revenues be used instead of lease-payment bonds in order to avoid future debt-service costs. (Approve \$108,416,000 in a new Item 4260-301-0001 and delete \$115,668,000 under Item 0690-301-0660.)

Proposal Exceeds Legislatively Approved Cost. In the *1996-97 Budget Act*, the Legislature provided \$2,989,000 to prepare preliminary plans for a facility containing 302,000 gross square feet (gsf) of laboratories and offices and a 30,000 gsf warehouse. The *1997-98 Governor's Budget* initially proposed \$4.5 million for the working drawing phase of this project. The anticipated future construction cost for the project totaled \$92.6 million. In spring 1997, the Legislature was informed that the estimated construction cost had increased to \$116.6 million—a 26 percent increase. The Legislature did not approve this entire increase, however. In the *Supplemental Report of the 1997-98 Budget Act*, the Legislature recognized a future construction cost of \$108.4 million, or about \$8.2 million less than the amount proposed by the administration.

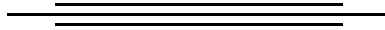
In October 1997 (two months after enactment of the budget), the State Public Works Board approved the project's preliminary plans and recognized a future construction cost that was \$7.2 million higher than the

amount approved by the Legislature in the supplemental report. The board indicated that the construction cost was consistent with that approved by the Legislature, but the board approved the higher budget to account for inflation-related costs up until the time when the construction contract would be bid and also throughout the construction period.

Our review indicates that the estimate prepared by the administration in 1997 already accounted for these inflationary impacts. Moreover, the reduction in the project budget as approved by the Legislature was unrelated to these inflation adjustments. It was instead for other building-related costs that the administration could not substantiate. We see no reason to increase the construction budget for this project above that which the Legislature has already approved. We therefore recommend approval of \$108,416,000, a reduction of \$7,252,000.

Use General Fund Rather Than Debt Financing. As discussed in our Crosscutting Issue, "Financing Priority Capital Outlay Projects," we recommend taking advantage of increased General Fund revenues to finance a greater portion of capital outlay on a "pay-as-you-go" basis. We therefore recommend that construction of the DHS laboratory be funded from the General Fund instead of from lease-payment bonds. This will reduce the state's future burden to pay debt-service costs for this project. We estimate that the state would avoid about \$120 million in total interest costs that it would otherwise incur with bond financing.

The net effect of our recommendations would be to delete Item 4260-301-0660 and approve a new Item 4260-301-0001 in the amount of \$108,416,000.



DEPARTMENT OF MENTAL HEALTH (4440)

The Department of Mental Health (DMH) operates four state hospitals—Atascadero, Metropolitan, Napa, and Patton. The department's capital outlay program for 1998-99 totals \$34.3 million, including \$1.3 million from the General Fund and \$33 million in lease-payment bonds, for three projects.

FURTHER EXPANSION AT ATASCADERO

The budget proposes \$984,000 from the General Fund to prepare preliminary plans for a 250-bed addition to Atascadero State Hospital. According to the department's proposal, the project would include about 167,000 gross square feet of building space and related infrastructure and support facility improvements to house Judicially Committed/Penal Code (JC/PC) patients (including sexually violent predators). The estimated future cost for working drawings and construction is \$46.3 million. The total cost of the project would thus be almost \$190,000 per bed. This is the second 250-bed addition proposed for Atascadero. In the *1997-98 Budget Act*, the Legislature provided funding to prepare design documents for an initial 250-bed expansion, and as discussed below, the Governor's budget for 1998-99 proposes \$33 million for construction of this facility.

Increase in Patient Population

Since enactment of realignment legislation in 1991-92, the number of patients placed in the state hospitals pursuant to the Lanterman-Petris-Short (LPS) Act has declined by about 1,400 through December 1997. During this same time, however, the number of JC/PC patients increased by over 800. Because of the security needs associated with JC/PC patients, the Legislature has funded capital outlay projects and additional personnel to increase security at Metropolitan and Napa State Hospitals. Upon completion of these security improvements, and other housing unit reno-

vations at Metropolitan and Patton, the state hospitals will have secured facilities to house almost 3,600 JC/PC patients in June 2001. At that time, however, the JC/PC population is expected to be almost 4,000, and according to the department, this population will continue to grow by about 300 patients per year. About 50 percent of the projected increase in JC/PC population is attributable to patients committed under the Sexually Violent Predator (SVP) Program.

SVP Background. The SVP program was established by Chapter 762, Statutes of 1995 (SB 1143, Mountjoy), and Chapter 763, Statutes of 1995 (AB 888, Rogan). This program provides for the civil commitment of individuals who (1) have been convicted of a specified sexually violent offense against two or more victims, (2) have served their entire prison sentence, and then (3) have been diagnosed as having a mental disorder that makes it likely they will engage in sexually violent criminal behavior. Persons diagnosed as SVPs, after going through a complex process established by the SVP statutes, are civilly committed to the custody of the DMH for two years. Their commitments are subject to two-year extensions if it is determined by the DMH and the courts that the mental disorder and danger to the community persist.

The constitutionality of the SVP law is being challenged in the California Supreme Court, and a decision from the court is expected in 1998. In 1997, however, the U.S. Supreme Court upheld the constitutionality of a similar SVP program operated by the State of Kansas.

SVP Caseload. As of January 1998, there were about 70 individuals committed to Atascadero pursuant to the SVP law. In addition, there are about 130 individuals diagnosed by DMH as SVPs who have been placed at Atascadero by various court orders while awaiting disposition of their cases (pre-commitments). The Governor's budget assumes that the state's SVP law will be ruled constitutional and that the SVP population will continue to increase—reaching 321 commitments by June 1999. The administration projects that the SVP population will continue to grow and will range from about 1,400 to over 1,500 by mid-2006.

Long-Term Housing Strategy Needed

We recommend deletion of \$984,000 for preliminary plans because consideration of the addition is premature pending consideration of other options for accommodating growth in the judicially committed caseload. (Delete \$984,000 from Item 4440-301-0001 [1].)

Based on the projected growth in the JC/PC population and the available secured beds in the state hospital system, the DMH will need to

acquire additional secured beds. It is not clear, however, that adding additional capacity, in 250-bed increments, at Atascadero is the most appropriate and cost effective way to address this problem. The department indicates that, while the alternative to build a second 250-bed unit “seems to be most viable at this time,” it is studying the alternative of constructing a new facility solely for the SVP population. The department has contracted with a consultant to perform such a study (to be available in the spring), which is intended to include the following:

- Space and functional requirements for the facility.
- Criteria for selecting a site to locate the facility.
- Schedules and cost estimates for developing a facility at various sites.
- Recommended options for providing the required facilities.
- Detailed scope description and conceptual cost estimate for the recommended option.

We believe that the Legislature should not approve the proposed funding for the second 250-bed addition at this time. Instead, the Legislature should consider other options for addressing the housing shortage for JC/PC patients *and* SVPs. The pending department study should provide the Legislature with an opportunity to address this problem in a more comprehensive and long-range fashion. Aside from building a new facility for SVPs, there are a variety of steps that could be considered that would make additional beds available for JC/PC patients within the existing state hospital system, including:

- Relocating all forensic clients (about 120 clients) of the Department of Developmental Services (DDS) from Napa State Hospital to a state developmental center.
- Redirecting prison inmates currently receiving mental health treatment at Atascadero to the California Medical Facility (CMF) in Vacaville, where the DMH currently provides treatment services. (The budget proposes to establish an intermediate care facility for mental health treatment at CMF in 1998-99.)
- Working with the counties to further reduce the number of LPS patients at the state hospitals by developing more community-based placement options.
- Creating more secured beds by expanding perimeter security at existing state hospitals. (With completion of the previously approved security improvements, the state hospitals will still have up

to 1,000 beds that could be converted.) For example, providing security measures for a second patient housing unit at Metropolitan would provide 376 additional beds.

In addition, the Legislature should also consider the potential of using other state facilities in lieu of building new facilities to house the growing state hospital population. For example, the population of the state's developmental centers has decreased significantly in recent years and is well below their aggregate licensed capacity. The state should consider whether any of these facilities could be used to house DMH patients. Prior to its closure, the former Camarillo State Hospital housed both DMH patients and DDS clients, and a similar joint use arrangement could be explored for one of the remaining developmental centers.

Based on the above, and given the pending department study, we recommend deletion of the \$984,000 under Item 4440-301-0001 (1) for the second 250-bed addition at Atascadero State Hospital.

Atascadero, Initial 250-Bed Addition

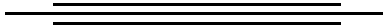
We withhold recommendation on \$33 million to construct the addition, pending review of the consultant's study on housing sexually violent predators and a decision regarding long-term housing options for Judicially Committed/Penal Code patients. If the Legislature decides to provide the construction funds in 1998-99, we recommend increased General Fund revenues be used to fund construction instead of lease-payment bonds in order to avoid future debt-service costs.

The budget proposes \$33 million in lease-payment bonds for construction of the first addition of 250 beds at Atascadero. The preliminary plans for the project are complete and the preparation of working drawings is scheduled to begin in March. Construction is scheduled to begin in March 1999 and be completed by February 2001.

Consistent with our previous discussion regarding the proposal for a second phase addition at Atascadero, we believe that the Legislature should not act on construction funding for this 250-bed unit until a longer-term solution is developed regarding the impending shortage of bed space for JC/PC patients. If, for example, the Legislature decided to house SVPs in a location other than existing state hospital facilities, there would be adequate secured beds in the state hospitals to house the remaining JC/PC population until early in 2004. Under this scenario, construction of this 250-bed addition could be deferred. Furthermore, the time when these new beds would be needed could be extended even further if any of the various options to make additional secured beds available in the state hospitals were implemented (as discussed earlier).

We withhold recommendation on the budget proposal pending receipt and review of the consultant's study on housing SVPs and consideration of a long-term strategy for housing JC/PC patients.

In addition, as discussed in our crosscutting issue, "Financing Priority Capital Outlay Projects," we recommend taking advantage of increased General Fund revenues to finance a greater portion of capital outlay on a "pay-as-you-go" basis rather than with bond financing. Therefore, if the Legislature decides to fund construction of this 250-bed addition in 1998-99, we recommend that the General Fund be used instead of debt financing with lease-payment bonds. This would reduce the state's future burden to pay debt-service costs for this project. We estimate that the state would avoid about \$37 million in total interest costs that it would otherwise incur with bond financing.



DEPARTMENT OF CORRECTIONS (5240)

The California Department of Corrections (CDC) operates 33 prisons and 38 fire and conservation camps throughout the state. The prison system also includes 14 community correctional facilities operated by private firms, cities, or counties under contract with the CDC and two county jails leased and operated by the department. As of December 31, 1997, the system housed almost 155,000 inmates.

The budget includes \$40.7 million from the General Fund for capital improvements at existing state institutions. The estimated future cost to complete these projects is \$52.2 million. The budget proposal includes the following:

- \$18.6 million for 27 projects related to health care and mental health treatment programs.
- \$9.1 million for 12 projects to renovate or replace buildings and infrastructure
- \$11.9 million for minor capital outlay projects (total cost of \$250,000 or less), including \$6.4 million in modifications to improve access to facilities and programs for inmates with disabilities.
- \$1.1 million for planning and studies.

The budget does not include any proposals to design and build new institutions. The administration's proposal to increase the capacity of the prison system through separate legislation is discussed below.

PRISON SYSTEM EXPANSION

The administration's plan for accommodating inmate population growth relies solely on expanding the prison system. This approach is similar to past proposals that the Legislature has rejected. We continue

to recommend a balanced approach to the state's inmate housing problem—one that includes both (1) development of additional capacity and (2) policy and program changes to reduce the growth rate in the inmate population. If the Legislature wishes to expand the use of leased prison facilities, as the administration is proposing, it should consider both the short- and long-term benefits of this approach to housing the state's inmates. The department should not advertise for new leasing contracts until the Legislature, through the budget process, determines how this proposal fits with its overall plan for addressing the inmate housing gap. Proposals for funding new state prisons also should be considered as part of the budget process.

Background

The department's most recent inmate population projections (Fall 1997) estimate a total of 213,000 inmates by June 2003. When all of the additional prison system capacity that the Legislature has previously authorized is completed (in the current year), the system will be able to accommodate about 171,000 inmates. (This capacity does not include about 7,200 beds—triple bunks in prison gymnasiums and dormitories and double bunks on dayroom floors in celled housing units—that the department could use but considers to be a “high security risk” and thus not viable long-term housing.) Based on the department's projections, in about two years all beds (including the “high risk” beds) will be occupied. Moreover, accommodating the inmate population growth solely by increasing the long-term housing capacity of the prison system would require completion of 42,000 additional beds within the next five years.

The need for 42,000 beds is distributed among the various security housing levels used by the CDC. The department, through a formal evaluation procedure, classifies inmates based on their potential risk to escape or to act aggressively against other inmates or staff. Through this process, the CDC determines in which of four security levels—Level I (minimum) through Level IV (maximum)—a male inmate should be housed within the prison system. Women inmates are also classified, but because there are far fewer women's institutions, those with different classifications are often placed within the same housing units.

Figure 15 (see next page) compares the prison system capacity (171,000) with the estimated inmate population in June 2003 for each security level. The figure shows that the largest housing needs will be in Levels I and III. (The capacities shown in Figure 15 include CDC's plan to convert about 8,500 cells for Level III inmates to instead house Level IV inmates. We assume that these conversions will remain in effect as needed at least through 2003.)

Figure 15**California Department of Corrections
Prison Housing Gap by Security Level**

	Capacity of Existing Prisons	June 2003 Inmate Population	Projected Housing Gap in 2003
Women	13,203	15,716	2,513
Men			
Reception	20,526	24,637	4,111
I	26,890	46,746	19,856
II	40,929	41,361	432
III	39,928	50,713	10,785
IV	26,225	31,197	4,972
Special housing	3,030	3,050	20
Totals	170,731	213,420	42,689

Administration's Plan

The administration proposes two strategies to address the 42,000-bed housing shortfall. First, the CDC would contract with public or private entities for 15,000 beds to house female inmates and Level 1 male inmates. Of this total, about 2,500 beds would be to address the June 2003 housing gap for female inmates (as shown in Figure 15). Second, the prison system would be expanded by 22,200 beds. This would consist of building four new prisons (20,300 beds) and adding ten administrative segregation housing units (1,900 beds) at existing institutions. The state-owned facilities would mostly house the higher security, Level III and IV inmates.

The department indicates that a portion of the 15,000 contract beds will be completed in each of the next three years. The department is requesting budget authority for 5,000 of these beds in 1998-99. The CDC's schedule shows that these beds would be activated beginning in the summer 1999. (We discuss this budget proposal in more detail in our analysis of the CDC's support budget. See the Judiciary and Criminal Justice chapter of this *Analysis*.) The department plans to request authorization for the remaining 10,000 contract beds in 1999-00 and 2000-01. At this time, it has not determined how many of these beds will be requested in each of those years. According to the department, the contracted facilities, which are planned to each house 500 inmates, can be completed much faster than the three to four years the department takes to develop a 5,000-bed state prison. These contract beds are intended to meet the housing shortfall that will occur in early 2000.

The impact of this proposal on the June 2003 housing gap is shown in Figure 16. As shown in the figure, after completion of all new facilities, there would be a housing gap of about 5,000 beds in June 2003. Under the plan, the department will therefore have to continue using most of the 7,200 “high risk” beds in order to accommodate the inmate population at that time.

Figure 16			
Impact of Governor’s Proposal on Housing Gap			
	Projected Housing Gap in 2003	Proposed Capacity Increase	Housing Gap With New Capacity
Women	2,513	2,513	—
Men			
Reception	4,111	1,710	2,401
I	19,856	14,111	5,745
II	432	0	432
III	10,785	11,110	-325
IV	4,972	7,783	-2,811
Special housing	20	—	20
Totals	42,689	37,227	5,462

Cost of Plan. The CDC estimates that it will cost almost \$1.3 billion to build the new prisons and administrative segregation units. This cost is proposed to be funded with \$1.024 billion in state bond funds and \$250 million in federal prison construction grants. A portion of these federal grants (about \$15 million) have already been awarded to the state. The CDC anticipates receiving the remaining grant monies over the next three years. The grants would pay for 90 percent of the estimated cost to construct one state prison.

The administration has not made a final decision whether to use general obligation bonds or lease-payment bonds for the new prisons. If the new prisons were funded with lease-payment bonds (as appears to be the administration’s intent), we estimate annual debt service costs would be about \$90 million. We estimate that the annual operating cost associated with this new capacity will be \$460 million. Total costs for debt service and operations would therefore be about \$550 million per year.

For the 15,000 contract beds, the state essentially will make lease payments to cover the contractor’s costs to construct and operate the facilities.

(The CDC indicates that the construction cost will be amortized as part of the lease payments over a ten-year period.) The estimated annual costs when all 15,000 beds are completed is \$285 million. This total includes costs of the contracts plus CDC support costs for such services as inmate medical care and transportation.

Administration Plan Relies Solely on Increased Capacity

Our analysis indicates that the plan, if implemented, would generally meet the state's anticipated housing needs over the next five years. The inmate population will not cease growing in June 2003, however. The department's projections show the system adding about 11,000 inmates per year over the following four years (though the last year of the projection—June 2007). Given existing law and practices within the criminal justice system, the inmate population will probably continue growing at a fairly steady rate for the foreseeable future. Accommodating this continued growth by expanding the state prison system would require building at least two new prisons *every year* with a capital outlay cost exceeding \$500 million.

As with previous proposals by the administration, this plan addresses the inmate housing problem solely by adding capacity—both state-owned and leased space—to the existing prison system. For the last four years, the administration's approach has been rejected by the Legislature. In our May 1997 policy brief, *Addressing the State's Long-Term Inmate Population Growth*, we presented a plan to address inmate population growth over the next ten years. This proposal was weighted almost equally between adding capacity to the system and reducing inmate population growth through a variety of program and policy changes that we believe are cost-effective and minimize the risk to public safety, such as:

- Shifting the punishment for certain offenses from the state to local government.
- Expanding the number of inmates receiving substance abuse treatment.
- County supervision of inmates rather than parole for inmates convicted of nonviolent or nonserious offenses with no prior violent or serious offenses.

There are a wide variety of options available in addition to the ones we offered in our proposal, and there is no one clear-cut solution to the challenge of accommodating the tens of thousands of additional inmates. We continue to recommend a *balanced* approach similar to the one we have

outlined. Below we comment on the administration's proposals for contract beds and for new prisons.

Contract Beds

The main difference between this year's plan and previous plans is the large component of beds to be leased from public or private entities. The plan would almost triple the number of such beds in the system. As discussed earlier, this proposal stems from the department's need for these beds in the short term when the inmate population would otherwise exceed the systemwide capacity before new state institutions could be completed. These prisons would house the lower-security level inmates for whom the department needs additional space.

Contracting for these beds is essentially an alternative to expanding capacity of the prison system through the state's capital outlay process. The department's past experience with contracting has shown it to be a cost-effective strategy for housing inmates. According to the CDC, the existing leased prisons operate at about 10 percent less than the cost to house inmates at state prisons. In general, the private sector should be able to build prisons in less time than the state due to the state's legal processes for awarding design and construction contracts. In addition, because the private firms bid on a competitive basis for both the construction and operation of the prison, the operating costs of these prisons can be less than for state prisons. We believe, however, that the Legislature should consider the potential long-term implications of contracting on such a large scale.

Lack of Ownership Stake. Since the early 1980s, the state has used bond financing to construct new state prisons. The state thus incurs debt and pays back this debt over many years for these state-owned facilities. The state does not incur debt—per se—in acquiring bed capacity through contracting, but nevertheless pays for the construction costs of the facilities through its lease payments to the owners. Unlike the state's debt payments for new state prisons, these lease payments do not lead to state ownership of the facility. From a long-term perspective, this is a key consideration.

Lease-Renewal Rates. With any lease (such as for commercial or office space), the occupant will be charged the market rate—based on the demand for that space—when a lease is first entered into and when it is renewed. Given the unique nature of prisons, it is difficult to predict future conditions regarding the “market” for prison space. To the extent that the state will need the proposed and current leased beds on a *permanent* basis, the state could be placed in a weak negotiating position when

contracts are renewed for these beds. This could result in higher long-run costs to the state in the future when compared to operating similar state-owned facilities. Over the long-term, the contracting approach to housing inmates could prove to be less cost-effective than it may initially appear.

Alternatives. Prior to authorizing the department to proceed with its budget-year proposal for 5,000 of the proposed private sector beds, the Legislature should consider both the short- and long-run implications of this alternative and how the contracts could be structured to best protect the state's interest in the future. For example, the Legislature could consider providing up-front construction funding for facilities to be built and operated by its contractors. Once the contracts expire, the state would own the prison. It could select a vendor to continue operating the facility—or assume operations with state personnel—if no bid was cost-beneficial. Alternatively, the Legislature could authorize the department to enter into lease-purchase arrangements or leases with purchase options so that the state's payments, over time, would lead to ownership of the facilities.

The Legislature may also wish to consider to what extent inmates classified other than Level I should be housed in the proposed contract facilities. The policy changes that we proposed in our May 1997 report would divert a number of Level I offenders from the prison system, thus reducing the need for this type of housing. In that event, the Legislature may wish to consider housing higher security inmates (Levels II and III) in contract facilities if doing so could be done safely and in a cost-effective manner.

Another feature of the administration's proposal that the Legislature should consider is the merits of leasing numerous 500-bed facilities versus contracting for some larger ones. Reason would dictate that, while larger facilities may take longer to build, they could probably be operated at less cost when compared to the relatively small units being proposed by the CDC. The department, for example, has proposed and built very large prisons in part to achieve cost efficiencies.

Other issues that the Legislature may wish to consider as part of this expansion of contracting include:

- The state's potential liability if an inmate escaped from a facility and harmed someone.
- The state's potential liability if an inmate was injured in a contract facility.
- The appropriate level of state oversight regarding the operations and actions of the contractors and their employees.

- The appropriate level of state staff required on-site.

The department plans to release a request for proposal (RFP) for the 5,000 beds in April 1998. The department is currently evaluating whether any modifications should be made to a 1995 RFP that was used to obtain contracts for 2,000 beds. We believe, however, that the department should not go forward with the RFP until the Legislature has had an opportunity to (1) consider whether the proposal for 5,000 contract beds fits with a more balanced approach, such as we have recommended, for addressing the inmate housing gap; (2) consider the issues related to contracting that we have discussed above; and (3) determine whether the various elements of the proposed RFP are appropriate.

State Prisons. The administration indicates that it will seek bonding authority—for either general obligation or lease-payment bonds—through legislation separate from the budget for the four prisons and ten administrative segregation housing units. We have consistently maintained that proposals to construct new prisons should be presented as part of the budget process. These one-time costs should be considered in relation to the ongoing costs needed to operate the facilities. The costs of building and operating new prisons should also be considered in the context of the entire state budget and along with the state's other capital outlay needs.

In the past, we have also indicated that approval of new prisons does not require complete funding authority at one stage. The new prisons proposed by the department will take three to four years to complete. Given the time necessary for environmental reviews and design of these facilities, it will take at least one year from the time of funding for these activities until the department is ready to proceed to construction. The Legislature could therefore appropriate funds for preliminary plans and working drawings for those new prisons that need to begin in 1998-99. These initial costs could be funded with federal prison construction grants (90 percent) and a corresponding state match (10 percent).

OTHER ISSUES

Previously Funded Projects

We recommend approval of \$18.2 million for 21 projects, contingent on completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature.

Our analysis indicates that the amounts proposed in the budget for 21 projects previously funded for preliminary plans are consistent with prior

legislative action. These budget proposals for working drawings and construction include:

- \$3.1 million to clean up soil and groundwater that is contaminated by Perchloroethene at the California Institution for Men, Chino.
- \$15.1 million for projects at 20 institutions related to providing mental health services to inmates.

The preliminary plans for these projects, however, have not been completed. Therefore, we recommend approval contingent on completion of preliminary plans that are consistent with the legislatively approved scope and cost.

Minor Capital Outlay

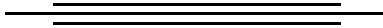
We recommend approval of \$2.5 million, a reduction of \$3 million for minor capital outlay because the department cannot undertake and complete all of these projects in the budget year. (Reduce Item 5240-301-0001 [24] by \$3,000,000.)

The budget proposes \$5.5 million for minor capital outlay for 1998-99. In keeping with state budgeting practice, these projects are scheduled in a lump sum appropriation. The total cost of a minor project cannot exceed \$250,000, but the department has considerable flexibility regarding which projects to undertake within the available funds. The department prepares a priority list of minor projects, but can redirect funds to other minor projects if priorities change.

The minor projects, along with major repairs and most major capital outlay projects at existing prisons, are built with inmate labor under the supervision of CDC personnel. According to information from the department, the Inmate Day Labor (IDL) workload totaled about \$60 million in projects in 1996-97. A majority of this workload involved implementing the department's emergency bed program, which included constructing new prison dormitories and support facilities at several institutions. The total staffing was reduced by about 10 percent in the current year because of a slight decrease in project workload.

We estimate that, if all capital outlay projects proposed for 1998-99 were approved by the Legislature, the IDL's workload for the budget year would total about \$55 million. Though this total is slightly less than in prior years, the work will involve many more small projects as compared to the larger building projects in the emergency bed program. We seriously question the department's ability to complete the proposed \$5.5 million in minor projects along with all other proposed IDL-related work in a timely fashion.

Consequently, we recommend a reduction of \$3 million in the request for minor capital outlay projects. This would leave the department with \$2.5 million to undertake its highest priority minor projects in the budget year. This funding level would be similar to the \$2.3 million provided for minor capital outlay in the current year.



DEPARTMENT OF THE YOUTH AUTHORITY (5460)

The Department of the Youth Authority operates 11 institutions, including two reception centers, and six conservation camps throughout the state. The budget includes \$14.2 million from the General Fund for the department's capital outlay program in 1998-99. This amount includes \$3.5 million for minor projects (each project costs \$250,000 or less), \$250,000 for planning, and \$10.5 million for the following major capital outlay projects:

- \$9 million for five projects related to various security related improvements, including fencing and personal alarm systems. (Estimated future cost is \$8.6 million.)
- \$0.7 million for new or expanded visiting facilities at four institutions. (Future cost is \$7.9 million.)
- \$0.7 million for utility system improvements at two institutions. (Future cost is \$3.3 million.)
- \$122,000 for a special education assessment center at the Ventura Youth Correctional Facility. (Future cost is \$1 million.)

The Governor is also proposing \$33 million in bond authority, in legislation separate from the budget bill, to build a total of 300 single-occupancy rooms at four institutions. (The administration has not made a final decision regarding whether general obligation or lease-payment bonds will be proposed.) As with our discussion regarding proposals to expand the state prison system (in the preceding section on the Department of Corrections' capital outlay program), the merits of this proposal for the Youth Authority should be considered as part of the budget process. These costs should be evaluated in the context of the state's other capital outlay needs.

Master Key System

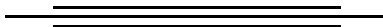
We recommend approval of \$1.1 million for working drawings and construction pending completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature.

The budget includes \$1,075,000 for working drawings (\$80,000) and construction (\$995,000) to rekey approximately 1,700 doors and 1,000 padlocks and establish a master key control system at the Heman G. Stark Youth Correctional Facility. Our review indicates that this amount is consistent with prior legislative action. The preliminary plans for this project, however, have not been completed. We therefore recommend approval contingent on completion of preliminary plans that are consistent with the legislatively approved scope and cost.

Statewide, Personal Alarm Systems

We recommend approval of \$609,000 for working drawings pending completion of preliminary plans and receipt of construction bids for a similar alarm system project.

The budget proposes \$609,000 to prepare working drawings for the installation of new personal alarm systems at all Youth Authority institutions. The estimated future construction costs are \$8.6 million. The preliminary plans for this project are not completed. In addition, the construction bids for a similar project to install a new personal alarm system at the Southern Youth Correctional Reception Center (SYCRC) are scheduled to be received in the spring. An evaluation of these bid results should assist the state in refining the estimate for installing alarm systems at the other institutions. We therefore recommend approval of the budget proposal contingent on (1) completion of preliminary plans that are consistent with the legislatively approved scope and cost and (2) review of construction bids for the personal alarm project at SYCRC.



UNIVERSITY OF CALIFORNIA (6440)

The budget proposes \$151 million from general obligation bonds to fund 26 projects under the University of California's (UC) 1998-99 capital outlay program. This amount includes \$1 million from the 1996 Higher Education Capital Outlay Bond Fund and \$150 million from a proposed 1998 bond measure. The estimated future cost to complete these projects is about \$127 million.

As discussed under "Funding Higher Education Capital Outlay," it would cost about \$1.2 billion to complete all projects included in this budget for all three segments of higher education as well as all projects not in the budget that were previously approved by the Legislature. Clearly, the Legislature will have to carefully allocate limited capital outlay resources to meet increased enrollment. We believe that the Legislature, in reviewing capital outlay proposals for UC, should:

- Strike a proper balance between UC expenditures for research and those for undergraduate instructional purposes.
- Address the implications of making a commitment to the proposed \$1 billion research campus at Mission Bay in San Francisco.
- Evaluate the proposals using the priorities and criteria discussed under "Funding Higher Education Capital Outlay" in the crosscutting section of this chapter.

LAO ASSESSMENT OF PROPOSED PROJECTS

Projects Meeting Statewide Criteria

We recommend the Legislature approve \$65.7 million for 13 projects that meet the criteria for the priorities we have identified for funding higher education capital outlay. (Future estimated cost \$37.9 million.) Of this amount we recommend the Legislature approve \$2.2 million from existing bond funds and \$63.5 million from the proposed 1998 bond measure.

In our Crosscutting Issue, “Funding Higher Education Capital Outlay” we recommend that the Legislature discontinue the approach of allocating equal shares of each higher education bond measure to each of the segments. Instead, we recommend that projects from all three segments be evaluated and funded based on how effectively they meet statewide priorities. We provide criteria for establishing statewide funding priorities that focus:

- First, on addressing critical health, safety, and utility problems of existing facilities.
- Second, on addressing undergraduate facilities needs.
- Finally, on other facility needs related to administration, faculty offices, and research and support operations.

The Governor’s budget proposes funding for 26 projects at UC campuses. We have evaluated these projects against the criteria discussed in our Crosscutting Issue and our recommendations are based on this evaluation. Our review indicated that half of the projects meet our proposed criteria. We recommend the Legislature approve the three highest priority projects (listed in Figure 17) from existing bond funds. We recommend the Legislature approve the ten projects listed in Figure 18 (see next page) from the proposed 1998 Higher Education Capital Outlay Bond Fund.

Figure 17			
Projects Recommended for Funding With Existing Higher Education Bond Funds			
<i>(In Thousands)</i>			
Campus	Project	Amount	Cost to Complete
Priority No. 2—Necessary Equipment			
Irvine	Humanities/Fine Arts Facilities—equipment	\$387	—
Irvine	UCIMC ^a Academic Laboratory Seismic Replacement Facility—equipment	548	—
Santa Cruz	Applied Sciences Building Alterations, Phase 1—equipment	1,232	—
Total		\$2,167	—
^a University of California Irvine Medical Center			

Figure 18			
Projects Recommended for Funding With Proposed 1998 Higher Education Bond Funds			
<i>(In Thousands)</i>			
Campus	Project	Amount	Cost to Complete
Priority No. 4—Academic Improvements (Renovation, 30 Years Old)			
Santa Barbara	Broida Hall Building Renewal—working drawings	\$712	\$10,257
Priority No. 5—Operationally Essential Facilities			
Berkeley	Campus Sewer System Renewal—working drawings and construction	\$2,007	\$0
Berkeley	Campus Water Distribution System Expansion, Step 2—construction	1,466	0
Los Angeles	Campus High-Rise Fire Safety—working drawings and construction	4,377	0
San Diego	SIO ^a Utilities System Improvements—construction	1,836	0
Santa Cruz	Mt. Hamilton Infrastructure Improvements—construction	2,871	0
Priority No. 6—Administrative, Research, and Support Facilities			
Riverside	Entomology Buildings Seismic Replacement—preliminary plans	\$991	\$23,149
Santa Barbara	Environmental Sciences Building—working drawings and construction	21,015	1,577
Santa Cruz	Interdisciplinary Sciences Building—working drawings and construction	14,833	1,759
Davis	Alternative Pest Control Quarantine and Containment Facilities for California	13,442	1,179
Totals		\$63,550	\$37,921
^a Scripps Institution of Oceanography			

Reevaluate the Following Projects

We recommend the Legislature delete \$41.7 million for nine projects related to seismic retrofitting of University of California buildings because (1) the seismic risk of these buildings needs to be reassessed using the Department of General Services' method and (2) the projects need to be rescoped to include seismic retrofit work only. (Reduce Item 6440-301-0574 by \$2,149,000 and delete subitems (1), (5), and (7); reduce Item

6440-302-0574 by \$38,421,000 and delete subitems (3), (4), (6), and (7); and delete Item 6440-301-0658 for \$1,084,000.)

As discussed in the Crosscutting Issue “Assessing Seismic Risk in Higher Education Buildings” in this chapter of the *Analysis*, we recommend all state buildings, including those on UC campuses, be evaluated for seismic risk using the methodology and rating scale developed by the Department of General Services (DGS). Without this uniform process the Legislature has no basis for comparing funding proposals from the different segments and for general state buildings to determine both the relative risk of the buildings and which buildings should be funded for improvements.

In addition, in order to reduce the seismic risk in the largest number of high risk buildings and to address other capital outlay needs with limited funds, the scope of these projects should be limited to work that is *directly* required because of the seismic retrofit. This is the approach the Legislature has taken for all other state buildings, and we believe it is the prudent way to proceed for the UC projects.

We recommend, therefore, that the projects in Figure 19 (see next page) be reevaluated using the DGS method and ranking system, and that they be rescoped to include only structural corrections. If they are determined to be seismic risk level V or VI, and if they are rescoped to include structural corrections only, they would warrant consideration by the Legislature as Priority 1 projects. In this case, we would recommend the Legislature use existing bond funds to fund the projects rather than projects of lower priority in the UC as well as in the California State University and community colleges. Although the UC has provided some information indicating that these buildings would be level V or VI, its engineers did not use the DGS’s methods in arriving at these conclusions. Instead of using the DGS’ evaluation process, the engineers attempted to equate the UC terms “very poor,” “poor,” and “fair” to the DGS terminology for seismic risk levels. In order to assure comparable risk evaluations, the use of the DGS methods is necessary.

On this basis, we recommend the Legislature delete the projects in Figure 19. If upon reevaluation, the seismic risk indicated is a risk level V or VI and the project is rescoped to include seismic retrofit work only, such revised projects would warrant the Legislature’s consideration. At this time, however, we recommend the Legislature delete the nine projects and \$41.7 million.

Previously Approved Projects Recommended for Reevaluation. Three of the projects in Figure 19 have previously been approved by the Legislature. These are:

Berkeley-Barker Hall, seismic safety corrections—working drawings.

- Riverside-Rivera Library, seismic upgrade and remodel—construction.
- Riverside-Boyce Hall, seismic upgrade—construction.

Figure 19			
Seismic Retrofit Related Projects Need to Be Reevaluated and Rescoped			
<i>(In Thousands)</i>			
Campus	Project	Amount	Cost to Complete
Berkeley	Seismic Safety Corrections, Barker Hall—working drawings	\$758	\$12,599
Berkeley	Seismic Safety Corrections, LeConte Hall—preliminary plans	820	13,780
Berkeley	Seismic Safety Corrections, Wurster Hall—working drawings and construction	16,625	0
Irvine	Arts Renovation and Seismic Improvements, Phase 1—preliminary plans	264	4,715
Irvine	Seismic Improvements, Med Surge I and II—working drawings and construction	2,528	0
Los Angeles	Health Sciences Seismic Replacement Building 1—preliminary plans	922	22,141
Riverside	Boyce Hall Seismic Upgrade—construction	2,376	0
Riverside	Humanities-Olmsted Hall Seismic Upgrade and Renovation—preliminary plans	469	11,067
Riverside	Rivera Library Seismic Upgrade and Remodel—construction	16,892	0
Totals		\$41,654	\$64,302

These projects are now before the Legislature because it has the opportunity to review projects after completion of preliminary plans or working drawings to assure conformance with current needs and priorities. Given the limited availability of funds and the many statewide needs, we believe the Legislature should reevaluate these projects (1) for their seismic risk in relation to other state buildings and (2) to minimize the cost by funding only that work needed for seismic retrofit. For purposes of allocating the existing bond funds, we have assumed that these projects will not proceed in the budget year.

Delete the Following Projects

We recommend the Legislature delete \$43.7 million for four projects because they do not meet the priority criteria. (Delete Item 6440-301-0574 [2] for \$21,028,000, Item 6440-301-0574 [8] for \$935,000, Item 6440-301-0574 [9] for \$347,000, and Item 6440-301-0574 [10] for \$21,362,000.)

We recommend the Legislature not fund the projects shown in Figure 20 because they do not meet the priority criteria described in our crosscutting issue. These projects are discussed further below.

Figure 20			
Projects That Do Not Meet Priority Criteria			
<i>(In Thousands)</i>			
Campus	Project	Amount	Cost to Complete
Davis	Plant and Environmental Sciences Replacement Facility—working drawings and construction	\$21,028	\$0
San Diego	Basic Science Building Renovations—working drawings	935	14,949
San Diego	Primary Electrical System Improvements—preliminary plans and working drawings	347	4,459
San Francisco	UC Hall Seismic Replacement, Mission Bay—working drawings and construction	21,362	5,341
Totals		\$43,672	\$24,749

Davis—Plant and Environmental Sciences Replacement Facility. This project will construct a 72,000 assignable square feet (asf) predominantly research building to accommodate programs in plant and environmental sciences currently located in Hunt Hall (39,000 asf) and Hoagland Hall (32,000 asf). These buildings were constructed in 1949 and 1959, respectively. The total cost of the project is \$42 million, with \$21 million requested from the state and \$21 million to be provided from UC funds. Upon completion of this project, the campus intends to assign the vacated buildings to other academic and administrative functions not requiring intensive laboratory settings. The cost to alter the buildings for these other uses has not been identified.

The Davis campus currently has 1.3 million square feet of research space (this includes academic offices and research laboratories). This represents 101 percent of the amount needed based on enrollment. If this

project were to be constructed, the campus would have 99 percent of the research space needed based on enrollments in 2002 when the building is scheduled to open. This amount exceeds the 90 percent criterion used in our evaluation. Because this project will replace two buildings that are more than 30 years old, we also reviewed the proposal based on the need to renovate or replace these buildings. Our evaluation concludes that the existing buildings do not need to be replaced. Instead, the UC should reevaluate the amount of alterations that *may be necessary* to improve the building conditions. The primary complaints appear to be (1) the lack of central air conditioning suitable for both an acceptable working and experimentation environment and (2) interior dust pollution due to windows being opened by occupants because of the lack of air conditioning. Both of these conditions can be remedied by installation of central or zoned air conditioning. A project to provide these modifications could be accomplished for far less than the \$300 per square foot cost of this project. Therefore, we recommend the Legislature not approve the \$21 million for construction of a new replacement building when renovation of the existing building could provide a satisfactory facility. (Delete Item 6440-301-0574 [2] for \$21,028,000.)

San Diego—Basic Science Building Renovations. This project will renovate 134,000 asf of this 198,000 asf research and instructional building for the School of Medicine. The space to be renovated is instructional space for medical students (29 percent), research space (61 percent), and support space (10 percent). The work will consist of reconfiguring laboratories; upgrading electrical, heating, ventilation, and air-conditioning, plumbing, fire safety and elevator systems; and upgrading the offices, classrooms, auditoriums and the vivarium.

The San Diego campus currently has 900,000 square feet of research space (this includes academic offices and research laboratories). This represents 101 percent of the amount needed based on enrollment. The campus would have 97 percent of the research space needed based on enrollment in 2000 when renovation of the building is scheduled to be completed. Because this building was constructed in 1968 we also reviewed the proposal based on the need to renovate this building. The UC proposal includes many elements that are maintenance issues (such as replacement of floor covering, ceilings and electrical switchgear) that should be addressed through the campus maintenance budget. The proposal also includes replacement of equipment (such as telecommunications equipment and steam sterilizers) that should be funded through the campus operating budget. Consequently, our evaluation concludes the existing building does not need to be renovated under the capital outlay program to the extent of this proposal. Smaller renovations to this building have been made in the past to correct deficiencies and we believe the

campus should continue this approach. Therefore, we recommend the Legislature not approve the \$935,000 for working drawings. (Delete Item 6440-301-0574 [8] for \$935,000.)

San Diego—Primary Electrical System Improvements. This project would add a new high-voltage transformer and switchgear to the campus' main electrical substation, reroute existing utility lines, and add two high-voltage cables from the east campus to the Revelle College substation. The need for this project is predicated on increased demand that would be required to serve planned new facilities, and an improvement in system reliability. Our review concludes that these improvements are not needed at this time. The main substation capacity is adequate for current loads and the planned new facilities have not yet been presented to or approved by the Legislature. An electrical system capacity increase should be deferred until new projects have been approved. When future expansion is approved by the Legislature, a project to address associated electrical system improvements could be considered for funding. (Delete Item 6440-301-0574 [9] for \$347,000.)

San Francisco—UC Hall Seismic Replacement, Mission Bay. This project involves issues beyond those associated with just this proposed building. We discuss this project and the proposed Mission Bay campus in more detail below.

UCSF MISSION BAY PROJECT SHOULD NOT BE FUNDED

We recommend the Legislature delete \$21.4 million for working drawings and construction at Mission Bay of a replacement facility for UC Hall located on the University of California, San Francisco campus. Further, we recommend the Legislature clearly delineate that no state funds will be provided for development of the planned research campus at Mission Bay.

Budget Proposal

The Governor's budget includes \$21.4 million to partially fund the working drawings and construction cost of a 105,000 asf building at a proposed second campus for University of California, San Francisco (UCSF) in the Mission Bay area of San Francisco. The UC is asking for state funds to finance a portion of this Mission Bay building as part of a plan to replace UC Hall at the UCSF campus on Parnassus Avenue. The new building is estimated to cost \$82.5 million, with the UC to provide

\$61.1 million from University funds. The proposal to construct this building raises issues not only about funding this proposal, but the larger issues associated with the UC making a commitment to construct a new \$1 billion, 2.65 million square feet, 43 acre campus devoted to research. Figure 21 is a photograph of the model for the planned medical science research center in Mission Bay.



Funds Appropriated in Current Year Not Needed. In the 1997-98 Governor's Budget the UC requested \$299,000 for preliminary plans (an additional \$721,000 was to be provided from University funds) to construct a 33,000 asf facility on a site at the UCSF campus. This was to be the first of three buildings (two buildings at the campus and one building at another site) to replace and ultimately demolish UC Hall. The Legislature approved the UC request for \$299,000. The UC decided not to proceed with that plan and no longer needs the funds appropriated by the Legislature in the 1997-98 Budget Act. The proposal in the 1998-99 Governor's Budget reflects the UC's current plans.

The UC Hall Should Not Be Replaced

The existing UC Hall is a 91,000 asf (147,000 gross square feet) seven story, concrete-encased steel frame building constructed in 1917. It was originally a hospital but was decommissioned as such in the 1980s. It now contains laboratory research space, several academic departments, a newly renovated vision clinic, a lecture hall, and physicians' and administrative offices. It has been inspected by structural engineers to determine its seismic risk. It is classified as "poor" using the UC seismic risk ranking system. It has not been evaluated for seismic risk using the DGS method.

Seismic Retrofitting of UC Hall Is Less Costly. The structural engineers who inspected UC Hall estimated the cost to provide the necessary seismic strengthening to improve the building to a "fair" rating (using the UC system of evaluation) would be about one-third the cost to replace UC Hall. Consistent with our recommendation to fund seismic retrofit costs only in order to reduce seismic risk in the largest number of buildings throughout higher education and to address other statewide needs (especially undergraduate instructional capacity) we recommend the Legislature not approve the budget request. We also recommend that the UC reevaluate the UC Hall based on the methods used by the DGS. If this reevaluation indicates UC Hall to be a V or VI level seismic risk, a proposal for seismic-only retrofitting of UC Hall may warrant the Legislature's consideration.

Legislature Should Not Commit State Funding for a New Research Campus

The UC indicates that this new research campus would become a full-service health sciences campus. According to the UC, this would require the development of library, teaching, administrative support, and "campus community" spaces. Given the relatively small and stable enrollments in the health sciences (and the health sciences capabilities at other UC campuses) and the amount of space currently available at UCSF, we do not believe it would be a prudent expenditure of state funds to provide additional space for UCSF and certainly not to embark on development of a new campus.

If the UC wants to proceed with the Mission Bay campus, it can use its authority and ability to raise funds, use research revenue bonds, grant funds, or other financing mechanisms to undertake the development. The state, however, should not have a responsibility for, nor be expected to spend limited state funds on this proposal. Any state funds contributed to this effort would diminish the state's ability to meet other needs throughout higher education—especially in light of the need to address

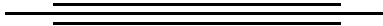
expected growth in enrollments. Given the proposal before the Legislature and the UC plans for Mission Bay, we believe it is essential that, at this initial point of UC planning for this new campus, the Legislature clearly delineate the Legislature's commitment to state funding for the proposal. ***We recommend that the Legislature advise the University of California that there will be no commitment of state funds for the Mission Bay campus.***

Other Issues Concerning the Mission Bay Proposal

Environmental Cleanup Uncertainties. The Mission Bay site is a planned community of which the UCSF campus is intended to be the centerpiece. The campus is to be located on 30 acres of land owned by a development company and 13 acres owned by the City and County of San Francisco. The property is primarily a vacant railroad yard. The university has indicated that the developer is committed to bearing the cost of environmental cleanup of the site. The UC's only recourse in the event of default, however, is an action against the real estate development company, which may or may not have recoverable assets at the time of default. All of these uncertainties make it unclear that the project can be completed without delays and additional future costs.

Significant Unavoidable Adverse Environmental Impacts. In certifying the final environmental impact report for this project, the Board of Regents found that there will be significant environmental impacts that cannot be avoided if the project is constructed.

Uncertain Effect of UCSF-Stanford Merger. The UCSF is in the process of merging its clinical activities with Stanford University Health Services. As currently proposed, a new nonprofit entity would be created as the corporate entity that would lease facilities from UCSF and Stanford. It has been indicated that UCSF has leased its clinical facilities to this new entity for \$1 a year. The UC should advise the Legislature of any relationship between the current proposal and the UCSF-Stanford merger.



CALIFORNIA STATE UNIVERSITY (6610)

The budget proposes \$161 million for California State University's (CSU's) 1998-99 capital outlay program. The proposed amount includes \$150 million from a *proposed* 1998 Higher Education Bond Fund measure and \$11 million from the proceeds of lease-payment bonds that were sold for other purposes. The estimated future cost to complete these projects is over \$5 million, exclusive of the future costs associated with relocating the CSU Northridge, Ventura Off-Campus Center to the Camarillo State Hospital site. Thus, the total cost of the CSU program before the Legislature in 1998-99 is over \$166 million. In addition, the cost to complete projects that have been approved previously by the Legislature but not included in the 1998-99 request is almost \$361 million. This brings the total cost of finishing all proposed and previously approved projects for CSU to \$527 million.

Funds are not available to complete the proposed and previously approved projects for the three segments of higher education in California. The unfunded cost to complete all projects previously authorized for the three segments plus those in this budget is about \$1.2 billion. The balance of unappropriated bond funds, exclusive of reserves for augmentations and other costs, is approximately \$55 million. As discussed in the Crosscutting Issue "Funding Higher Education Capital Outlay," we recommend projects be approved for funding using specific priorities and criteria rather than in accordance with an arbitrary allocation among the segments. We also recommend additional study of the proposed CSU campus at the Camarillo State Hospital site.

LAO ASSESSMENT OF BUDGET PROPOSALS

Projects Meeting Statewide Criteria

We recommend that the Legislature approve \$137 million for 18 projects in the California State University capital outlay proposal. We recommend further that the Legislature fund ten of these projects costing \$39.5 million from existing bonds with the remaining \$97.8 million from the proposed 1998 bond measure.

In our crosscutting issue, "Funding Higher Education Capital Outlay," we recommend that the Legislature discontinue the approach of allocating equal shares of each higher education bond fund to each of the segments. Instead, we recommend that projects from all three segments be evaluated and funded based on how effectively they meet statewide priorities. We provide criteria for establishing statewide funding priorities that focus:

- First on addressing critical health, safety, and utility problems of existing facilities.
- Then on addressing undergraduate facilities needs.
- Finally on other facility needs related to administration, faculty, research, and support operations.

The Governor's budget proposes funding for 24 CSU projects. We have evaluated these projects against the criteria discussed in our crosscutting issue and our recommendations are based on this evaluation. We recommend the Legislature approve the ten projects listed in Figure 22 and that they be funded from existing bond funds. We recommend the Legislature approve the ten projects in Figure 23 (see page 82) from the proposed 1998 Higher Education Capital Outlay Bond Fund.

Figure 22**Projects Recommended for Funding
With Existing Higher Education Bond Funds***(In Thousands)*

Campus	Project	Amount	Cost to Complete
Priority No. 1—Critical Fire, Life Safety, and Seismic Deficiencies			
Northridge	Business Administration, Economics and Education Building—construction ^a	\$700	—
San Marcos	Initial Facility—construction ^a	570	—
Priority No. 2—Necessary Equipment			
California Maritime Academy	Laboratory Addition/Library Addition—equipment	\$693	—
Fresno	Renovate McLane Hall—equipment	606	—
Humboldt	Wildlife/Fisheries Renovation and Addition—equipment	953	—
Los Angeles	Renovate Engineering and Technology Building—equipment	4,400	—
Pomona	Science Building Addition and Renovation—equipment	1,703	—
San Bernardino	Corporation Yard/Administrative Services Addition/Renovation—equipment	322	—
Priority No. 3—Utility System Deficiencies			
Humboldt	Infrastructure Improvements—construction	\$19,618	—
Priority No. 4—Academic Improvements (Renovation, 30 Years Old)			
Los Angeles	Remodel Music Building—working drawings and construction	\$9,895	—
Totals		\$39,460	—

^a These expenditures have been classified Priority 1 because they are judgments or settlements arising from construction claims that the state is obligated to pay.

Figure 23**Projects Recommended for Funding
With Proposed 1998 Higher Education Bond Funds***(In Thousands)*

Campus	Project	Amount	Cost to Complete
Priority No. 4—Academic Improvements (Renovation/Replacement, 30 Years Old)			
Long Beach	Renovate Fine Arts 1, 2, 3, and 4— working drawings and construction	\$15,116	\$766
Sacramento	Classroom Building II— working drawings and construction	13,910	1,260
Priority No. 5—Operationally Essential Facilities			
Chico	Fire Life Safety—construction	\$1,298	—
Dominguez Hills	Natural Sciences and Mathematics Building—preliminary plans, working drawings, and construction	3,919	—
Fresno	Infrastructure Improvement—preliminary plans, working drawings, and construc- tion	7,192	—
Pomona	Chilled Water Central Plant—preliminary plans, working drawings, and construc- tion	4,486	—
San Diego	Infrastructure Improvements—construction	6,530	—
Priority No. 6—Administrative, Research, and Support Facilities			
Dominguez Hills	Technology Center, Health and Administrative Services Building— drawings and construction	\$30,915	\$3,574
Totals		\$97,739	\$5,600

**Reevaluate the Following
Previously Approved Projects**

We recommend that the Legislature delete \$7.7 million for two projects related to seismic retrofitting of California State University buildings because (1) the seismic risk of these buildings needs to be reevaluated using the Department of General Services' assessment method and (2) the project scopes need to be reevaluated to limit the work to seismic improvements only. (Delete Item 6610-302-0574 [1] for \$3,743,000 and Item 6610-302-0574 [8] for \$3,923,000.)

The Legislature has previously approved funding for development of working drawings for the projects in Figure 24. These projects are now before the Legislature because it has the opportunity to review projects after completion of working drawings to assure conformance with current needs and priorities. We recommend that the need for these projects be reevaluated to determine if they are of sufficient risk to warrant seismic retrofit funding. As discussed in the Crosscutting Issue “Assessing Seismic Risk in Higher Education Buildings” in this chapter of the *Analysis*, we recommend all state buildings—including those on CSU campuses—be evaluated for seismic risk using the methodology and rating scale developed by the Department of General Services (DGS). Without this uniform process, the Legislature has no basis for comparing funding proposals from the different segments and for general state buildings to determine if they are risk level V or VI and therefore should be improved for seismic safety. The CSU provided some information indicating the Fullerton project to be level IV based on an informal conversion of their evaluation to the DGS risk scale. If this is the risk level of the building, we would recommend the Legislature not fund this project. The CSU also indicated the California Maritime Academy project would be level VI, but again this was done informally and without following the DGS method. Further, in order to maximize limited state funds to make improvements to the largest number of high-risk buildings and to meet other capital outlay needs throughout higher education, we recommend these projects be reevaluated to assure their scope and cost cover only structural seismic improvements. If after reevaluation these projects are determined using the DGS process to be seismic risk V or VI, and if they consist only of structural corrections, they may warrant the Legislature’s consideration. For purposes of allocating existing bond funds, we have assumed that these projects will not proceed in the budget year.

Figure 24

Seismic Correction Projects Recommended for Reevaluation

(In Thousands)

Campus	Project	Amount	Cost to Complete
California Maritime Academy	Seismic Upgrade, Campuswide —Construction	\$3,743	—
Fullerton	Seismic Upgrade, Langsdorf Hall —Construction	3,923	—
Total		\$7,666	—

Reevaluate Minor Projects and Seismic Studies

We withhold recommendation on the requests for \$14.2 million for minor capital outlay projects and \$200,000 for statewide seismic studies until the California State University reevaluates these proposals in accordance with the statewide priorities and criteria.

The CSU proposes \$14.2 million for minor capital outlay projects (\$250,000 or less per project) statewide. It has submitted a list of about 230 projects (total cost of \$21 million) from which it proposes to select for funding. The list has been divided to show priorities at each campus, but there is no unified statewide priority list. The CSU should reevaluate the minor capital outlay proposal and separate the projects based on the statewide criteria and priorities we have outlined. In this way, the Legislature would know the priority areas targeted for minor improvements and be able to better assess the merits of the proposed funding level for minor capital outlay.

The Governor's budget for CSU also includes a proposal for \$200,000 to fund seismic studies statewide. We recommend this proposal be treated as a minor project and be incorporated into the statewide priority list.

Pending receipt of this information, we withhold recommendation on these proposals.

Delete San Jose Business Building Project

We recommend the Legislature delete the proposed \$5.1 million to renovate the Business Building at the San Jose campus because the project does not meet the proposed statewide priority criteria for building renovation and the California State University has not substantiated the need to extensively renovate the building. (Delete Item 6601-302-0574 [20] for \$5,135,000.)

The budget includes \$5.1 million to renovate the 50,000 assignable square feet (asf), four-story Business Classroom Building at the San Jose campus. This facility houses the College of Business, classrooms, and offices for other departments. The building was constructed in 1972 and is of reinforced concrete design. The full project cost is \$15.6 million, which consists of the \$5.1 million in state funds for construction, \$9.4 million for construction to come from donors, and \$1 million of future state funding for equipment. The seismic repair portion of the project is about \$200,000.

The project is only minimally directed at seismic deficiencies and is primarily a renovation, which is the basis upon which we evaluated it. Since the building is not 30 years old, it does not meet the criterion for renovation based on age. Furthermore, the limited information submitted to justify this project does not reveal any problems that would warrant the expenditure of over \$5 million of state funds. Most of the proposed work is for mechanical and electrical system changes. Other than in very general terms, the information does not identify the problems with these systems. We therefore recommend the Legislature delete the \$5,135,000 requested for this project.

DEFER DECISION ON MOVING THE VENTURA OFF-CAMPUS CENTER TO THE VACATED CAMARILLO STATE HOSPITAL SITE

We recommend that the Legislature delete the proposed \$11.3 million for renovation of the vacated Camarillo State Hospital for the California State University (CSU) Northridge, Ventura Off-Campus Center because more information is needed to determine the long-term cost implications of this proposal. We further recommend the Legislature adopt supplemental report language directing CSU to complete studies necessary to evaluate all options for locating the off-campus center. (Delete Item 6610-301-0660 [1], a reduction of \$11,303,000.)

Proposal

The Governor's budget includes \$11.3 million to renovate about 54,000 asf of space at the vacated Camarillo State Hospital. This amount includes \$9.9 million (about \$185 per asf) for construction-related costs and \$1.4 million for equipment. The CSU has used a total of \$555,000 from foundation funds and lease revenue from the site the state purchased for a new center in Ventura County to fund the preliminary plans and working drawings for this proposal.

The renovated space would provide classrooms (26,600 asf), laboratories (11,400 asf), library (4,000 asf), and offices and support spaces (12,000 asf). The renovation is planned to be accomplished in two phases, with the first phase completed by January 1999 in order to move the center to the Camarillo site at that time. The second phase would be completed by summer 1999. Completion of phase one would provide for the CSU projected enrollment of 1,100 full-time-equivalent (FTE) students and completion of phase two would provide space for 2,400 FTE and allow for the projected enrollment of 1,500 FTE by fall 1999. The Governor's budget

also includes a \$5.2 million augmentation to the CSU budget for the higher cost of operating the center at the Camarillo site.

Background. Chapter 914, Statutes of 1997 (SB 623, O'Connell), authorizes the transfer of the vacated Camarillo State Hospital site to the CSU for ultimate development as a new campus. Currently, the CSU Northridge campus operates an off-campus center serving about 690 FTE (upper division undergraduate) students in leased space in downtown Ventura. The CSU Trustees have agreed to accept the hospital site on July 1, 1998, and move the Ventura center there *only if* the state appropriates additional funds to the CSU in recognition of the high costs of locating the center at the hospital site. The CSU expects (1) to receive amounts above those the CSU would normally receive in its operating budget for additional students and (2) that any capital outlay funds for Camarillo would be on top of funding for the CSU priorities in the CSU five-year capital outlay plan. The Governor's budget proposal meets the conditions identified by the Trustees.

CSU Plan. If the Legislature appropriates the additional funds (*and presumably commits to providing additional funds in future years*) and if cost-benefit, feasibility, and environmental impact studies indicate the center should be moved to the Camarillo site, the CSU Trustees have indicated that they would accept the Camarillo property. Assuming the funds are available and the studies are completed by July 1, 1998, the CSU would begin renovations in August and move students to the site in January 1999. The academic program at the site would continue to be an off-campus center under the CSU Northridge campus for at least seven years. At that time the Trustees would evaluate whether a campus requiring a full range of undergraduate and graduate programs is justified at Camarillo.

Existing State-Owned Site. The state owns a 260-acre site in Ventura County that it purchased for a permanent location of this off-campus center with the potential to expand the center into a full campus. The state purchased this site in 1995 for \$7 million. This site would become surplus to the CSU needs if the center is moved instead to Camarillo.

As mentioned above, the CSU Trustees expect to obtain additional information before accepting the Camarillo site. We believe this is a prudent way to proceed and we believe the Legislature needs the same information, plus information on other issues, before the Legislature provides funds to move the existing center.

What Issues Need to Be Addressed Before Relocating the Ventura Off-Campus Center?

There are several issues that require further evaluation before the Legislature commits to locating the Ventura Off-Campus Center, and ultimately a fully developed CSU campus, at the Camarillo site. These are:

Cost Benefit Analyses and Feasibility Studies Not Completed. The Legislature has appropriated \$1.6 million to the CSU to complete certain specific studies and analyses of the Camarillo site. Among these were:

- An environmental impact report.
- Cost to demolish residences.
- Soils and site surveys.
- Economic model development.
- Utility infrastructure development studies and estimates.
- Evaluation of electrical, lighting, ventilation, seismic, and code compliance.
- Acoustical study for adjacent Ventura County amphitheater.

These are the studies the CSU Trustees are waiting for before they accept the Camarillo site. The Legislature also should have this information before it makes a decision on moving the Ventura center.

Comparative Analysis of Camarillo and 260-Acre Sites. Prior to deciding to move the Ventura Off-Campus Center, the Legislature should have a cost-benefit analysis available for review. This analysis should compare locating the center (and possible future campus) at Camarillo with the alternative of developing the 260 acre site already owned by the state and it should identify *when it would be cost-effective to relocate the center to either site*. This analysis also should consider the cost of maintaining facilities that are not being used (such as the significant cost of maintaining the unused buildings and infrastructure at the Camarillo site) until such future time when enrollment growth may permit their effective utilization.

Environmental Impact Report Not Completed. Included in the work funded in 1997-98 was preparation and processing of an environmental impact report (EIR). The Legislature should especially be aware of any issues revealed through the EIR process that may affect the costs to develop this site or may limit its development before it commits to the Camarillo site.

Cost for Underutilized Infrastructure. There is substantial infrastructure in place at the Camarillo site and it has been well-maintained, but this appearance of “cost-free” facilities may be deceiving. The reason is that there is far more in the way of buildings and utilities existing at this site than the CSU can use in the foreseeable future, yet the state will have to bear the substantial expense of operating and maintaining the excess space. As an example, CSU Bakersfield has a current FTE enrollment of about 4,600 and a campus with 711,000 gross square feet (gsf) of facilities. The Camarillo site is proposed to open as an off-campus center in January 1999 with an FTE enrollment of 690 and 1.6 million gsf. Even at its planned enrollment of 3,000 FTE in 2004-05, the CSU will have to maintain more than 1.3 million gsf of buildings *excess to the center’s needs*.

Contract Commitments for Co-Generation Plant. A co-generation plant has been constructed at the site by a private company. It generates steam (which it sells to the hospital) and electricity (which it sells to electricity utilities in southern California). The state is contractually committed to purchase steam from this plant. When operated as a 1.6 million gsf state hospital, this was not a disadvantage. When operated as a 100,000 gsf off-campus center, this purchase requirement may be a substantial burden.

Use of Lease-Payment Bond Proceeds Is Highly Improper. The Governor’s budget proposes to use the proceeds from lease-payment bonds that were sold for other projects in the CSU to fund the renovations at Camarillo. The proceeds are apparently excess amounts from eight different bond sales that occurred between 1986 and 1997.

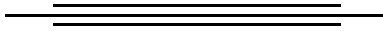
The State Public Works Board is authorized to sell lease-payment bonds for a particular building. It then leases the building to a state agency (in this case, CSU) and uses the lease payments from the agency to retire the bond debt for that building. The bonds are sold to investors on this basis. It is our understanding that this tie between the lease payments (dependent on annual appropriations) for each building and the bond debt payment is a key factor in distinguishing these bonds from general obligation bonds (which require voter approval).

We believe the administration’s proposed use of these bond proceeds for this purpose is highly improper. We recommend that the Legislature deny this proposal to broaden the use of lease-payment bonds. Past practice has been to use any excess bond proceeds to reduce the General Fund appropriation for lease payments on the bond debt for the bonds sold for the specific buildings. Consistent with this past practice, the \$11.3 million under this item should instead be used to reduce the CSU lease payments under Item 6610-001-0001. If the Legislature decides to fund the proposed

project at Camarillo, we would recommend that the Legislature use either existing general obligation bonds or the proposed 1998 bond measure.

Recommendations

We recommend the Legislature delete the \$11.3 million to renovate space at the vacated Camarillo state hospital site for the CSU Northridge, Ventura Off-Campus Center because the Legislature needs more information to determine the long-term cost and benefit implications of this proposal. Further, we recommend that the Legislature adopt supplemental report language directing CSU to undertake a cost analysis of the alternatives to relocating the off-campus center—specifically, development of the Camarillo state hospital site or at the existing state-owned 260 acre site. Such an analysis should, at a minimum, assess when the center should relocate, the cost for development, how much space will be needed in future years, and the cost of maintaining unused space.



CALIFORNIA COMMUNITY COLLEGES (6870)

The proposed 1998-99 capital outlay program for the California Community Colleges (CCC) totals \$158.4 million—\$8.4 million from the 1996 higher education bond and \$150 million from a proposed 1998 bond measure. This amount includes \$153 million for 37 projects that have previously been funded by the Legislature and \$5.4 million for four projects that are proposed to the Legislature for the first time. The estimated future cost to complete all projects in the budget is \$44 million. The four new projects are:

- \$570,000 for a library addition and renovation at Citrus College. (Future completion cost \$8 million.) This project was initially proposed in the Governor's 1997-98 budget proposal but was subsequently withdrawn by the Chancellor's Office.
- \$342,000 to renovate two science buildings at Glendale College. (Future cost \$4 million.)
- \$3.6 million to equip a replacement science building at Santa Monica College. (The college's original science building was severely damaged in the Northridge earthquake.)
- \$838,000 for a new criminal justice training center for the Sonoma County Community College District. (Future cost \$11.9 million)

Five-Year Capital Outlay Plan

The community colleges' five-year capital outlay plan is a compilation of each district's five-year plan. The Legislature still lacks a comprehensive five-year plan reflecting the capital outlay needs and priorities for the community college system. The Chancellor's Office has committed to provide such a plan in 1998.

In our *Analysis of the 1995-96 Budget Bill* (page I-64), we indicated that the Chancellor's Office had ceased preparing systemwide five-year capital outlay plans for the community colleges. We discussed some of the com-

mon deficiencies among the five-year plans submitted by the 71 community college districts and indicated that the state should have a systemwide plan in order to more accurately assess the CCC's near-term capital outlay needs. In the *Supplemental Report of the 1995-96 Budget Act*, the Legislature directed the Chancellor's Office to annually prepare such a plan.

The five-year plan submitted by the Chancellor's Office in 1996 totaled about \$750 million. This amount was based on an assumed state funding level of \$150 million per year rather than an evaluation of statewide needs. The most recent five-year plan prepared by the Chancellor's Office—covering the period from 1998-99 through 2002-03—totals \$3.6 billion. Unfortunately, this plan is essentially a compilation of the individual five-year plans submitted by the districts and still does not evaluate or establish funding priorities for the system over the next five years. The plan has some general deficiencies with regard to the individual district plans that we also identified in 1995-96. Specifically it:

- Includes projects to build additional space for lecture classrooms or teaching laboratories at districts that have considerable excess capacity.
- Lists multiple projects for a district as needs that require funding simultaneously. Most districts do not have the ability to successfully manage several major building projects in this manner.

The community colleges have legitimate and significant capital outlay needs. Though much excess capacity exists both on a systemwide basis and on many campuses, enrollment growth at certain districts will require building additional space. The system also has a significant amount of older building space—about 18 million square feet of buildings on the campuses were built or renovated before 1970.

We believe, however, that if the Chancellor's Office evaluated the districts' five-year plans more critically—including addressing the deficiencies noted above—the five-year needs of the system would likely be considerably less than the \$3.6 billion identified in the most recent five-year plan. The Chancellor's Office has committed to undertake this task in preparing the systemwide plan for 1999-00 through 2003-04. This plan will be submitted to the Legislature by October 1998.

DISTRICTS SHOULD SHARE IN PROJECT COSTS

In order to stretch limited state funds available for higher education capital outlay, we recommend that, beginning in 1999-00, the Legislature require community college districts to provide matching funds of up to 50 percent for state-funded projects.

Background

In 1967, the state began helping community colleges finance capital outlay projects. State assistance was based on a formula that took into account district enrollment and assessed valuation both districtwide and statewide. Throughout the period from the late 1960s through the 1970s, the state provided, on average, about 50 percent of the cost of state-approved community college projects.

With the passage of Proposition 13 in 1978, it was determined that many local districts no longer were able to provide their share of project costs. Legislation enacted in 1980 changed the formula for determining the state/district participation for approved projects. The new formula was based on district enrollment and each district's ending budget balances relative to the statewide average. In addition, state funding of up to 100 percent of approved project costs was allowed if districts were unable to contribute their full matching share. From 1979 to 1985, the state's overall share of community college capital outlay projects increased from about 50 percent to 90 percent.

Legislation passed in 1985 repealed the cost sharing formula in the 1980 statute and directed the Chancellor's Office to establish the appropriate state and district shares of project cost. The Chancellor's Office subsequently adopted a regulation stating that a district's share would not exceed 2 percent of the district's general fund revenue for the prior year and in no case would exceed 10 percent of the proposed project costs. In the late 1980s, state funding for approved projects constituted over 90 percent of project costs. Finally, legislation enacted in 1990 repealed any requirement for a district match. The state, since 1990, has thus funded 100 percent of approved community college project costs.

Why Change the Current System?

Under the current funding system, state capital outlay funds are, from a district's perspective, a "free" good. As such, districts have less incentive to be concerned with the scope and cost of state-funded projects than would be the case if they were sharing in the responsibility to cover those costs. Over many years of reviewing community college capital outlay projects, we have seen numerous instances where districts were clearly overreaching in their requests for state funds. Renewing a cost-sharing arrangement for capital outlay would naturally make districts more cognizant of the cost implications of their capital outlay proposals.

District participation in funding capital outlay would not only help to control costs but, more importantly, would allow more projects to be funded in the state's higher education system. As discussed in the "Over-

view and Crosscutting Issues” section of this chapter, the state is confronted with multibillion dollar capital outlay needs for higher education and for other types of infrastructure. Addressing the state’s needs in the most cost-effective manner not only requires identifying and funding the highest priority projects, but also stretching available state dollars to complete as many projects as is feasible with available state monies. Cost sharing by the local districts would help accomplish this goal.

How Much Should Districts Contribute?

We recognize that the local districts—like the state—have many demands on their resources and that any general purpose revenues spent on capital projects is funding that would otherwise go to operations. It is also the case, however, that providing appropriate facilities is an integral part of an educational program. The districts should be a participant in shouldering the responsibility for providing these facilities. Districts have the ability, similar to the state, to either allocate a portion of current resources for capital expenditures or to finance these expenditures over time (using financing instruments such as certificates of participation). Moreover, the enactment of Proposition 98, has given the community colleges a reliable, growing stream of annual revenues. This has increased the ability of districts to finance more capital outlay with their own funds.

We therefore recommend that the Legislature reestablish a cost-sharing requirement for community college capital outlay projects. In order to give districts a fiscal incentive to consider the scope and cost of all projects for which they request state funds, we believe that districts should be responsible for a significant share of project costs. We recommend limiting a district’s matching share to 50 percent. We recognize that, given the great variation in size and fiscal resources of the districts, any cost-sharing arrangement will have to take into account the relative capacity of districts to provide matching funds. Under a system that considers each district’s fiscal capacity, some districts would provide a match that is less than 50 percent.

How Could Districts Match?

Some may question the ability of districts to identify sufficient matching funds under our proposal. Community college districts are independently governed entities, and their Boards of Trustees have the responsibility to make decisions regarding the allocations of district resources. These decisions can appropriately take into account the need to participate in the funding for capital outlay projects that will directly benefit the districts. We note that requiring a project match for the community colleges

would be similar to proposals in the Legislature and by the Governor to require K-12 school districts to provide a match for state-funded K-12 building projects.

To meet their matching requirements, districts could either set aside a portion of ongoing general fund revenues—for one year or over several years—or borrow the needed funds and pay off such debts over time with ongoing revenues. Districts also have other options for meeting their match requirements besides using current revenues, such as general obligation bonds or Mello-Roos bonds.

Conclusion

In recent discussions regarding higher education capital outlay, a common theme is the inadequate level of state funding when compared to the magnitude of need. Clearly, with large state capital outlay needs and limited funds available, state monies should be used in the most cost-effective manner. Our recommendation for project cost sharing by districts attempts to stretch available state dollars further so that more high priority capital outlay needs of higher education can be addressed.

We therefore recommend that, beginning in 1999-00, the Legislature require districts to match state funding for capital outlay projects. This will give districts a year to plan for the new funding system.

LAO ASSESSMENT OF BUDGET PROPOSALS

Projects Meeting Statewide Criteria

A total of 34 projects, with a budget-year cost of \$100.5 million meet one of the priority criteria we have identified for funding higher education capital outlay.

In our crosscutting issue, "Funding Higher Education Capital Outlay," we recommend that the Legislature discontinue the approach of allocating equal shares of each higher education bond measure to each of the segments. Instead, we recommend that projects from all three segments be evaluated and funded based on how effectively they meet statewide priorities. We provide criteria for establishing statewide funding priorities that focus:

- First on addressing critical health, safety, and utility problems of existing facilities.
- Then on addressing undergraduate facilities needs.

- Finally on other facility needs related to administration, faculty, research, and support operations.

Figure 25 (see next page) shows the 34 community college projects proposed for 1998-99 that, based on our analysis, meet one of the criteria we have identified. These projects have a total budget-year cost of \$100.5 million and a future completion cost of \$53.2 million. For 11 of these projects, the preliminary plans have not been completed. In addition, we have concerns with the proposed funding level for two of the projects and need further information to assess the merits of another of the projects listed below. We discuss all of these issues later in this analysis.

Using Available Bond Funds

We recommend approval of 16 of the highest-priority community college projects using currently authorized bonds that are available for appropriation.

As discussed in our crosscutting issue, "Funding Higher Education Capital Outlay," about \$65 million in currently authorized general obligation bonds are available for appropriation by the Legislature for 1998-99. We recommend that the Legislature appropriate \$55 million of this amount for the highest priority projects throughout higher education. The remaining \$10 million would be available for potential augmentation of approved projects. Based on our review of all projects in higher education and using the priority-setting criteria we have identified, we recommend the Legislature fund the following community college projects from existing bond funds:

- Equipment for 15 projects.
- Fire safety access road at Irvine Valley College (South Orange County CCD).

Previously Approved Projects That Do Not Meet Criteria

We recommend that the Legislature delete \$58 million for seven projects that do not meet any of the priority criteria we have identified for funding higher education capital outlay.

Figure 26 (see page 98) lists the seven community college projects that do not meet the priority criteria we have discussed earlier. Four of these projects add instructional capacity and three are new library projects. In general, these projects would either (1) increase a district's instructional

capacity to more than 95 percent of that justified by projected district enrollment at the time the project is planned for completion or (2) increase the districts' library space above 70 percent of the state standard for community college libraries.

Figure 25			
Community College Projects Meeting Priority Criteria			
<i>(Dollars in Thousands)</i>			
Campus	Project	Budget Amount	Future Cost
Priority No. 2—Necessary Equipment			
Cabrillo CCD ^a / Cabrillo College	Code Compliance	\$77	\$0
Chabot-Las Positas CCD/ Chabot College	Chemistry/Computer Science Renovation	349	0
Chabot-Las Positas CCD/ Las Positas College	Math/Design Building Renovation/ Addition	357	0
Citrus CCD/Citrus College	Cosmetology Addition/Remodel	85	0
Compton CCD/Compton College	Math/Science - Health and Safety	2,396	0
Contra Costa CCD/ Diablo Valley College	Physical Science Remodel	412	0
Contra Costa CCD/ Diablo Valley College	Music Remodel/Addition	279	0
Foothill-DeAnza CCD/ Foothill College	Child Care/Development Center	135	0
Long Beach CCD/ Long Beach City College	Science/Math Building D	946	0
Los Angeles CCD/ East Los Angeles College	Child Care/Development Center	269	0
Mt. San Antonio CCD/ Mt. San Antonio College	Learning Technology Center	1,472	0
San Francisco CCD/ San Francisco City College	Remodel Allied Health	251	0
Santa Clarita CCD/ College of the Canyons	Remodel Old Library and Labs	912	0
Santa Monica CCD/ Santa Monica College	Replace Science Building (FEMA)	3,645	0
Ventura County CCD/ Moorpark College	Math/Science Secondary Effects	130	0
Subtotals		(\$11,715)	(\$0)
Priority No. 3—Critical Deficiencies in Utility Systems			
South Orange County CCD/ Irvine Valley College	Fire Safety Access Road	\$2,119	0
Subtotals		(\$2,119)	(\$0)

Continued

Campus	Project	Budget Amount	Future Cost
Priority No. 4—Improvements for Undergraduate Academic Programs			
<i>New Construction or Renovations That Increase Instructional Capacity</i>			
Contra Costa CCD/ Diablo Valley College	Business Language Building	\$5,320	\$1,146
Contra Costa CCD/ Los Medanos College	Vocational Technology Addition	1,969	287
Desert CCD/College of the Desert	Math/Social Science Buildings	5,373	657
Gavilan CCD/Gavilan College	Health Occupations Building	2,423	206
San Jose-Evergreen CCD/ Evergreen College	Biology/Nursing Addition	9,173	513
San Luis Obispo CCD/ Cuesta College	Art/Music Laboratories Addition	5,596	622
San Luis Obispo CCD/ Cuesta College	Learning Skills Center/Classroom Building	10,221	3,384
Sonoma County CCD/ Criminal Justice Center	Phase 1 Facilities	838	11,930
South Orange County CCD/ Irvine Village College	Learning Resources Center Secondary Effects	597	563
State Center CCD/Madera Center	Off-Site Development	1,825	0
State Center CCD/Madera Center	Off-Site Development, Phase I Facilities	11,090	847
<i>Libraries</i>			
Citrus CCD/Citrus College	Library Addition/Reconstruction	\$570	\$8,048
Redwoods CCD/ College of the Redwoods	Library and Media Services	10,872	1,097
<i>Renovation of Instructional Buildings—Enrollment Shifts (Other)</i>			
Glendale CCD/Glendale College	Science Buildings Reconstruction	\$342	\$4,011
State Center CCD/ Fresno City College	Lab/Office Space Reconstruction, Secondary Effects	2,081	597
<i>Buildings 30 Years or Older</i>			
Coast CCD/Orange Coast College	Science Buildings Reconstruction	\$14,443	\$2,128
Subtotals		(\$82,733)	(\$36,036)
Priority No. 6—Administrative, Research and Support Facilities			
<i>Faculty and Administrative and Offices</i>			
Sierra Joint CCD/Sierra College	Student Services Center, Secondary Effects	\$3,076	\$0
<i>Support Facilities</i>			
Mt. San Jacinto CCD/ Mt. San Jacinto College	Business and Technology, Secondary Effects	\$857	\$0
Subtotals		(\$3,933)	(\$0)
Totals		\$100,500	\$36,036
^a CCD: Community college district.			

We have recommended the 95 percent level for instructional space for several reasons. First, at 95 percent of needed capacity, a district has a reasonably sufficient amount of instructional space especially compared to other districts with significant space deficiencies. In addition, we believe that a balance is needed between providing additional space and meeting other needs (such as upgrading older instructional facilities and renovating existing space).

Figure 26				
Previously Approved Projects That Do Not Meet Priority Criteria				
<i>(Dollars in Thousands)</i>				
Campus	Project	Amount	Cost to Complete	
Antelope Valley CCD/ Antelope Valley College	Business/Multi-Media Center	\$8,299	\$1,494	
Contra Costa CCD/ Diablo Valley College	Library Building Addition	4,156	781	
Los Rios CCD/ Folsom Lake Center	On-site Development	4,997	—	
Los Rios CCD/ Folsom Lake Center	Instructional Facilities, Phase 1A	13,390	1,917	
San Diego CCD/ San Diego City College	Learning Resources Center	15,748	2,758	
Sequoias CCD/ College of the Sequoias	Music Building	3,572	404	
West Valley-Mission CCD/ Mission College	Learning Resources Center	7,783	545	
Totals		\$57,945	\$7,899	

In the case of libraries, as discussed in our analysis of the community colleges' 1997-98 capital outlay program, technological advancements are changing the space requirements for libraries. We recommended a 70 percent threshold based on recently completed community college library projects. As a result of this issue, the Legislature adopted language in the *Supplemental Report of the 1997-98 Budget Act* directing the Chancellor's Office to undertake an assessment of the existing library space standards.

These projects are now before the legislature because it has the opportunity to review projects after completion of preliminary plans or working drawings to assure conformance with current needs and priorities. The

Legislature has previously approved preliminary plans and working drawings for the projects in Figure 26. Given the limited availability of funds and the many statewide capital outlay needs, however, we believe the Legislature should reevaluate the need for these projects using the criteria we have identified. On this basis, we recommend the Legislature delete the requested \$58 million for these projections in 1998-99. If enrollments in these districts increase beyond current projections, these projects may warrant legislative consideration in the future.

Preliminary Plans Not Completed

We recommend approval of \$56.2 million for 11 projects, contingent on completion of preliminary plans that are consistent with the cost and scope as previously approved by the Legislature.

Our analysis indicates that the amounts proposed in the budget for 11 projects previously funded for preliminary plans and working drawings are consistent with prior legislative action and meet the criteria we have identified. These projects, which total \$56.2 million, are listed in Figure 27 (see next page). The preliminary plans for these projects, however, had not been completed at the time this analysis was prepared. Therefore, we recommend approval contingent on completion of preliminary plans that are consistent with the legislatively approved scope and cost.

Citrus CCD, Citrus College— Library Addition and Remodel

We recommend approval of \$545,000, a reduction of \$26,000, because the proposed building cost for the project exceeds normal community college cost guidelines. Estimated future savings is \$431,000. (Reduce Item 6870-301-0658 [3] by \$26,000.)

The budget proposes \$571,000 to prepare preliminary plans and working drawings for a 13,000 assignable square foot (asf) library addition and for renovation of the existing 20,000 asf library. The estimated future cost for construction and equipment is \$8 million. After completion of the library addition, the campus will have about 60 percent of the state space standards for libraries. Our analysis indicates that the project is justified, but we have a concern with the proposed construction budget of \$242 per asf for the new library building. We believe that for about 3,000 asf of the new building, including reading rooms and group study areas, the proposed costs are at a level that exceeds the normal cost guidelines for community college libraries. The construction budget for this project should be consistent with state budgeting practice for other community college libraries. We therefore recommend a reduction of \$26,000 from the

amount proposed for preliminary plans and working drawings. The estimated future construction costs (\$212 per asf for the library addition), based on our recommendations, would be \$6.6 million—about \$431,000 less than proposed by the district.

Figure 27	
Items 6870-301-0574 and 6870-301-0658 Preliminary Plans Not Completed	
<i>(In Thousands)</i>	
Location/Project	Amount
Item 6870-301-0574	
Coast Community College District (CCD)/Orange Coast College— Art Center	\$14,443
Contra Costa CCD/Diablo Valley College— Business Language Building	5,320
Contra Costa CCD/Los Medanos College— Vocational Technology Addition	1,969
Desert CCD/College of the Desert—Math/Social Science Buildings	5,373
Gavilan CCD/Gavilan College—Health Occupations Building	2,423
Mt. San Jacinto CCD/Mt. San Jacinto College— Business and Technology, Secondary Effects	857
Redwoods CCD/College of the Redwoods— Library and Media Services	10,872
San Jose-Evergreen CCD/Evergreen College— Biology/Nursing Addition	9,173
Sierra Joint CCD/Sierra College— Student Services Center, Secondary Effects	3,076
South Orange County CCD/Irvine Valley College— Learning Resources Center Secondary Effects	597
Subtotal	(\$54,103)
Item 6870-301-0658	
South Orange County CCD/Irvine Valley College— Fire/Safety Emergency Access	\$2,119
Total	\$56,222

**Santa Monica CCD, Santa Monica College—
Replace Science Building**

We recommend approval of \$2,904,000, a reduction of \$741,000 to equip a new science building because the amount proposed exceeds community college cost guidelines for equipment plus the proposed cost of laboratory computers for the building. (Reduce Item 6870-301-0658 [6] by \$741,000.)

The budget proposes \$3.6 million to equip a new 62,000 asf science building at Santa Monica College. Construction of this building is scheduled for completion in March 1999. The district's original science building (24,000 asf) was severely damaged in the Northridge earthquake. The Federal Emergency Management Agency (FEMA) agreed to provide disaster assistance funding for the new larger replacement building. The estimated cost of the building (excluding equipment) is \$27.2 million, of which FEMA is funding \$22.6 million (83 percent) and the state is funding the remaining \$4.6 million. (The state matching funds are from an allocation of \$75 million in higher education bond funds that were appropriated to the Department of Finance following the earthquake.) According to the Chancellor's Office, FEMA will not share in the cost of equipping the new building.

The budget proposal is based on equipping the 40,000 asf of space by which the new building exceeds the size of the former science building. The Chancellor's Office maintains cost guidelines that are used to determine the amount of eligible funding (on a per-square-foot basis) for different types of building space. The new building contains a mixture of classrooms, offices, and various types of science laboratories and support space. In determining the amount of eligible state funding for some of the science laboratories, however, the district and the Chancellor's Office did not use the cost guideline for science areas (about \$59 per square foot) but instead used a guideline for computer laboratories and data processing space (about \$169 per square foot). The district indicates that the reason for using the higher amount is because certain laboratories in the building will use computers and other high technology equipment in their instruction.

We understand that methods of instruction, both in the sciences and in other curricula, are changing with the introduction of more technology into classrooms and laboratories. In these cases, the existing cost guidelines for certain functions, such as science instruction, may not be adequate. However, districts should not unduly receive additional state funds by unilaterally declaring a function as "high tech" and applying a higher cost guideline. We believe that the Chancellor's Office needs to review how changes in instructional delivery affect equipment needs. Any appropriate changes can then be incorporated into the equipment cost guidelines so that all district requests for equipment are evaluated on an equal basis.

Recommendation. For the Santa Monica project, we recommend a funding level of \$2,904,000 for equipment—a reduction of \$741,000. Our recommendation is derived from applying the current cost guideline for

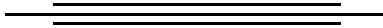
science laboratory space plus adding \$1 million for the cost of all computers that the district has requested for the science laboratories.

**Sonoma County Junior College District,
Criminal Justice Training Center,
Facilities Phase 1**

We withhold recommendation on \$838,000 for preliminary plans and working drawings pending review of the district's cost estimate for site development and demonstration areas.

The budget includes \$838,000 to prepare preliminary plans and working drawings for a 40,000 asf training center for criminal justice education and training programs. The estimated future cost for construction and equipment is \$11.9 million. The center would be constructed on a new site that the district purchased with \$2.1 million in state funding from the 1993-94 Budget Act. The project includes an indoor firing range, a defensive tactics training room, an emergency medical care lab, a driver training course, and "mock ups" of a commercial and residential building in which students would engage in activities such as simulated pursuits and arrests.

In general, the scope and cost of the project appear to be appropriate. However, at the time this analysis was written, the district had not provided a detailed cost estimate to support its request of almost \$1.8 million for utility and site development work. In addition, the district's estimate assumes that the cost of the "mock up" buildings will be almost \$1.1 million (\$198 per square foot). This amount appears to be excessive for buildings that, according to the district, will not have heating or air conditioning and will have limited plumbing, electrical, and architectural features. We therefore withhold recommendation on the budget request pending discussions with the district and the Chancellor's Office regarding these matters.



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 127 armories and 38 maintenance operations throughout the state. These facilities total about 2.5 million square feet of building space. About 70 percent of this space was built before 1960.

The department's proposed capital outlay program for 1998-99 totals \$16.8 million—\$9.5 million from the General Fund and \$7.3 million from federal funds. This amount includes:

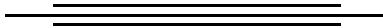
- \$13 million to construct a new armory in Los Angeles (\$5.7 million General Fund; \$7.3 million federal funds).
- \$1.6 million for three projects to install outdoor lighting, for security purposes, at three armories.
- \$1.2 million for planning, design, supervision, and construction costs for projects for which construction is fully funded by the federal government. (Estimated future construction costs are \$12.7 million.)
- \$520,000 for minor capital outlay projects (total cost of \$250,000 or less per project) to install outdoor security lighting at 11 armories.
- \$485,000 for the first phase of a facilities survey and master facilities plan. (Estimated future cost to complete the master plan is \$545,000.)

Los Angeles Armory

We recommend approval of \$13 million to construct the armory contingent on completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature.

The budget includes \$5.7 million from the General Fund and \$7.3 million in federal funds to construct an 86,000 gross square foot armory in the Los Angeles area. In the *1995-96 Budget Act*, the Legislature appropriated \$1 million from the General Fund and \$147,000 in federal funds to (1) select a suitable site and (2) prepare preliminary plans. In the *1996-97 Budget Act*, the Legislature approved \$5.8 million from the General Fund and \$140,000 from federal funds to acquire land and prepare working drawings. The *1997-98 Governor's Budget* initially proposed funding for construction, but this proposal was withdrawn because of delays in the project related to problems in acquiring a site for the armory.

The Department of General Services, which is managing the project for the Military Department, indicates that a site has been selected in the City of Azusa and that escrow should close in February. Due to the delay in acquiring the site, the preliminary plans for the armory have not been completed. We therefore recommend approval of the construction funding contingent on the completion of preliminary plans that are consistent with the legislatively approved scope and cost.



FINDINGS AND RECOMMENDATIONS

Capital Outlay

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Crosscutting Issues

Financing Priority Capital Outlay Projects

1. **Achieving a Better Balance for Infrastructure Finance.** H-15
Recommend that the Legislature dedicate a portion of annual General Fund revenues to a special account to provide a “pay-as-you-go” funding source for capital outlay. Further recommend that in 1998-99 the Legislature substitute General Fund appropriations for the new lease-payment bonds proposed in the budget for specific capital outlay projects.

Funding Higher Education Capital Outlay

2. **Priorities and Criteria for Funding Higher Education Capital Outlay.** H-18
Recommend the Legislature adopt specified criteria and priorities as the basis for capital outlay funding decisions for higher education. Recommend the Legislature appropriate funds on a project-by-project basis and not allocate available funds to the three segment on the basis of an arbitrary allocation or formula.

Assessing Seismic Risk in Higher Education Buildings

3. **The University of California (UC) and California State University (CSU) Should Use the Department of General Services’ (DGS) System for Seismic Risk Evaluation.** H-27
Recommend that prior to funding any further seismic retrofit projects, the Legislature direct UC and CSU

to evaluate all projects for seismic retrofit using the DGS' seismic risk evaluation method.

Office of Emergency Services

4. **Headquarters and State Operations Center.** Recommend a reduction of \$2.2 million for working drawings and construction of the headquarters facility because a cost increase for the project is not justified. We also recommend that increased General Fund revenues be used to fund construction from the General Fund instead of lease-payment bonds in order to avoid future debt-service costs. (Increase Item 0690-301-0001 by \$23,638,000 and delete \$25,841,000 under Item 0690-301-0660.) H-31

Department of Justice

5. **Crime Laboratory Replacement.** Recommend approval of amounts proposed for preliminary plans for the Fresno and Santa Rosa laboratories, but recommend that supplemental report language recognize reductions of \$116,000 and \$674,000, respectively, for the future costs of working drawings and construction so that these projects will be budgeted consistent with budgets for the other laboratory projects. (Estimated future savings of \$790,000.) Also recommend reduction of \$871,000 to acquire property for the Fresno laboratory because the department is planning to locate the laboratory on the campus of California State University at Fresno. (Reduce Item 0820-0301-0001 [3] by \$871,000.) H-35

Department of General Services

6. **Seismic Retrofit Projects.** Withhold recommendation on \$52.6 million to structurally strengthen 18 state buildings pending review of refined scope and cost estimates for each project that will be available in the spring. H-38

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| 7. Reappropriation of Funds for Local Assistance. Recommend deletion of Item 1760-491 to reappropriate funding for all local government seismic projects because the bond funds should no longer be available for projects that have not proceeded on schedule. | H-39 |

Department of Forestry and Fire Protection

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| 8. Statewide: Construct Telecommunication Towers and Vaults, Phase 2. Recommend the Legislature delete the department's request for \$9,148,000 to construct telecommunication towers and vaults because the department has not specified which facilities it proposes to construct or provided cost estimates to justify the amount of this proposal. (Reduce Item 3540-301-0001 [32] by \$9,148,000.) | H-40 |
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Department of Fish and Game

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| 9. Napa-Sonoma Marsh Wildlife Area—Water Control Structures. Recommend deletion of \$300,000 appropriation (and corresponding \$155,000 reimbursements) because of insufficient documentation of the scope and cost of the project. We also recommend deletion of Budget Bill language exempting the project from the Public Contract Code. (Delete \$300,000 from Item 3600-301-0200 [3] and \$155,000 reimbursement from Item 3600-301-0200 [5].) | H-42 |
| 10. Fisheries Restoration Project. Recommend deletion of \$550,000 (and the associated budget language making these funds available for ten years) because no specific project has been proposed and no construction cost estimate has been submitted to support the proposal. (Delete \$550,000 from Item 3600-301-0786 [1].) | H-43 |

Department of Parks and Recreation

11. **Capital Outlay Projects.** Recommend deletion of the Department of Recreation's (DPR's) request for authority to spend \$4 million of reimbursement funds on capital outlay projects because specific projects have not been identified. (Delete \$4,000,000 from Items 3790-301-0001 [6] and [9].) H-44
12. **Fresno Area/Southern San Joaquin Valley—Acquisition.** Recommend deletion of the \$3 million request for acquisition of an off-highway vehicle recreation site in the Fresno area because a specific location has not been identified. (Delete \$3,000,000 from Item 3790-301-0263 [6].) H-45
13. **Oceano Dunes State Vehicular Recreation Area: La Grande Tract—Acquisition.** Recommend deletion of the \$2.2 million request for an inholding at Oceano Dunes State Vehicular Recreation (SVRA) because it is currently operated and managed as part of Oceano Dunes SVRA by the DPR under terms of an agreement with its owner, San Luis Obispo County. (Delete \$2,200,000 from Item 3790-301-0263 [8].) H-46

Health and Welfare Data Center

14. **Acquisition of Leased Facility.** Recommend deletion of \$5.2 million from the General Fund because the state first needs a policy regarding whether consolidation of the state's data centers is appropriate. (Delete \$5,236,000 under Item 4130-301-0001.) H-47

Department of Health Services

15. **Richmond Laboratory, Phase II.** Recommend a reduction of \$7.2 million because the budget proposal is not consistent with the amount for construction previously approved by the Legislature. Also recommend that in-

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creased General Fund revenues be used to finance projects instead of lease-payment bonds in order to avoid future debt- service costs. (Approve \$108,416,000 in a new Item 4260-301-0001 and delete \$115,668,000 under Item 0690-301-0660.)

Department of Mental Health

16. **Further Expansion at Atascadero.** Recommend deletion of \$984,000 for preliminary plans because consideration of the addition is premature pending consideration of other options for accommodating growth in the judicially committed caseload. (Delete \$984,000 from Item 4440-301-0001 [1].) H-51

17. **Atascadero, Initial 250-Bed Addition.** Withhold recommendation on \$33 million to construct the addition, pending review of the consultant's study on housing sexually violent predators and a decision regarding long-term housing options for Judicially Committed/Penal Code patients. If the Legislature decides to provide the construction funds in 1998-99, we recommend increased General Fund revenues be used to fund construction instead of lease-payment bonds in order to avoid future debt-service costs. H-54

Department of Corrections Prison System Expansion

18. **Prison System Expansion.** The administration's plan for accommodating inmate population growth relies solely on expanding the prison system. This approach is similar to past proposals that the Legislature has rejected. We continue to believe that a solution to the state's inmate housing problem must be balanced, including both (1) development of additional capacity and (2) policy and program changes to reduce the growth rate in the inmate population. If the Legislature wishes to expand the use of leased prison facilities, as the administration H-56

is proposing, it should consider both the short- and long-term benefits of this approach to housing the state's inmates. The department should not advertise for new leasing contracts until the Legislature, through the budget process, determines how this proposal fits with its overall plan for addressing the inmate housing gap. Proposals for funding new state prisons should be considered as part of the budget process.

Other Issues

19. **Previously Funded Projects.** We recommend approval of \$18.2 million for 21 projects, contingent on completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature. H-63
20. **Minor Capital Outlay.** We recommend approval of \$2.5 million, a reduction of \$3 million for minor capital outlay because the department cannot undertake and complete all of these projects in the budget year. (Reduce Item 5240-301-0001 [24] by \$3,000,000.) H-64

Department of the Youth Authority

21. **Master Key System.** Recommend approval of \$1.1 million for working drawings and construction pending completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature. H-67
22. **Statewide, Personal Alarm Systems.** Recommend approval of \$609,000 for working drawings pending completion of preliminary plans and receipt of construction bids for a similar alarm system project. H-67

University of California

23. **Projects Meeting Statewide Criteria.** Recommend the Legislature approve \$65.7 million for 13 projects that meet the criteria for the priorities we have identified for funding higher education capital outlay. Further recommend the Legislature approve \$2.2 million from existing bond funds and \$63.5 million from the proposed 1998 bond measure. H-68
24. **Projects Needing Reevaluation.** Recommend the Legislature delete \$41.7 million for nine projects related to seismic retrofitting of University of California (UC) buildings because (1) the seismic risk of these buildings needs to be reassessed using the Department of General Services' method and (2) the projects need to be rescoped to include seismic retrofit work only. (Reduce Item 6440-301-0574 by \$2,149,000 and delete subitems [1], [5], and [7]; reduce Item 6440-302-0574 by \$38,421,000 and delete subitems [3], [4], [6], and [7]; and delete Item 6440-301-0658 for \$1,084,000.) H-70
25. **Projects Not Meeting Funding Criteria.** Recommend the Legislature delete \$43.7 million for four projects because they do not meet the priority criteria. (Delete Item 6440-301-0574 [2] for \$21,028,000, Item 6440-301-0574 [8] for \$935,000, Item 6440-301-0574 [9] for \$347,000, and Item 6440-301-0574 [10] for \$21,362,000.) H-73
26. **Project at University of California, San Francisco (UCSF) Mission Bay Research Campus Should Not Be Funded.** Recommend the Legislature delete \$21.4 million for working drawings and construction at Mission Bay of a replacement facility for UC Hall located on the UCSF campus. Further recommend the Legislature clearly delineate that no state funds will be provided for development of the planned research campus at Mission Bay. H-75

California State University

27. **Projects Meeting Statewide Criteria.** Recommend that the Legislature approve \$137 million for 20 projects in the California State University (CSU) capital outlay proposal. Recommend further that the Legislature fund ten of these projects (costing \$39.5 million) from existing bonds, with the remaining \$97.8 million from the proposed 1998 bond measure. H-80
28. **Reevaluate Seismic Retrofit Projects.** Recommend that the Legislature delete \$7.7 million for two projects related to seismic retrofitting of CSU buildings because (a) the seismic risk of these buildings needs to be reevaluated using the Department of General Services' assessment method and (b) the project scopes need to be reevaluated to limit the work to seismic improvements only. (Delete Item 6610-302-0574 [1] for \$3,743,000 and Item 6610-302-0574 [8] for \$3,923,000.) H-82
29. **Reevaluate Minor Projects and Seismic Studies.** Withhold recommendation on \$14.2 million for minor capital outlay and \$200,000 for statewide seismic studies until the CSU reevaluates these proposals in accordance with the statewide priorities and criteria. H-84
30. **Delete San Jose Business Building Project.** Recommend the Legislature delete the proposed \$5.1 million to renovate the Business Building at the San Jose campus because the project does not meet the proposed statewide priority criteria for building renovation and the CSU has not substantiated the need to extensively renovate the building. (Delete Item 6601-302-0574 [20] for \$5,135,000.) H-84
31. **Defer Decision on Moving Ventura Off-Campus Center to the Vacated Camarillo State Hospital Site.** Recommend that the Legislature delete the proposed \$11.3 million for renovation of the vacated Camarillo State Hospital for the CSU Northridge, Ventura Off- H-85

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Campus Center because more information is needed to determine the long-term cost implications of this proposal. Further recommend the Legislature adopt supplemental report language directing CSU to complete studies necessary to evaluate all options for locating the off-campus center. (Delete Item 6610-301-0660 [1], a reduction of \$11,303,000.)

California Community Colleges

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| 32. | Five-Year Capital Outlay Plan. The community colleges' five-year capital outlay plan is a compilation of each district's five-year plan. The Legislature still lacks a comprehensive five-year plan reflecting the capital outlay needs and priorities for the community college system. The Chancellor's Office has committed to provide such a plan in 1998. | H-90 |
| 33. | Districts Should Share in Project Costs. Recommend that, beginning in 1999-00, the Legislature require community college districts (CCDs) to provide matching funds of up to 50 percent for state-funded projects. | H-91 |
| 34. | Projects Meeting Statewide Criteria. A total of 34 projects, with a budget-year cost of \$100.5 million, meet one of the priority criteria we have identified for funding higher education capital outlay. Recommend deletion of seven projects and \$58 million that do not meet any of our criteria for funding. | H-94 |
| 35. | Using Available Bond Funds. Recommend approval of 16 of the highest-priority community college projects using currently authorized bonds that are available for appropriation. | H-95 |
| 36. | Projects That Do Not Meet Criteria. Recommend deletion of \$58 million for seven projects that do not meet any of the priority criteria we have identified for funding higher education capital outlay. | H-95 |

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| 37. Previously Funded Projects. Recommend approval of \$56.2 million for 11 projects, contingent on completion of preliminary plans that are consistent with the cost and scope as previously approved by the Legislature. | H-99 |
| 38. Citrus CCD, Citrus College—Library Addition and Remodel. We recommend approval of \$545,000, a reduction of \$26,000, because the proposed building cost for the project exceeds normal community college cost guidelines. Estimated future savings is \$431,000. (Reduce Item 6870-301-0658 [3] by \$26,000.) | H-99 |
| 39. Santa Monica CCD, Santa Monica College—Replace Science Building. Recommend approval of \$2,904,000, a reduction of \$741,000 to equip a new science building because the amount proposed exceeds community college cost guidelines for science equipment plus the proposed cost of laboratory computers for the building. (Reduce Item 6870-301-0658 [6] by \$741,000.) | H-100 |
| 40. Sonoma County Junior College District, Criminal Justice Training Center, Facilities Phase 1. Withhold recommendation on \$838,000 for preliminary plans and working drawings pending review of the district's cost estimate for site development and for cost of demonstration areas. | H-102 |

Military Department

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| 41. Los Angeles Armory. Recommend approval of \$13 million to construct the armory contingent on completion of preliminary plans that are consistent with the scope and cost as previously approved by the Legislature. | H-103 |
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