

LAO 
60 YEARS OF SERVICE
2002-03 Analysis

MAJOR ISSUES

Capital Outlay



California Infrastructure Plan

- The administration was required to submit in January 2002 a plan on the state's infrastructure. The plan, however, has not yet been issued. We recommend the Legislature defer approval of new capital outlay projects (except those addressing fire and life safety) until the infrastructure plan has been submitted and reviewed by the Legislature.
- We also recommend the Legislature establish a select committee to address procedural changes that could be adopted to allow the Legislature to proactively address California's infrastructure needs and respond to the Governor's future infrastructure plans (see page G-17).



Project Management Fees

- The Department of General Services (DGS) is responsible for project and construction management of most state capital outlay projects. The DGS assesses client agencies various fees to pay for its project/construction management services.
- Our review of DGS project fees reveals a lack of justification and accountability for the methods used to calculate the fees included in project cost estimates. As such, there is no way to accurately determine, or evaluate, the cost of a given project using the DGS method of assessing project fees. We recommend that the Bureau of State Audits be commissioned to conduct a performance audit of the DGS capital outlay project cost estimates in order to evaluate (1) the appropriateness of fees charged, (2) the method of

determining fee levels, and (3) the quality control process in place for budget development (see page G-21).



Funding Higher Education Capital Outlay

- As in previous years, we recommend the Legislature provide funding for higher education capital outlay based on statewide priorities and criteria, using reasonable construction cost guidelines, and based on year-round operation.
- We recommend the Legislature direct the segments to use their facilities at least as intensively as required by current utilization standards, and that California State University and the community colleges report their actual utilization at least biennially.
- Because of limited state resources for capital outlay, we recommend the Legislature authorize the University of California (UC) to use Garamendi bonds (revenue bonds backed by UC research revenue) to fund the construction of research space. This would allow state resources to be used for improvements to instructional facilities (see page G-27).

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OVERVIEW

Capital Outlay

Funding for capital outlay in the budget year totals about \$1.7 billion. Over 90 percent of this is for projects financed using general obligation bonds and lease-payment bonds. The total includes spending from the administration's current-year proposal to issue lease-payment bonds as a way of funding the Governor's economic stimulus package.

The 2002-03 Governor's Budget proposes \$1.7 billion 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 buildings, state parks, and prisons. The Governor's plan is a combination of proposals contained in the budget bill and pending legislation that would authorize the issuance of \$1.03 billion in lease-payment bonds. These bonds would: (1) provide funding for projects in the current and budget years under the Governor's proposed economic stimulus package (see below), (2) shift funding for various projects from the General Fund in the current year, and (3) provide a source of future funds for the University of California Institutes for Science and Innovation and the Merced campus.

Figure 1 (see next page) summarizes the proposed 2002-03 capital outlay program. The proposed plan would result in a decrease of \$273 million (14 percent) from current-year spending.

SPENDING BY DEPARTMENT

Figure 2 (see next page) shows the amounts included in the Governor's budget for each department and the future cost for these projects. As shown in the figure, an estimated \$1.1 billion will need to be appropriated in the future to complete these proposed projects. Thus, the request before the Legislature represents a total cost of nearly \$2.8 billion.

Of that total, two-thirds is in higher education, with these costs funded almost entirely from proposed lease-payment and general obligation

Figure 1
State Capital Outlay Program

2001-02 and 2002-03 (In Millions)

	2001-02 ^a	2002-03 ^b	Difference
Legislative, Judicial and Executive	\$3.7	\$44.1	\$40.4
State and Consumer Services	26.8	193.4	166.6
Business, Transportation and Housing	194.4	106.9	-87.5
Resources	354.0	230.4	-123.7
Environmental Protection	2.2	—	-2.2
Health and Human Services	359.9	73.0	-286.9
Youth and Adult Corrections	63.0	41.5	-21.5
K-12 Education	2.6	0.5	-2.1
Higher Education	897.3	933.7	36.4
General Government	27.3	34.9	7.6
Totals	\$1,931.1	\$1,658.3	-\$272.8

^a Consists of spending from the 2001-02 Budget Act and Governor's legislation package of \$1.03 billion of lease-payment bonds, of which \$403 million would provide funding for 24 projects as part of an economic stimulus package and \$117 million to shift funding for ten projects from the General Fund.

^b Includes funding proposed in the budget bill plus \$269 million from lease-payment bonds as part of the Governor's pending legislation package for nine continuing and four new projects.

Figure 2
Summary of Proposed 2002-03 Capital Outlay Program

All Funds (In Thousands)

Department	Proposed 2002-03 ^a	Future Cost	Totals
Legislative, Judicial, and Executive			
Judicial Council	\$31,909	—	\$31,909
Office of Emergency Services	1,631	—	1,631
Justice	10,518	—	10,518
State and Consumer Services			
California Science Center	\$19,137	—	\$19,137
Franchise Tax Board	288	—	288
General Services	173,952	\$46,600	220,552
			<i>Continued</i>

Department	Proposed 2002-03^a	Future Cost	Totals
Business, Transportation, and Housing			
Transportation	\$86,400	\$55,591	\$141,991
Highway Patrol	12,163	—	12,163
Motor Vehicles	8,333	11,609	19,942
Resources			
Tahoe Conservancy	\$15,473	—	\$15,473
Conservation Corps	12,914	—	12,914
Forestry and Fire Protection	52,844	—	52,844
Fish and Game	3,782	\$1,600	5,382
Wildlife Conservation Board	51,514	—	51,514
Boating and Waterways	9,792	11,709	21,501
Coastal Conservancy	24,750	—	24,750
Parks and Recreation	49,906	31,532	81,438
Santa Monica Mountains Cons.	1,194	—	1,194
Water Resources	8,181	—	8,181
Health and Human Services			
Health Services	\$47,677	—	\$47,677
Developmental Services	3,780	—	3,780
Mental Health	21,544	\$3,556	25,100
Youth and Adult Corrections			
Corrections	\$22,534	\$323	\$22,857
Youth Authority	18,948	—	18,948
Education			
Department of Education	\$81	—	\$81
State Library	427	—	427
Higher Education			
University of California	\$258,267	\$216,823	\$475,090
Hastings College	831	19,460	20,291
California State University	443,458	159,124	602,582
Community Colleges	231,180	561,006	792,186
General Government			
Food and Agriculture	\$21,237	—	\$21,237
Military	9,485	\$9,872	19,357
DVA—Cemetery	303	5,283	5,586
Veterans' Home of California	2,394	3,058	5,452
Unallocated Capital Outlay	1,500	—	1,500
Totals	\$1,658,327	\$1,137,146	\$2,795,473
^a Includes spending from both the budget bill and pending legislation.			

bonds. The figure also shows spending of \$174 million for the Department of General Services, including \$107 million for renovation of the twin office towers currently serving the Departments of Social Services and Health Services in downtown Sacramento.

FUNDING SOURCES FOR CAPITAL SPENDING

The Governor's budget proposes funding the capital outlay program from general obligation and lease-payment bonds, the General Fund, special funds, and federal funds. Figure 3 compares the sources of funds for the 2001-02 capital outlay program to those proposed for 2002-03. The budget proposes decreasing the amount for direct appropriations from the General Fund by \$146 million and from special funds by \$178 million. With regard to bond appropriations, the budget includes \$637 million from general obligation bonds and \$875 million from lease-payment bonds.

Figure 3

Sources of Funds for Capital Outlay Program

*2001-02 and 2002-03
(In Millions)*

Funds	2002-03	
	2001-02 ^a	Governor's Budget ^b
General Fund	\$211.0	\$65.2
General obligation bonds	801.3	637.1
Lease-payment bonds	660.5	874.9
Special funds	254.5	76.2
Federal funds	3.7	4.9
Totals	\$1,931.1	\$1,658.3

^a Includes both 2001-02 Budget Act and pending legislation.
^b Includes both budget bill and pending legislation.

Figure 4 displays the proposed funding for each department.

Figure 4						
Proposed 2002-03 Capital Outlay Program^a						
<i>(Dollars in Thousands)</i>						
Department	GO Bonds^a	LP Bonds	General	Special	Federal	Total
Legislative, Judicial, and Executive						
Judicial Council	—	\$31,909	—	—	—	\$31,909
Office of Emergency Services	—	—	\$1,631	—	—	1,631
Justice	—	5,518	5,000	—	—	10,518
State and Consumer Services						
California Science Center	—	\$19,137	—	—	—	\$19,137
Franchise Tax Board	—	—	\$288	—	—	288
General Services	\$21,090	152,862	—	—	—	173,952
Business, Transportation, and Housing						
Transportation	—	\$72,599	—	\$13,801	—	\$86,400
Highway Patrol	—	—	—	12,163	—	12,163
Motor Vehicles	—	—	—	8,333	—	8,333
Resources						
Conservation Corps	—	\$12,255	\$659	—	—	\$12,914
Tahoe Conservancy	\$14,278	—	—	\$1,195	—	15,473
Forestry and Fire Protection	—	52,359	485	—	—	52,844
Fish and Game	1,768	—	—	2,000	\$14	3,782
Wildlife Conservation Board	30,000	—	21,301	213	—	51,514
Boating and Waterways	—	—	—	9,792	—	9,792
Coastal Conservancy	17,750	—	—	5,000	2,000	24,750
Parks and Recreation	39,208	—	—	9,198	1,500	49,906
Santa Monica Mountains Conservancy	728	—	—	466	—	1,194
Water Resources	—	—	7,181	1,000	—	8,181
Health and Human Services						
Health Services	—	\$47,527	\$150	—	—	\$47,677
Developmental Services	—	—	3,780	—	—	3,780
Mental Health	—	20,808	736	—	—	21,544
Youth and Adult Corrections						
Corrections	—	\$12,785	\$9,749	—	—	\$22,534
Youth Authority	—	16,659	2,289	—	—	18,948

Continued

Department	GO Bonds ^a	LP Bonds	General	Special	Federal	Total
Education						
Education	—	—	\$81	—	—	\$81
State Library	—	427	—	—	—	427
Higher Education						
University of California	\$82,543	\$172,368	\$356	\$3,000	—	\$258,267
Hastings College	831	—	—	—	—	831
California State University	258,750	184,708	—	—	—	443,458
Community Colleges	169,401	61,779	—	—	—	231,180
General Government						
Food and Agriculture	—	\$11,203	—	\$10,034	—	\$21,237
Military	—	—	\$9,485	—	—	9,485
DVA—Cemetery	—	—	303	—	—	303
Veterans' Home of California	\$743	—	273	—	\$1,378	2,394
Unallocated	—	—	1,500	—	—	1,500
Totals	\$637,090	\$874,903	\$65,247	\$76,195	\$4,892	\$1,658,327
^a Includes spending from both the budget bill and pending legislation. GO bonds = general obligation bonds. LP bonds = lease payment bonds.						

PROPOSED ECONOMIC STIMULUS PACKAGE

As a component of the Governor's budget, the administration is sponsoring legislation in 2001-02 to authorize \$1.03 billion in lease-payment bonds. Of this amount, \$671.7 million represents an economic stimulus package that proposes to fund 28 capital outlay projects in 2001-02 and 2002-03. Additionally, the pending legislation proposes a shift of ten capital outlay projects currently funded from the General Fund to lease-payment bonds. Figure 5 displays the funding plan for 2001-02 and 2002-03, by department. It shows that \$788 million of the total would be spent in the current or budget year, with the remaining \$242 million reserved for future years.

BOND FUNDING AND DEBT SERVICE PAYMENTS

In recent history, the majority of the state's capital outlay projects have been funded with bonds. Since 1990, California voters have approved \$30.1 billion in general obligation bonds for K-12 schools (\$13.1 billion), higher education (\$4.8 billion), transportation (\$5 billion), natural resources (\$5.1 billion), and various other purposes (\$2.1 billion). In addition to these general obligation bonds—which require voter approval and

Figure 5**Summary of Governor's Proposed Lease-Payment Bond Authority in Pending Legislation***(In Thousands)*

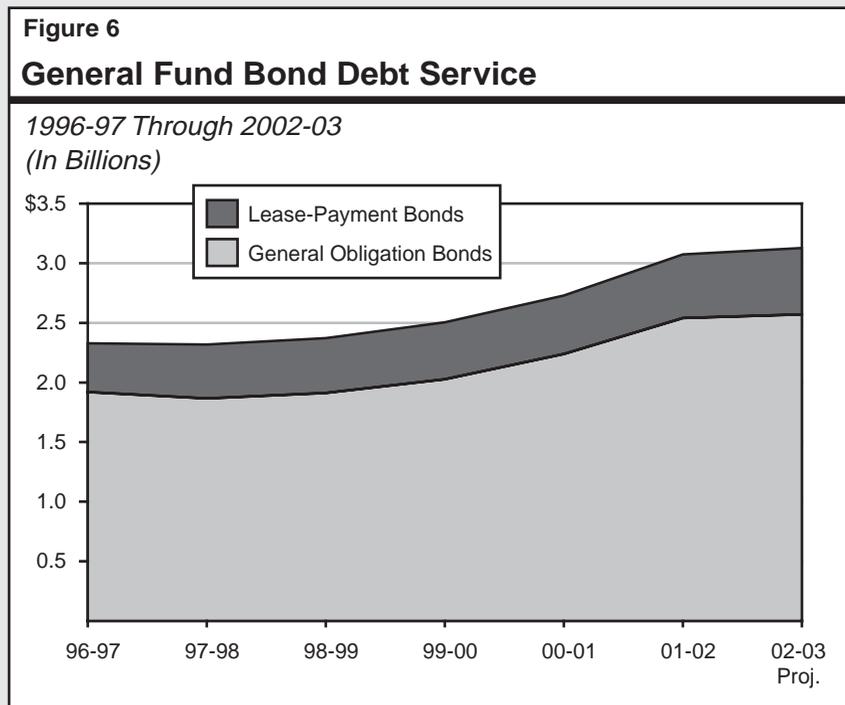
Department	Economic Stimulus Package		Shift From General Fund (2001-02)	Total ^a
	2001-02	2002-03		
Legislative, Judicial, Executive				
Justice	—	—	\$11,710	\$11,710
State and Consumer Services Agency				
General Services	\$13,195	—	—	\$13,195
Resources Agency				
Conservation Corps	—	—	\$1,500	\$1,500
Forestry and Fire Protection	\$7,176	—	4,611	11,787
Youth and Adult Corrections				
Corrections	—	—	\$2,913	\$2,913
Youth Authority	—	—	2,708	2,708
Education				
State Library	\$321	\$10,166	—	\$10,487
Higher Education				
University of California	\$266,633	\$12,392	\$91,851	\$370,876
California State University	6,601	184,708	—	191,309
Community Colleges	108,689	61,779	—	170,468
Totals	\$402,615	\$269,045	\$115,293	\$786,953

^a While the Governor's pending legislation package proposes a total of \$1.03 billion of lease payment bonds, only \$788.4 million is spent in 2001-02 and 2002-03. The remainder—\$241.5 million—would be spent on University of California Institutes in future years.

are backed by the full faith and credit of the state—the Legislature has authorized \$7.5 billion in lease-payment bonds since 1990. These bonds—which do not require voter approval and whose debt service is paid for through annual General Fund budget appropriations for lease payments—have been used for higher education facilities, prisons, state office buildings, state laboratories, and state homes for veterans. The above figures do not include regular revenue bonds, which are not paid for by the General Fund but rather through revenues generated by the projects they finance.

Debt Service Costs to Total \$3.1 Billion

As shown in Figure 6, the state's General Fund debt service expenses on bonds are projected to be about \$3.1 billion in the budget year—an increase of slightly less than 1 percent over current-year costs. This consists of costs on both general obligation debt (which are estimated to increase from \$2.5 billion in the current year to \$2.6 billion in 2002-03) and lease-payment debt (which are estimated to increase from \$526 million in the current year to \$555 million in 2002-03). The Governor's budget assumes that principal payments on new general obligation bonds issued between January 2002 and June 2003 will be deferred beyond the end of the budget year, so that during this period only interest will have to be paid on this new debt.

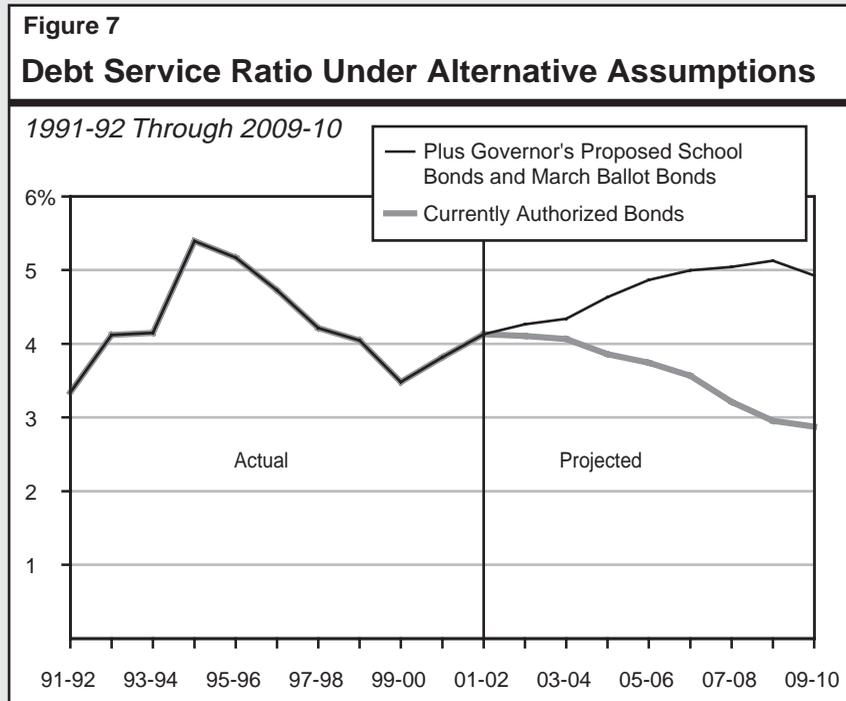


Debt Service Ratio Would Rise Modestly

In evaluating a state's capacity for bonded indebtedness and the impact debt service costs have on the budget, one of the many factors that bond raters and financial analysts look at is the state's debt service ratio (DSR). This ratio is defined as the share of the General Fund budget that is devoted to debt service expenses on General Fund-backed debt. There

is no agreed-upon single DSR that “fits” all states, and the appropriate DSR for an individual state can vary depending on such factors as its need and preference for new infrastructure. As a general rule, however, a DSR in the range of 6 percent or less has been recognized as a reasonable level for states.

As shown in Figure 7, California’s DSR peaked in the early 1990s at just over 5 percent, and has since fallen to about 4 percent in the current year. Looking ahead, Figure 7 shows that the DSR would steadily fall in the future from its present level if currently authorized bonds are sold off and no additional debt is approved. On the other hand, the figure also shows that if (1) the Governor’s proposed \$30 billion in school bonds were approved over the next three election cycles, (2) the \$2.8 billion in park and voter equipment bonds on the March 2002 ballot were approved, and (3) these new bonds were sold off rapidly, the DSR would rise modestly from its current level to just over 5 percent by 2007-08. Thus, even under this aggressive bond sale scenario, the DSR would still remain well below the 6 percent threshold. This suggests that California currently has ample capacity to use new debt as a means of addressing its current infrastructure needs.



CROSSCUTTING ISSUES

Capital Outlay

CALIFORNIA INFRASTRUCTURE PLAN

Existing law requires the Governor to submit, beginning in 2002, a five-year infrastructure plan in conjunction with the budget. The plan, however, was not submitted with the 2002-03 Governor's Budget. Without this plan the Legislature does not have information it needs to make informed decisions about capital outlay proposals in the budget. Accordingly, we recommend the Legislature defer approval of new capital outlay projects until the infrastructure plan has been submitted and the Legislature has had an opportunity to review it. We also recommend the Legislature appoint a select committee to make recommendations on how the Legislature might effectively respond to the infrastructure plan when it is submitted.

Chapter 606, Statutes of 1999 (AB 1473, Hertzberg), requires the Governor to submit a five-year infrastructure plan in January of each year, beginning in 2002, in conjunction with submission of the Governor's budget. The plan is required to contain the following information for the ensuing five-year period:

- Identification of new and renovated infrastructure requested by state agencies to fulfill objectives identified in strategic plans.
- Aggregate funding for transportation infrastructure identified in the State Transportation Improvement Program.
- Infrastructure needs for K-12 public schools.
- Instructional and instructional support infrastructure for the three segments of higher education.

- For all of the infrastructure identified, the plan is required to provide an estimate of its cost and a proposal for funding it. If the funding proposal does not provide for all of the infrastructure identified, the plan shall indicate the priorities and criteria used to select the infrastructure it does propose to fund.

The funding proposal must identify the specific funding sources to be used, such as the General Fund, special funds, general obligation bonds, and lease-payment bonds. If the proposal plans the issuance of new state debt, it must evaluate the impact of the issuance on the state's overall debt position. Any capital outlay or local assistance appropriations proposed for funding in the Governor's budget must derive from and be encompassed by the proposal contained in the first year of the plan.

The required infrastructure plan was not submitted in January. The Governor's budget indicates that ". . . given the slowdown in the state's economy and General Fund revenue shortfalls, committing funds for a comprehensive statewide infrastructure plan is impractical." The budget also states: "The planning work, thus far undertaken, needs to undergo significant revisions to reflect current economic conditions."

We have a number of concerns with these statements:

- The state has already committed significant resources—in the form of added staff in the Department of Finance and time spent by departments over the past two years—in developing the plan. We do not believe the state has to commit additional funds in order to meet the statutory requirement.
- For the most part, an infrastructure plan should be independent of economic conditions and the state's current funding capabilities. The plan should reflect infrastructure needs, and when these are known, the Legislature and the administration can respond accordingly.
- Finally, the Governor's own proposed capital program belies the implicit message in the budget that an infrastructure plan is not as important in fiscally tough times. The budget's proposed spending on infrastructure is far in excess of appropriations in the *2001-02 Budget Act*. An infrastructure plan would have been a critical tool assisting the Legislature in responding to these significant budgetary requests—whether contained in the budget bill or special legislation.

Why the Plan Is Important

Currently, the Legislature does not have complete information about the condition of the state's infrastructure, the demands for new capital

investment, and the amount of funding needed to address the state's facility requirements. Without this, it is difficult for the Legislature to assess its policies, priorities, and funding criteria against the administration's. The state also loses other key benefits that a plan can provide. The process of developing an infrastructure plan focuses attention on important policy issues, such as state and local funding responsibilities for different programs. Development and annual updating of the plan also highlights areas where there is a need to generate additional information about infrastructure programs in order to make informed funding decisions.

The Legislature now must make capital investment decisions on projects without information about how a project and its cost relate to all other infrastructure proposals. Below, we discuss: (1) options available to the Legislature in addressing budget-year proposals without the plan and (2) how the Legislature can prepare to deal with the information provided in future infrastructure plans.

What Should the Legislature Do?

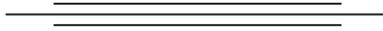
Addressing Budget-Year Infrastructure Proposals. Given the absence of the infrastructure plan, the Legislature cannot see how capital outlay proposals in the Governor's budget fit together with the state's long-term infrastructure needs and costs. This is particularly important in the budget year because the Governor is proposing over \$670 million of capital investment funded by lease-payment bonds in order to stimulate the current economy and there is over \$600 million in general obligation bond-financed projects. The Legislature is being asked to approve a large amount of debt financing without knowing if the projects proposed are the highest priority on a statewide basis, and what the impact of the financing will be on the state's future ability to fund infrastructure needs.

We believe it is especially important for the Legislature to have an adequate infrastructure plan before it, given the funding decisions it needs to make to respond to the Governor's budget proposals. Accordingly, we recommend that, pending receipt of an adequate infrastructure plan, the Legislature defer funding for all *new* projects (with the exception of those to correct critical fire and life safety deficiencies). While the vast majority of the budget-year infrastructure proposals are for previously funded projects, this recommendation would still affect projects costing in the hundreds of millions of dollars.

Addressing Legislative Needs in Responding to an Infrastructure Plan. When the Legislature receives a plan—whether later this year or next January—it will want to use the information in the plan as effectively as possible. We recommend the Legislature establish a select committee to

consider institutional changes that would help it to best respond to the Governor's future infrastructure plans. Some measures that a select committee could consider are:

- ***Legislative Policies, Priorities, and Criteria.*** Annual enunciation of the Legislature's infrastructure policies, priorities, and criteria by house or joint resolution would provide useful information about the Legislature's intentions in addressing the state's infrastructure challenges. This could provide institutional memory for the houses, insights for the administration, and guidance for legislative staff.
- ***Capital Budget Subcommittees.*** Establishment of capital budget subcommittees to consider infrastructure needs on a programmatic basis would unify consideration of capital outlay proposals in a way that would allow the Legislature to consider project proposals within the context of statewide infrastructure needs and funding strategies.
- ***Infrastructure Fund.*** Establishment of an infrastructure trust fund with a prescribed funding mechanism could provide an important and stable funding source for infrastructure needs in the future.



CAPITAL OUTLAY PROJECT MANAGEMENT FEES

We recommend that the Legislature ask the Bureau of State Audits to conduct a performance audit of the Department of General Services relative to its project management activities to evaluate (1) the appropriateness of fees charged, (2) the method of determining fee levels, and (3) the quality control process in place for budget development.

Under the provisions of the Government Code, the Department of General Services (DGS) is the primary state department responsible for project planning, project management, and construction management of state capital outlay projects. Only five departments—the University of California, California State University, Department of Water Resources, Department of Corrections, and the Department of Parks and Recreation are statutorily permitted to manage their own capital outlay projects. These state entities may contract for project management services, including from DGS, or use their own departmental personnel, when overseeing their capital outlay projects. All other state agencies are required to use DGS as their project/construction manager. Figure 1 (see next page) provides an abbreviated overview of the capital outlay process for a department using DGS project/construction management services.

In its role as the state's capital outlay project manager, DGS is currently managing in excess of 350 major capital outlay projects with a total value of approximately \$4 billion. In order to provide such services, DGS assesses client agencies various project management fees. The DGS project/construction management services include the following:

- Preparing and reviewing environmental documents.
- Reviewing construction documents.
- Clarifying construction documents during construction, including change order analysis and estimating.
- Coordination among designers, contractors, inspectors, and facilities operations.

Figure 1**Capital Outlay Process for Departments Using Department of General Services (DGS)**

- ✓ Programmatic need for project determined by department.
- ✓ Project included in departmental five-year facility plan documents.
- ✓ Department submits capital outlay (CO) budget change proposal to Department of Finance.
- ✓ Department of Finance reviews CO budget change proposal and, if approved, makes funds available to DGS for scope and cost development.
- ✓ Project scope and budget package prepared by DGS.
- ✓ Based on DGS budget package, DOF includes planning and construction funds in Governor's budget for legislative review and approval.
- ✓ Upon legislative appropriation of project funds, DGS provides project/construction management services until the project is complete and occupied by client department.

- Monitoring schedules.
- Generally overseeing daily on-site construction operations.

In providing project/construction services, DGS charges client departments the project-related fees shown in Figure 2. These fees are intended to allow DGS to recoup the full cost of providing project/construction management services from the client agency. These fees can range from one-fifth to over one-third of total project costs.

Concerns With DGS Project Management Fees

The Appropriateness of Fees Charged. Our review of the capital outlay program proposals for 2002-03 has revealed many instances where the fees assessed to a project appeared to be either excessive, unnecessary, or inconsistently applied. For example, we note the following:

- Travel costs totaling \$110,000 for a project at a prison in Folsom with an 18-month construction period. (At over \$6,000 a month for travel expenses at the state mileage reimbursement rate, this appears to indicate about 18,000 miles per month of travel by the construction inspector from the nearest DGS field office.)

Figure 2 Department of General Services Capital Outlay Project Fees and Descriptions	
Type of Fee	Description
Architectural & Engineering (A & E) Services	
A & E design	Funds to hire a design team for technical building design services
Construction inspection	The cost for a DGS Inspector to provide inspection services for the project
Inspection travel	Time and cost to travel to project site to provide inspection services
Coordination & contract management	Funds provided to manage the various legal contracts for the project
Advertising	The cost of publicizing the project and printing documents
Post construction	The cost for DGS to provide services after construction is complete
Other Project Costs	
Special consultants	Funding for consultants who provide services outside the A & E team
Materials testing	The cost for quality control of the construction materials (concrete, steel, etc.)
Project/ construction management	The cost for DGS to manage the project
Site acquisition cost & fees	The cost to procure the project site
Disabled veterans/ minority businesses	The cost to encourage disabled veteran and minority business involvement
School checking	The cost for the State Architect to check a project for compliance with the Field Act
Hospital checking	The cost to ensure that a project meets regulatory requirements for hospitals
Essential services	The cost to evaluate the compliance with essential services facility regulations ^a
Handicapped checking	The cost to ensure compliance with the Americans with Disabilities Act
Environmental document	The cost to evaluate compliance with state environmental laws and regulations
^a Facilities designed to operate during times of disaster on a 24 hours a day, 7 days a week basis.	

- \$374,000 was budgeted for travel from the nearest DGS field office for a Department of Transportation office building in Marysville (approximately \$20,000 a month for an 18-month construction period).
- \$2,000 for environmental documents to replace lighting fixtures at a prison in Chino.

We also examined project cost estimates from prior years to determine if similar project budgeting issues existed, and we found the following:

- \$6,200 was included for school checking to verify Field Act compliance of an apparatus building at a forest fire station (the act applies only to school facilities and there is no school on the site).
- A total of \$58,700 was included for school, hospital, and essential services checking for a replacement forest fire station (the facility does not include a school or a hospital, nor is it an essential services facility).
- \$1,100 for handicapped checking for a project to install a perimeter and roofline security fence at a state mental hospital.
- No funds were budgeted for travel to a major new state hospital under construction in Coalinga and yet \$11 million is budgeted for DGS construction inspection and project management at the site for a 30-month construction period.

We find it questionable that an office building project in Marysville would require \$374,000 for travel and yet a major state hospital project in Coalinga has no travel budget. Yet, DGS indicates that travel fees are budgeted based on round-trip travel time and distance from the nearest DGS district office. However, this does not appear to be consistent with our review. Furthermore, we question the need for handicapped accessibility checking for a security fence intended to prevent escapes from a state hospital roofline, or the need for environmental documents to replace aging lighting fixtures in an existing state prison. In conclusion, we believe the above-mentioned examples clearly demonstrate inappropriate or excessive fees that are being included in DGS project cost estimates.

The Methodology of Determining Fees. Based on discussions with DGS staff, we also question the method by which various fees are calculated. We were informed that the overall DGS project/construction management fee is calculated by estimating the amount needed to recover the full-year costs of DGS Project Management Branch (PMB) and dividing that amount by the number of “billable” hours of assigned project management work. While this method provides full cost recovery for PMB, we believe this method of calculating project management costs is inac-

curate from a project cost accounting perspective. This is because it does not reflect the actual PMB hours, services, or costs specifically attributable to a given project. In addition, under DGS existing methodology it is possible that, for any given project, a department could end up paying for PMB services not used by its project and even paying for budgeted but vacant PMB positions. We believe a more accurate and acceptable method would be to charge a project the hourly rate, staff benefits, and departmental overhead rate for each PMB staff member and/or service assigned to a particular project.

Another example of a questionable fee methodology is the cost assessed to notify disabled veteran and minority owned businesses of state capital outlay projects. The DGS staff indicate that this PMB fee is actually a surcharge assessed by the DGS Office of Procurement, which is responsible for notifying and encouraging bidding on state contracts by businesses owned by disabled veterans and minorities. According to DGS staff, PMB merely provides the Office of Procurement with the estimated construction cost for a given project and the Office of Procurement then provides PMB with the surcharge amount to be included in the project estimate. It is our understanding that there is no further validation of this fee by PMB staff.

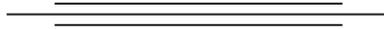
Quality Control Process. As noted earlier, our review of DGS project fees has uncovered such items as school and hospital checking for fire stations, handicap accessibility checking for security fences, excessive travel budgets for nearby projects and, in some cases, no travel budgets for distant projects. The inclusion or omission of these costs in the DGS project estimates reveals (1) the weakness of the current method of assessing fees to projects and (2) an overall lack of quality control and review prior to the issuance of the project cost estimates. According to DGS, there is a review process that occurs prior to the issuance of project estimates to the client departments and the Department of Finance. Given the problems noted above, we have serious concerns about the quality of this review process.

LAO Recommendation

Based on our review, we believe there is a lack of justification and accountability for the methods used to calculate the fees included in the project cost estimate. While we are in agreement on the concept of full cost recovery of PMB project/construction management services provided to client agencies, there is currently no way to accurately determine, or evaluate, the cost of a given project using the DGS method of assessing project fees. We also believe that the current method of assessing fees based on averaging PMB full-year costs against estimated billable hours

allows for the excesses and omissions shown in the earlier examples of DGS fees.

In light of the above, we recommend that the DGS method for cost estimating be reviewed by the Bureau of State Audits to determine (1) if the methodologies used for cost estimating are appropriate, (2) if the level of fees being charged is appropriate and consistent with industry standards, and (3) the adequacy of any quality control process currently in place. Once the bureau has reported its findings to the Legislature, we will review the information and provide recommendations as appropriate.



FUNDING HIGHER EDUCATION CAPITAL OUTLAY

As in previous years, we recommend the Legislature provide funding for higher education capital outlay based on statewide priorities and criteria, using reasonable construction cost guidelines, and based on year-round operation. We also recommend the Legislature consider the extent to which existing buildings at a campus are underutilized when making capital outlay funding decisions, and consider UC research revenue as a primary source of funding for UC research facilities.

We have previously recommended the Legislature fund higher education capital outlay based on statewide priorities and criteria, using construction cost guidelines that are reasonable, and based on the segments operating their campuses year round at similar enrollment levels in all terms. This year we looked at how the segments are utilizing their facilities and recommend the Legislature consider underutilization of existing buildings when making funding decisions on projects that increase instructional capacity. This is discussed further below and in our report *Building Standards in Higher Education*, which we released in January 2002.

As in the past, we also recommend the Legislature focus funding on instructional needs. Toward that end we recommend the Legislature authorize UC to use "Garamendi" bonds to fund research facilities. This will make available more of the state's limited resources to fund high priority instructional facilities projects throughout the three segments.

Priorities and Criteria

In our *Analysis of the 1998-99 Budget Bill*, we first recommended the Legislature fund higher education capital outlay based on statewide priorities and criteria. We continue to recommend this approach. Implicit in this is a recommendation that projects proposed by the three segments be evaluated as a single group of candidates for funding. Accordingly, we recommend the Legislature not allocate funds among the segments based

on a rigid formula (that is, one-third of available funds to each). The priorities we recommend are shown in Figure 1.

Figure 1 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 to Undergraduate Academic Programs <ul style="list-style-type: none"> • New construction or renovations that increase instructional efficiency and are needed based on year-round operation. • 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 <ul style="list-style-type: none"> • Faculty and administrative offices. • Research facilities. • Support facilities.

We review these priorities annually and update them when necessary in order to provide a more effective tool for making funding decisions. The priorities shown in Figure 1 differ from those recommended in our *Analysis of the 2001-02 Budget Bill* in one area as discussed below.

Administrative, Research, and Support Facilities. In our *Analysis of the 2001-02 Budget Bill* we ranked Research and Administrative Facilities fifth priority, Integrity of Operationally Important Facilities sixth, and

Support Facilities seventh. We have reordered these priorities as shown in Figure 1 to give higher priority to the Integrity of Operationally Important Facilities. This category is flexible and can accommodate important facilities needs that cannot otherwise be categorized. For example, constructing or expanding a central data processing center to serve the entire campus community might be considered an operationally important facility. Another example might be the expansion of an electrical distribution system to meet future campus needs. This reordering of priorities is also in response to a recognition that UC has a large revenue stream from research contracts and grants that can be used to fund research facilities, reducing the need for state funding.

Construction Cost Guidelines

In the *Analysis of the 2000-01 Budget Bill*, we reported on our study of the cost of constructing community college, CSU, and UC buildings compared to those of similar buildings elsewhere. We concluded at that time that construction cost guidelines used by the community colleges and CSU were reasonable. The UC does not use construction cost guidelines, and our study revealed that UC construction costs were notably high. We recommended that the Legislature apply CSU's construction cost guidelines to UC buildings where comparable building types existed. The one area where CSU does not have buildings comparable to UC is research facilities. Based on data we maintain of construction costs of 396 comparable public and private research buildings, we recommend specific cost guidelines for UC research facilities. Figure 2 summarizes the construction cost guidelines we recommend the Legislature use in funding the principal building types for the three segments of higher education.

Figure 2	
LAO Recommended Construction Cost Guidelines	
<i>(Dollars per Assignable Square Foot)</i>	
	Construction Cost Guideline
Offices	\$270
Classroom facilities	256
Teaching laboratory facilities	398
Research facilities	481

CSU Proposal to Increase Construction Cost Guidelines. Construction cost guidelines used by CSU and the community colleges are increased annually for inflation based on the California Construction Cost Index (CCCI) calculated each year by the Department of Finance. In June 2001, CSU increased its construction cost guidelines substantially above the CCCI level. We recommend that the Legislature not fund CSU projects based on this higher construction cost guideline, as we believe the system has not justified the higher costs. (For more detail, please see *Building Standards in Higher Education*.) We recommend the Legislature fund CSU projects based on the CSU construction cost guidelines used in preparation of its 2001-02 capital outlay budget, adjusted for inflation based on the CCCI. This is the approach we used in preparation of our recommendations on specific proposals.

Year-Round Operation

The Legislature has indicated its interest in CSU and UC operating their facilities year round in order to reduce the need to construct new instructional facilities. Progress CSU and UC have made in implementing year-round operation is discussed in the "Education" chapter of this *Analysis*.

CSU and UC Capital Plans Do Not Fully Reflect Year-Round Operation. The capital outlay plans for CSU and UC, however, do not fully reflect implementation of year-round operation. Both segments have adjusted their capital outlay plans to reflect *some* enrollment in the summer in future years, but not enrollment at anywhere near full campus capacity. If full use of instructional facilities in the summer is not a basis for developing capital outlay plans, the plans may indicate a need to construct new instructional facilities to accommodate enrollment growth, when there is actually capacity to increase enrollment in the summer and avoid the need to build new instructional facilities. In order to reduce the need to construct new classrooms and teaching laboratories, we recommend the Legislature direct CSU and UC to adjust their capital outlay plans to reflect year-round operation at *full summer enrollment* as the basis for determining the need to construct new instructional facilities. This will allow the state to focus its limited resources on high priority projects and avoid construction of unnecessary instructional space.

Community Colleges Should Also Base Capital Plans on Full Summer Enrollment. Some community college districts have more instructional capacity than needed even when operating facilities only during regular terms (that is, three quarters or two semesters). If there is insufficient enrollment demand in a district, offering instruction in a summer term may not be necessary. Capital outlay plans, however, should be based

on *full summer enrollment* regardless of current and projected enrollment. This means all districts will accommodate enrollment growth by increasing summer enrollment *before* constructing new instructional facilities. This will allow the state to focus capital outlay funding for community colleges on high priority projects and avoid inefficient use of state funds to build excess instructional capacity at community college campuses.

Utilization of Facilities

“Utilization” is the amount of time rooms and stations (a seat in a classroom or a work space in a laboratory) are used for instruction. Historically, the Legislature has compared actual utilization at higher education facilities against set standards.

Utilization Standards. The segments have established utilization standards for the number of hours per day and days per week. These are shown in Figure 3.

Figure 3 Utilization Standards CCCs, CSU, and UC			
Category	Room Use (Hours per Week)	Station Occupancy Percentage	Station Use (Hours per Week)
California Community Colleges			
Classrooms	53.0 ^a	66.0%	35.0
Teaching Laboratories	27.5	85.0	23.4
California State University			
Classrooms	53.0	66.0	35.0
Teaching Laboratories			
• Lower division	27.5	85.0	23.4
• Upper division & graduate	22.0	80.0	17.6
University of California			
Classrooms	52.5	66.7	35.0
Teaching Laboratories			
• Lower division	27.5	85.0	23.4
• Upper division	22.0	80.0	17.6
^a Standard is 48 hours for campuses with less than 14,000 student hours per week.			

Although all three segments have established utilization *standards*, only UC keeps records of how its facilities *are actually utilized*.

UC Utilization Is Less Than Standards; CSU and CCC Do Not Report Utilization. The UC indicates that systemwide classroom stations were used about 26 hours per week (74 percent of its standard) and teaching laboratory stations about 17 hours per week (87 percent of the standard).

It is not possible to know how efficiently the community colleges and CSU utilize their classroom and teaching laboratory instructional stations because they do not track this information. This type of data is needed for the Legislature to make informed decisions about funding capital improvements at all three segments. Accordingly, we recommend the Legislature direct community colleges and CSU to provide utilization data in time for consideration of the *2003-04 Governor's Budget*. We also recommend the Legislature direct UC to utilize its classroom and teaching laboratory instructional stations *at least* as efficiently as its utilization standards.



DEPARTMENTAL ISSUES

Capital Outlay

DEPARTMENT OF JUSTICE (0820)

The Department of Justice (DOJ) operates 11 criminalistic laboratories throughout the state. The laboratories provide analysis 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 statewide DNA analysis laboratory in Berkeley and is constructing a DNA laboratory in Richmond.

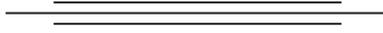
No Justification for New DNA Laboratory

We recommend the Legislature delete \$5 million for site acquisition to construct a new statewide DNA analysis laboratory because insufficient information has been provided to justify the request. (Delete Item 0820-301-0001 [1].)

The 2002-03 Governor's Budget includes \$5 million from the General Fund for site acquisition to construct a new state DNA laboratory for the department. A \$2 million General Fund appropriation was provided in the 2001-02 Budget Act for site searches, studies, and planning activities for this same purpose.

At the time this analysis was prepared, no detailed information was available regarding the location, cost, schedule, or scope of work for the proposal. In addition, there is no information regarding workload, or why

the existing Berkeley laboratory and newly constructed Richmond laboratory would be insufficient for the department. Given the lack of information on this project, we recommend the Legislature delete \$5 million under Item 0820-301-0001 (1).



DEPARTMENT OF GENERAL SERVICES (1760)

The budget includes requests totaling \$174 million of bond funds for the Department of General Services (DGS) capital outlay program. This amount includes \$21.1 million in general obligation (GO) bonds for management, design, and construction of previously funded seismic retrofit projects to improve the earthquake safety of state buildings, and \$152.9 million of lease-payment bonds to fund the four previously approved renovation projects of state office buildings, consistent with the department's Sacramento regional area development plan.

State Building Seismic Retrofit Program

The administration's proposed seismic program for 2002-03 is a reasonable one. In approving it, however, the Legislature would effectively be committing itself to \$47 million in General Fund spending in 2003-04. In addition, we recommend that future seismic retrofit projects be prioritized based on the actual usage of the building, rather than the building code prescribed occupancy, in order to minimize the risk to life.

The DGS administers the state's seismic retrofit program in order to decrease the risk to life resulting from major earthquakes by rehabilitating state-owned buildings. In June 1990, the voters passed Proposition 122—the Earthquake Safety and Public Buildings Rehabilitation Bond Act—that provided \$300 million in general obligation bonds for the purpose of earthquake safety improvements. The act allocated \$250 million for state buildings (excluding higher education programs) and \$50 million for matching grants for local government buildings. Provisions of the bond act specify purposes for which the proceeds can be used, including the retrofit, reconstruction, repair, replacement, and relocation of state and local buildings found seismically deficient. Currently, only about \$23 million in the state's share of bond proceeds remains unspent.

Project Selection. Projects are selected for funding based on consideration of seismic stability and risk-to-life issues. Based on these factors,

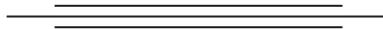
the department has assigned a “risk level” ranging from level VII (in danger of imminent collapse) down to level I (negligible risk to life). The department has committed to funding those buildings identified as risk level V (substantial risk to life) or above. There are 29 projects in the department’s current inventory that meet this criterion. It would cost almost \$130 million to complete all phases of these projects.

Budget Proposal. Given the small amount of bond funds remaining and the current pressures on the General Fund, the administration chose not to start any new seismic projects in the budget year. Instead, the funding included in the budget—\$21.1 million—would either complete or continue design and construction for ten previously authorized projects. These projects have a future cost (primarily in 2003-04) for completion of \$47.3 million. In addition, the remaining 19 projects on the department’s current inventory would cost \$60 million to construct.

Given the current fiscal condition of the state, we believe the administration’s seismic proposal is a reasonable one. It targets the remaining bond resources on projects already started, and these projects address seismic deficiencies in buildings generally serving the greatest number of people. We would caution the Legislature, however, that approval of the administration’s seismic proposal effectively commits the state to a General Fund cost of up to \$47.3 million in 2003-04. This is because virtually all the bonds are committed in the budget year. We would also note that the state may again face a very difficult fiscal situation in 2003-04. (See “Part I” of the *Perspectives and Issues* for more detail.)

Consequently, we recommend that the Legislature approve the seismic proposal only if it feels that it can cover the remaining costs to complete the projects from the General Fund in 2003-04. If not, the Legislature’s basic alternative would be to fund a more limited number of projects that could be completed within the existing bond funds.

Prioritization of Future Projects. In prioritizing seismic projects within a given risk level, the administration has used building occupancy as a selection factor. We think this makes sense. To gauge building occupancy, however, the administration has used code occupancy, which represents *maximum* building usage not *actual* building usage. We recommend that in order to minimize the actual risk to life from seismic events, funding for future projects be prioritized on the basis of actual use of the facility (average hours of use times the average number of occupants), rather than code occupancy. This will more accurately reflect the risk to people posed by a building’s seismic deficiencies.



CALIFORNIA CONSERVATION CORPS (3340)

The California Conservation Corps (CCC) has 16 residential centers and approximately 40 nonresidential satellite facilities in urban and rural areas. The Governor's budget proposes \$12.9 million for capital outlay for the CCC. This amount includes \$12.3 million from lease-payment bonds for one major capital outlay project and \$659,000 for minor capital outlay projects (less than \$500,000 per project).

Delta Service District Center Construction

We recommend deletion of \$11.7 million for working drawings and construction for the Delta Service District Center Construction project because the California Conservation Corps has not yet acquired a site on which to construct the facility and preliminary plans are not scheduled to be complete until September 2003. (Delete \$11.7 million from Item 3340-301-0660[1].)

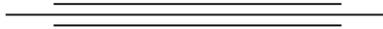
The CCC operates the Delta Service District Center on a site owned by the California State University (CSU) in the City of Stockton. The CSU is planning to develop the current CCC site as a part of its CSU Stanislaus, Stockton Center site and wants the CCC to vacate the site. The CCC's lease with CSU for the Delta Service District Center will expire on March 1, 2002, at which time CSU can direct the CCC to vacate the site with 180 days notice. The budget proposes \$12.3 million from lease-payment bonds to fund preliminary plans (\$588,000), working drawings (\$645,000), and construction (\$11,022,000) for a new Delta Service District Center consisting of a 2,964 gross square feet (gsf) administration building, 10,684 gsf warehouse, 150 gsf hazardous materials building, 9,000 gsf multipurpose room/kitchen and dining facility, 16,300 gsf dormitory, and 10,454 gsf education and recreation building.

The Legislature appropriated \$1.5 million (General Fund) in the 2001-02 Budget Act for the selection and acquisition of a new site for the

Delta Service District Center. However, the *2002-03 Governor's Budget* proposes to fund the acquisition with lease-payment bonds and revert the 2001-02 General Fund appropriation.

We have two main concerns with the proposal. First, the project schedule indicates that site acquisition will not be completed until September 2002. Without a specific site, the project cost estimate is unsupportable because it cannot account for various site-related issues. For example, how facilities will need to be positioned on the site, the type of soil conditions at the site, or the location of utility connections to the site, will all affect the cost of project design and construction. We understand that the Department of General Services is reviewing approximately 20 potential project sites. Second, the preliminary plans for this project will not be completed until the end of September 2003. The preliminary plans will provide a site plan, architectural floor plans, outline specifications, and a detailed cost estimate. Without these plans, the Legislature is unable to carryout its project oversight and determine if the project can be completed within the proposed project scope and budget.

For these reasons, it is premature to fund working drawings and construction for the project at this time. Consequently, we recommend the Legislature delete the \$11,667,000 requested for working drawings and construction. This would leave \$588,000 for preliminary plans.



DEPARTMENT OF FORESTRY AND FIRE PROTECTION (3540)

The budget proposes \$52.8 million for capital outlay for the California Department of Forestry and Fire Protection (CDFFP). This amount includes \$52.3 million for 21 major capital outlay projects from lease-payment bonds and \$485,000 for one minor capital outlay project (less than \$500,000 per project) to be funded from the General Fund. With regard to the major projects, the request includes 16 projects that have previously been funded for preliminary plans and/or working drawings, and five projects that were previously funded for acquisition and for which preliminary plans, working drawings, and construction are now proposed.

Projects Recommended for Approval

We recommend the Legislature approve \$25 million of funding requests for working drawings and/or construction of 15 continuing projects that are consistent with project scope and cost previously recognized by the Legislature.

The Governor's budget includes funding requests for construction of 15 continuing projects totaling \$25 million for which preliminary plans were funded in prior years. The projects, funding requested, and completion dates are detailed in Figure 1 (see next page). In the past, the CDFFP's capital outlay program has had chronic problems related to inadequate planning, projects exceeding approved budgets, and delays in completing approved projects. However, we note that the projects listed are all consistent with cost and scope previously recognized by the Legislature.

Figure 1**Department of Forestry and Fire Protection
Projects Recommended for Approval***(Dollars in Thousands)*

Item 3540-301-0001	Project Description	Phase	Budget Amount	Scheduled Completion
(1)	Ukiah Forest Fire Station: replace facility	C	\$2,042	12/03
(3)	Elk Camp Forest Fire Station: relocate facility	C	1,496	4/04
(4)	Santa Clara Ranger Unit Headquarters: replace auto- motive shop	C	1,378	11/03
(5)	Harts Mill Forest Fire Station: relocate facility	C	1,323	11/03
(6)	Manton Forest Fire Station: relocate facility	C	1,364	12/03
(7)	Weaverville Forest Fire Sta- tion: relocate facility	C	1,971	3/04
(8)	Buckhorn Forest Fire Station: replace apparatus building	WC	1,143	11/03
(10)	Ventura Youth Conservation Camp: construct vehicle appa- ratus building, shop, ware- house	C	1,397	7/03
(11)	Fenner Canyon Conservation Camp: construct vehicle appa- ratus buildings, replace office	C	2,452	11/03
(12)	Nipomo Forest Fire Station: replace facility	C	1,777	12/03
(14)	Sonora Forest Fire Station: relocate facility	C	2,078	4/04
(15)	Sand Creek Forest Fire Sta- tion: relocate facility	C	1,338	11/03
(16)	Rancheria Forest Fire Station: replace facility	C	1,802	3/04
(17)	Usona Forest Fire Station: replace facility	C	1,362	3/04
(21)	Altaville Forest Fire Station: replace facility	C	2,046	6/04
	Total		\$24,969	

South Operations Area Headquarters Recommend Approval Contingent on Review of Preliminary Plans

We recommend the Legislature approve \$16.4 million to fund working drawings and construction for the South Operations Area Headquarters—Relocate Facility project contingent on receipt and review of preliminary plans consistent with prior legislative approval.

The Governor's budget includes a funding request for working drawings and construction of the South Operations Area Headquarters relocation project for which preliminary plans were funded in the 2001-02 Budget Act. However, the *Supplemental Report of the 2001-02 Budget Act* indicates that the preliminary plans for this project are not scheduled for completion until June 2002. The amount included in the Governor's budget is consistent with the supplemental report adopted by the Legislature and, pending completion of preliminary plans, the project should proceed. Given the critical need to relocate this facility because of an encroaching freeway interchange project, we recommend the Legislature approve the requested amount contingent on receipt and review of completed, or substantially completed, preliminary plans and cost estimates consistent with prior legislative approval.

Five Lease-Payment Bond Projects Are Proposed for Full Funding of All Project Phases

The Governor's budget proposes to fund preliminary plans, working drawings, and construction for five California Department of Forestry and Fire Protection capital outlay projects. We recommend the Legislature only fund preliminary plans and working drawings—contingent on review of completed budget packages—and delete \$9.7 million because these projects will not proceed to construction in 2002-03. (Delete \$1.3 million from Item 3540-301-0660 [2]; \$1.8 million from Item 3540-301-0660 [9]; \$2.3 million from Item 3540-301-0660 [18]; \$1.4 million from Item 3540-301-0660 [19]; and \$2.9 million from Item 3540-301-0660 [20].)

The Governor's budget proposes to use lease-payment bonds for the five capital outlay projects shown in Figure 2 (see next page). We do not have any issue with the programmatic need for these projects, as they are consistent with CDFFP's ongoing program of replacing its aging facilities. We note that sites have been selected for the four relocation projects and acquisitions will be completed by June 2002. Also, project budget package estimates will be completed by the end of February 2002 for the four relocation projects, and preliminary plans have been partially completed for the Bautista Conservation Camp project. In sum, by the time budget hearings are held, project scope and cost for all five projects will

be finalized and available for legislative review and approval. Accordingly, we recommend approval of funds for preliminary plans and working drawings for all five projects, contingent on review of the completed budget packages. None of the projects, however, is scheduled to proceed to construction until 2003-04. Thus, none of the projects in Figure 2 will require a construction appropriation in 2002-03.

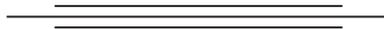
Figure 2					
Department of Forestry and Fire Protection					
New Lease-Payment Bond Projects					
Proposed for Full Funding					
<i>(In Thousands)</i>					
Item 3540-301- 0001	Project Description	Proposed Phases	Budget Request	Preliminary Plans Complete	Proceed to Construction
(2)	Sweetwater Forest Fire Station: relocate facility	PWC	\$1,521	3/03	9/03
(9)	San Marcos Forest Fire Station: relocate facility	PWC	2,112	2/03	9/03
(18)	Springville Forest Fire Station: relocate facility	PWC	2,740	3/03	10/03
(19)	Raymond Forest Fire Station: relocate facility	PWC	1,537	3/03	11/03
(20)	Bautista Conserva- tion Camp: replace modular buildings	PWC	3,079	4/03	9/03
Total			\$10,989		

We understand that the Governor’s budget proposal to fund all three phases of these projects was done to secure interim financing loans, cash needed for the project before lease-payment bonds are sold, from the Pooled Money Investment Account (PMIA). According to the State Public Works Board (SPWB) staff, the Pooled Money Investment Board (PMIB) is reluctant to authorize a PMIA loan without a construction appropriation to assure the PMIB the project will be completed, the bonds sold, and

the loan repaid with bond proceeds. Notwithstanding the PMIB's reluctance, Section 4.80 of the budget bill sets forth the state's commitment to repay interim financing costs. Specifically, the section states that if bonds are not sold for a project, and interim financing costs have been incurred, departments that have incurred those costs shall commit a sufficient portion of their support budget appropriations to repay the interim financing costs. Given the existence of Section 4.80, we question the PMIB's reluctance to provide interim financing to a project that does not yet have a construction appropriation.

In addition, budget bill language authorizes the SPWB to obtain interim financing from any appropriate source including, but not limited to, the PMIA. As authorized by Government Code Section 15849.1, the other source of interim financing for a lease-payment bond project is the General Fund. We note that General Fund loans have been used in the past by the SPWB for interim financing. Assuming there is a critical need for these five projects and a commitment set forth in Section 4.80 to repay interim financing costs, the SPWB can obtain a General Fund loan for interim financing if it is unable to secure a PMIA loan.

Thus, we are not aware of any reason to appropriate the construction costs at this time. As such, we recommend the Legislature delete \$9.7 million in construction funds for the five projects.



DEPARTMENT OF PARKS AND RECREATION (3790)

The budget proposes \$50 million for capital outlay for the Department of Parks and Recreation (DPR). This amount includes \$39.2 million from the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Act of 2000; \$6.4 million from the Off-Highway Vehicle (OHV) Trust Fund; \$2.5 million from the Habitat Conservation Fund; \$248,000 from the Environmental License Plate Fund; and \$1.5 million in federal funds.

Projects Without Completed Preliminary Plans

We withhold recommendation on \$12.4 million for seven projects because preliminary plans are not complete. (Withhold recommendation on \$1.9 million from Item 3790-301-0005 [1], \$307,000 from Item 3790-301-0005 [4], \$1.7 million from Item 3790-301-0005 [5], \$2.4 million from Item 3790-301-0005 [6], \$3.4 million from Item 3790-301-0005 [12], \$2.5 million from Item 3790-301-0005 [19], and \$150,000 from Item 3790-301-0005 [22].)

Preliminary plans for the seven projects shown in Figure 1 are not scheduled to be completed until June 2002 at the earliest. We generally recommend that the Legislature not approve funds for working drawings and construction of projects until preliminary plans are available for review. These plans permit the Legislature to verify that projects are within scope and budget.

If preliminary plans, or substantially completed preliminary plans and an updated cost estimate are provided during budget hearings, and they are consistent with legislatively recognized scope and cost, these projects would warrant legislative approval.

No Preliminary Plans for Border Field State Park Project

We withhold recommendation on \$6.4 million for construction for the Sediment Basins and Road Realignment project at Border Field State

Figure 1**Department of Parks and Recreation
Projects Without Completed Preliminary Plans***(Dollars in Thousands)*

Project Description	Proposed Phases^a	Budget Request	Preliminary Plans Complete
Prairie Creek Redwoods State Park: public use improvements	W, C	\$1,969	July 2002
Fort Ross State Historic Park: reconstruct historic fur warehouse	W	307	July 2002
Jack London State Historic Park: restore cottage as house museum	W, C, E	1,661	July 2002
Folsom Powerhouse State Historic Park: powerhouse stabilization	W, C, E	2,420	June 2002
Pfeiffer Big Sur State Park: park entrance and day use redevelopment	W, C, E	3,358	July 2002
Silverwood Lake State Recreation Area: campground and day use improvements	W, C	2,547	August 2002
Border Field State Park: develop and rehabilitate day use facilities	W	150	November 2002

^a W = working drawings; C = construction; E = equipment.

Park because the preliminary plans have not been approved. (Withhold recommendation on Item 3790-301-0005 [23] and Item 3790-301-0005 [29].)

The budget proposes \$6.4 million for construction for Border Field State Park, Sediment Basins and Road Realignment. We understand that preliminary plans and working drawings for this project were financed by a nonprofit organization using a grant from the State Coastal Conservancy. However, the project has not been previously approved by the Legislature. Furthermore, the State Public Works Board (SPWB) apparently has not reviewed the project because budget bill language (provision 2 under Item 3790-301-0005) specifies that the SPWB must approve the preliminary plans and working drawing before the requested funds can be spent. The Legislature should also have this information before approving construction funds for this project. We are also concerned about the proposal to provide construction funds for this project without any engineering studies or plans having been provided to verify the project's feasibility and provide a basis for the funding requested.

Accordingly, we withhold recommendation on this project pending receipt of information that defines the scope of the project and provides a basis for verifying the need and cost.

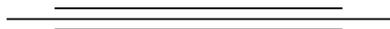
DPR Support Budget Does Not Appear to Accurately Offset Capital Outlay Project Management Costs

We recommend that the Department of Parks and Recreation report at hearings on how it calculates its project support and project management costs for its capital outlay program and provide a more accurate accounting of these costs.

Beginning with the 1999-00 *Budget Act*, DPR's support budget has contained budget bill language stating the Legislature's intent that the salaries, wages, operating expenses, and positions associated with implementing specific DPR capital outlay projects be funded through capital outlay appropriations and reflected in the operating budget as an offsetting payable from the capital outlay appropriation (provision 2 under Item 3790-001-0001). Currently, the support budget for DPR shows the offset for DPR staff costs for its capital outlay projects, but not newly authorized DPR project management costs.

Current law authorizes the Department of Finance (DOF) to delegate to DPR the authority to exercise the same responsibilities granted to the Division of the State Architect and Real Estate Services Division in the Department of General Services to plan, design, construct, and administer contracts and professional services for legislatively approved capital outlay projects. Based on DPR's assertion that it possessed the necessary expertise and personnel to develop and manage its own capital outlay projects, DOF and DPR signed a memorandum of understanding (MOU) in July 2001 to authorize DPR to exercise this project management authority. The MOU is to remain in effect until January 1, 2005, or until it is modified or terminated by DOF.

The DPR's support budget, as shown in the 2002-03 *Governor's Budget*, has an offsetting payable from its capital outlay budget of \$1.7 million. This is the same amount identified for 2001-02. Given the newly delegated responsibility for project development and management, DPR's offsetting payable should have increased in 2001-02 and 2002-03—providing an additional reduction to DPR's General Fund support appropriation. Consequently, we recommend that DPR report at budget hearings on how it calculates its project support and project management costs for its capital outlay program and provide a more accurate accounting of these costs for both 2001-02 and 2002-03.



DEPARTMENT OF DEVELOPMENTAL SERVICES (4300)

The Department of Developmental Services (DDS) operates five developmental centers (Agnews, Fairview, Lanterman, Porterville, and Sonoma) and two leased facilities (Canyon Springs and Sierra Vista). As of December 31, 2001, the system housed approximately 3,700 clients. The budget includes \$3.8 million for one project at the Lanterman Developmental Center.

Lanterman Security Improvement Project Behind Schedule and Not Complete

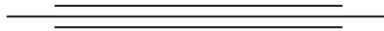
We withhold recommendation on the Security Improvement Project at Lanterman Developmental Center pending receipt and review of information explaining (1) the reasons for delay in seeking environmental review/compliance of the project, (2) the status of the project, and (3) what actions have been taken to assure that the project will begin construction in 2002-03.

The Governor's budget includes \$3.8 million (General Fund) for the construction phase of the Security Improvement Project at Lanterman Developmental Center. We note that the 1998-99 Budget Act appropriated \$4,992,000 for preliminary plans, working drawings, and construction for this project. At that time, DDS justified the project based on population projections that indicated a need to safely house an additional 75 forensic patients and 53 behavioral patients. The original project scope included a guard control building, 16-foot-high perimeter security fence, sally port, four observation towers, exterior security lighting, two day-training buildings, personal alarm system, nurse station upgrades, window security screens, a building perimeter alarm system, and a surveillance system. The *Supplemental Report of the 1998-99 Budget Act* recognized a February 2000 completion date for the project.

However, the community surrounding Lanterman Developmental Center protested the housing of forensic patients at the center, and filed litigation alleging that DDS did not comply with provisions of the California Environmental Quality Act (CEQA) in seeking environmental approval of the project. After several months of negotiating with the community, DDS decided not to house forensic patients at Lanterman. Instead, all 128 beds will be used to treat behavioral patients. As a result, DDS withdrew its CEQA documents, which envisioned forensic patients at the center, and requested the State Public Works Board (SPWB) to amend the project scope to remove certain project components related to forensic patients. In October 2000, the SPWB, after notifying the Joint Legislative Budget Committee (JLBC), amended the project scope to remove the guard control building, sally port, observation towers, exterior lighting and replaced the 16-foot-high perimeter security fence with a 10-foot-high fence. Later, in November 2001, DDS determined that the guard control building was needed to house the perimeter alarm system and surveillance system, as well as the security personnel to monitor these systems and provide security services to the facility. Again, after notifying the JLBC, the project scope was amended to include the guard control building.

We understand that DDS has yet to resubmit its environmental documents in order to obtain CEQA approval for either of the two project scope revisions. Without CEQA approval, the project has yet to proceed to bid for construction and the previous construction appropriation has since reverted to the General Fund.

We withhold recommendation on the \$3.8 million for construction of the Security Improvement Project pending receipt and review of information explaining (1) the reasons for delay in seeking environmental review/compliance of the project, (2) the status of the project, and (3) what actions have been taken to assure that the project will begin construction in 2002-03.



DEPARTMENT OF MENTAL HEALTH (4440)

The Department of Mental Health (DMH) operates four state hospitals—Atascadero, Metropolitan, Napa, and Patton. As of December 2001, the system housed over 4,200 patients. The budget includes \$736,000 from the General Fund and \$20.8 million in lease-payment bonds for the department's 2002-03 capital outlay program. The estimated future cost to complete the proposed projects is \$3.5 million. The budget includes the following proposals:

Previously Funded Projects

- \$13.7 million for working drawings and construction for a new multipurpose building at Atascadero State Hospital.
- \$7.1 million for working drawings and construction for a new school building at Metropolitan State Hospital.
- \$603,000 to install a personal alarm system in Buildings G, O, P, and T at Patton State Hospital.

New Proposals

- \$133,000 for preliminary plans to upgrade the electrical generator plant at Patton State Hospital.

We recommend approval of \$736,000 to upgrade the electrical generator plant and install a personal alarm system in the G, O, P, and T buildings at Patton State Hospital. The balance of the program, and our recommendations, are discussed below.

**Projects Recommended for Approval
Contingent on Review of Preliminary Plans**

We recommend the Legislature approve \$20.8 million to fund working drawings and construction for two projects contingent on receipt and review of preliminary plans consistent with prior legislative approval.

The Governor’s budget includes funding requests for working drawings and/or construction of two continuing projects that total \$20.8 million for which preliminary plans and/or working drawings were funded in the 2001-02 Budget Act (see Figure 1). The amounts included in the Governor’s budget are consistent with the supplemental report language adopted by the Legislature and, pending completion of preliminary plans, should proceed. Therefore, we recommend the Legislature approve the requested amounts contingent on receipt and review of completed, or substantially completed, preliminary plans and cost estimates consistent with prior legislative approval.

Figure 1				
Department of Mental Health				
Projects Recommended for Approval				
Contingent on Preliminary Plan Review				
<i>(In Thousands)</i>				
Item 4440-30-0660	Project Description	Phase^a	Budget Amount	Scheduled Completion on Plans
(1)	Atascadero: Construct multipurpose building	W;C	\$13,703	June 2002
(2)	Metropolitan: Construct school building	W;C	7,105	March 2002
Total			\$20,808	
^a W = working drawings; C = construction				

DEPARTMENT OF CORRECTIONS (5240)

The California Department of Corrections (CDC) operates 33 prisons and 38 fire and conservation camps throughout the state. A new maximum security prison is being prepared for construction adjacent to the existing North Kern State Prison in Delano, and is scheduled for occupancy in late 2003. Construction of the new prison has been delayed pending resolution of legal action. The prison system also includes 16 community correctional facilities operated by private firms, cities, or counties under contract with CDC. As of mid-January 2002, the system housed 156,506 inmates, as compared to 160,433 as of mid-January 2001.

The budget includes requests totaling \$22.6 million from lease-payment bonds (\$12.8 million) and the General Fund (\$9.8 million). These requests include:

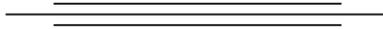
- \$12.8 million of lease-payment bonds for construction of four continuing projects.
- \$4.3 million from the General Fund for six continuing projects.
- \$2 million from the General Fund for two new projects: one to install secure light fixtures and switches at the California Institution for Men, Chino, Reception Center Central Facility (\$130,000 for preliminary plans), and another for design and construction of a new water treatment plant at Salinas Valley State Prison (\$1.8 million).
- The budget includes requests totaling \$3.5 million from the General Fund for minor capital outlay (\$3 million) and planning (\$500,000).

Construction of the New California State Prison II at Delano on Hold

We recommend the department report at budget hearings regarding progress made in resolving the lawsuit which has stopped construction of the new maximum security prison in Delano.

Chapter 54, Statutes of 1999 (AB 1535, Florez), provided \$311.5 million of lease-payment bonds in order to construct a new 2,248 bed maximum security prison at Delano. Construction was scheduled for full completion in early 2004, with occupation of certain parts of the facility expected to begin in late 2003. Construction of the prison, however, has been halted as a result of pending legal action. It is unclear at this time how much this will slow completion of the prison.

We recommend the department report at budget hearings on the progress made in resolving the legal action that has halted construction of the project and on the expected delays in opening the prison.



DEPARTMENT OF THE YOUTH AUTHORITY (5460)

The Department of the Youth Authority (CYA) operates 11 institutions (including two reception centers) and six conservation camps throughout the state. As of mid-January, the system housed almost 6,200 wards. The budget includes the following proposals:

Previously Funded Projects:

- \$3.9 million of lease-payment bonds for a new Correctional Treatment Center at the Northern Correctional Treatment Facility.
- \$8.5 million of lease-payment bonds for a new kitchen facility at the Fred C. Nelles Youth Correctional Facility.
- \$3.2 million of lease-payment bonds to construct specialized counseling bed space at the Southern Youth Correctional Reception Center.
- \$1,031,000 of lease-payment bonds to construct a new special education assessment center at the Ventura Youth Correctional Reception Center.
- \$1,031,000 of lease-payment bonds to construct a new special education assessment center at the Ventura Youth Correctional Facility.

New Proposals:

- \$2,289,000 from the General Fund for advanced planning (\$250,000) and minor capital outlay projects (\$2,039,000).

Department Has Not Provided Mental Health Treatment Program Implementation Plan Detail

We withhold recommendation on \$7.2 million (lease-payment bonds) for two projects, pending receipt and review of the department's mental health program study in order to verify facility and programmatic needs. Withhold recommendation on \$7,171,000 under Items 5460-301-0660 (1) and (3).

The budget includes \$3,933,000 of lease-payment bonds for construction of a new Correctional Treatment Center at the Northern California Youth Correctional Center and \$3,238,000 of lease-payment bonds for construction to house new specialized counseling program beds at the Southern Youth Correctional Reception Center. Both of these projects would provide treatment, counseling, and staffing space for mental health services to wards.

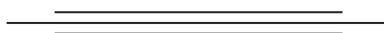
The Legislature has acknowledged the need for the department to address these services. To act on specific proposals, however, the Legislature needs from the department an implementation plan for mental health service delivery which addresses such issues as:

- The type of services that need to be offered.
- The estimated number of wards requiring such services.
- The types of facilities needed to provide required services.
- The appropriate location of needed facilities throughout the state.

At this time, the department is struggling with answers to these issues. In a January 2002 letter to the Legislature, the department requested a scope change on the Southern Youth Correctional Reception Center project because it had "reevaluated its program and staffing needs of the wards in treatment." While it is appropriate to engage in such a reassessment, the Legislature needs to have the benefit of the department's finding *prior to* consideration of facilities requests.

The department has commissioned an independent program study to identify ward mental health treatment needs and staffing. This study, however, will not be available until later this spring.

We believe the Legislature does not have the basic information it needs to assess the requests regarding these mental health facilities. Consequently, we withhold recommendation on the two projects, pending receipt and review of the department's study.



UNIVERSITY OF CALIFORNIA (6440)

The Governor proposes \$699 million from general obligation and lease-payment bonds for 32 projects under the University of California's (UC's) 2002-03 capital outlay program. As shown in Figure 1 (see next page), the budget provides \$85 million in the budget bill for 23 projects from general obligation bonds and \$279 million for 7 projects from lease-payment bonds under proposed economic stimulus legislation. The Governor also proposes a \$335 million shift of funding from the General Fund to lease-payment bonds for the Institutes for Science and Innovation (\$308 million) and the Merced campus (\$27 million). The budget also contains \$356,000 from the General Fund for one project.

We recommend the Legislature reduce \$20 million from three projects and recognize reductions totaling \$26 million in future costs as discussed in detail below.

UC Capital Outlay Plans Should Be Based on Full Implementation of Year-Round Operation

We recommend the Legislature direct the University of California to base its capital outlay plans on full utilization of instructional facilities during summer term.

The Legislature has previously indicated its interest in UC operating year round in order to reduce the need to construct new instructional facilities to accommodate projected enrollment growth. Chapter 383, Statutes of 2000 (AB 2409, Midgen), found that year-round operation increased student access and allowed students to accelerate their progress to degrees. The *Supplemental Report of the 2001-02 Budget Act* directed UC to establish five-year capital outlay plans based on summer enrollment goals at campuses intended to minimize the need to construct new instructional facilities. The Legislature also expressed its intent that UC *not limit summer enrollment*.

Figure 1			
University of California			
Bond-Funded Capital Outlay Program			
<i>(Dollars in Millions)</i>			
	Number of Projects	2001-02	2002-03
Budget Bill			
General obligation bonds			
Existing ^a	8	—	\$11
Proposed	15	—	74
Subtotals	23	—	\$85
Economic Stimulus Legislation			
Lease-payment bonds	7	\$267	12
Fund Shift Legislation			
Lease-payment bonds	2	335	—
Totals	32	\$602	\$97
^a In addition to bonds specifically designated for higher education, this total includes \$3 million from the Safe Neighborhood Parks, Clean Water, Clean Air and Coastal Protection Bond Fund for the Watershed Science Research Center at UC Davis.			

The Legislature's initiative to increase use of facilities in the summer included providing state support for all students enrolled in a summer term beginning in 2001. In the "Education" chapter of this *Analysis*, we report on the significant increase in summer enrollment experienced at UC in 2001. Total summer enrollment at the eight general campuses increased over 40 percent from that in 2000, and UC is now accommodating about one-third the number of students in the summer as in the fall term. This success however, and the potential for even greater use of facilities in the summer, is not reflected in UC's five-year capital outlay plan.

The UC indicates in its latest analysis of campus capacity that it bases its projections of future instructional facilities needs on summer term *and off-campus enrollment* equal to 40 percent of the average enrollment in the other terms. We are concerned with UC evaluating its instructional space needs with this limit on summer enrollment for two reasons. First, placing *any* limit on summer enrollment short of full capacity does not fully utilize campus facilities. With a limit on summer enrollment, a perceived need to construct new instructional facilities would arise much sooner than

necessary. If facilities are planned based on full enrollment in summer term, the need to construct new instructional space is deferred substantially.

We are also concerned that UC includes off-campus enrollment with summer enrollment when characterizing its use of campus facilities in the summer. Off-campus enrollment consists of students enrolled in such UC programs as “education abroad” and “UC in Washington, D.C.” These students generate no need for instructional space on general campuses and it is inappropriate to consider them accommodated in the same manner as students who attend during summer term. Currently UC has about 1,800 full-time equivalent (FTE) students in education-abroad programs and indicates it intends to accommodate “. . . several times that number by 2010-11.” It has about 280 FTE students at its Washington, D.C. center, and has smaller off-campus programs in Ventura and the San Joaquin Valley.

The primary financial benefit of year-round operation is that it reduces the need to construct new instructional space. If UC proposes new instructional facilities to the Legislature based on any limit on summer enrollment short of full campus capacity, it is not using year-round operation at its full potential. Similarly, to include enrollment accommodated off-campus within the same category as summer enrollment is inappropriate. So that the Legislature can properly evaluate UC’s capital outlay needs, we recommend UC revise its capital outlay plans so they are based on summer enrollment generally equal to the average enrollment in the other terms. We also recommend the Legislature direct UC to not include off-campus enrollment with summer enrollment when developing and reporting on capital outlay plans.

Garamendi Bonds Are an Option to Fund Research Facilities

“Garamendi” bonds are lease-payment bonds underwritten by the University of California (UC) research revenue. They provide a way to finance construction of research space at UC campuses without committing state General Fund resources. We recommend the Legislature use Garamendi bonds to fund UC research facilities in order to free up limited state resources for other high priority needs throughout higher education.

Chapter 1145, Statutes of 1989 (SB 578, Garamendi), authorized the State Public Works Board to finance the construction, renovation, and equipping of research facilities at UC campuses through issuance of revenue bonds secured by revenue from future research activities conducted at the facilities. These are referred to as Garamendi bonds, after the author of the enabling legislation. The bonds may be used to finance the acquisition, construction, renovation, and equipping of a building or fa-

cility for the UC that will be used, wholly or partially, for research. Garamendi bonds are the responsibility of UC, and increases in UC research revenue may be used to pay the costs of the bonds.

The university has successfully used Garamendi bonds to finance research facilities in the past. It has seen its research revenue increase from about \$1.4 billion in 1993-94 to \$2.3 billion in 2000-01 (about a 64 percent increase). Over 80 percent of UC's research is supported by the federal government and private entities. We recommend the Legislature authorize the State Public Works Board to issue Garamendi bonds to finance the research space in two projects proposed in the budget, as discussed below. This will allow limited state resources to be used for higher priority instructional needs throughout the three segments of higher education.

PROJECTS RECOMMENDED FOR REDUCTION

Irvine: Computer Science Unit 3

We recommend the Legislature reduce \$1,770,000 from this item to develop preliminary plans and working drawings for the Computer Science Unit 3 building at the University of California, Irvine and recognize future costs of \$10,685,000 for construction and \$3,000,000 for equipment because the cost of the project is high. We also recommend research space in the project be funded by Garamendi bonds. (Reduce Item 6440-302-0574 [3] by \$1,152,000 and Item 6440-302-6028 [4] by \$618,000.)

The budget includes \$2.7 million for preliminary plans and working drawings for a new 87,400 assignable square feet (asf) project to provide space for the Department of Information and Computer Science, general assignment classrooms and surge space (space to be used on an interim basis when construction elsewhere on campus requires the temporary relocation of building occupants). The project consists of the construction of two buildings, one of 80,490 asf and the other 6,910 asf, for a total of 87,400 asf. The UC proposes to provide \$14.7 million of nonstate funds for construction of 26,000 asf of surge space in the larger of the two buildings. Figure 2 shows how the remaining 61,400 asf of state-funded space is planned to be allocated.

The instructional space in the project is justified based on programmatic needs, and the academic and administrative office space in the project is justified based on enrollment growth and operational needs. While the proposed research space is not justified for state support based on our recommended space standards, the university could use nonstate funds to support its request, as discussed below. We recommend reduction in the state cost because (1) research space could be funded by the

Figure 2
Irvine, Computer Science Unit 3
Proposed Use of State-Funded Space

Use of Space	Assignable Square Feet	
	Amount	Percent of Total
Research	27,710	45%
Offices	18,450	30
Classrooms	13,340	22
Teaching labs	1,900	3
Totals	61,400	100%

university using Garamendi bonds and (2) the estimated construction cost exceeds our recommended guidelines.

Garamendi Bonds for Research Facilities. The research space in the project is not justified for state-funding under our recommended space standards. As discussed in the “Crosscutting Issues” section in this chapter, we recommend the state authorize UC to fund research space using so-called Garamendi bonds. This provides a funding mechanism for research facilities that are not justified under state space standards. The university has used Garamendi bond financing in the past for research facilities and we recommend the research space in the Computer Science Unit 3 project be funded in this way. The effect of this recommendation on the state’s cost is shown in Figure 3 (see next page).

Construction Cost Is High. As discussed in the “Crosscutting Issues” section of this chapter, we recommend the Legislature apply construction cost guidelines when funding capital outlay projects for UC and the other segments of higher education. This does not prevent UC from constructing buildings that are more expensive than our recommended guidelines if it believes it is necessary. The university has other funds that can be allocated to capital outlay projects. Applying construction cost guidelines allows the state’s limited resources to be used to fund other capital outlay projects at UC campuses and the other segments of higher education. Figure 3 shows the effect applying our guidelines has on the state’s construction contract cost for this project.

When other costs are prorated and included, our recommendation for state funding is shown in Figure 4 (see next page). This reduction would reduce the cost of the state-funded portion of the project from \$34.8 million to \$14.7 million.

Figure 3			
Irvine, Computer Science Unit 3			
LAO Recommended			
State-Funded Construction Contract Cost			
<i>(Dollars in Thousands)</i>			
Space Use	ASF^a	LAO Recommendation	
		Construction Cost Per ASF	Construction Cost
Research	27,710	Garamendi bonds	
Offices	18,450	\$270	\$4,981
Classrooms	13,340	256	3,415
Teaching labs	1,900	398	756
Totals	61,400	—	\$9,152

^a ASF = Assignable square feet.

Figure 4		
Irvine, Computer Science Unit 3		
LAO Recommended State Funding		
<i>(In Thousands)</i>		
Phase	Proposed in Budget	LAO Recommendation
Preliminary plans	\$1,779	\$627
Working drawings	954	336
Construction	29,089	10,685
Equipment	3,000	3,000
Totals	\$34,822	\$14,648

Accordingly, we recommend the Legislature approve \$963,000 for preliminary plans and working drawings and recognize future costs of \$13,685,000—\$10,685,000 for construction and \$3,000,000 for equipment. This will free up about \$20 million of limited state bond resources for high priority projects elsewhere at UC campuses, or at the California State University and community colleges segments.

Los Angeles: Engineering 1 Seismic Mitigation

We recommend the Legislature reduce \$17,573,000 from this project for development of working drawings and construction of the Engineering 1 Seismic Mitigation building at the University of California, Los Angeles because the construction cost is high and research space in the building can be funded by Garamendi bonds. (Reduce Item 6440-302-0574 (2) by \$903,000 and reduce Item 6440-302-6028 [3] by \$16,670,000.)

The budget includes \$26.3 million for working drawings and construction to fund construction of a new 44,000 asf building to replace the existing seismically deficient 75,602 asf Engineering 1 building, which will be demolished. The UC estimates the cost to correct seismic and other code deficiencies in the existing Engineering 1 building to be \$27.2 million, and it estimates the cost to fully renovate and modernize the building to be \$46.2 million. The school of engineering is the only occupant of the existing Engineering 1 building.

We are concerned about this project because (1) it reduces the amount of space for the school of engineering, (2) the research space can be funded by Garamendi bonds in order to conserve limited state resources for high priority instructional needs, and (3) the proposed construction cost is high.

School of Engineering Space Is Reduced. The amount of space available to the school of engineering will be reduced as a result of this project by 31,602 asf, because the existing 75,602 asf Engineering 1 building will be replaced by a 44,000 asf new building. Figure 5 (see next page) shows the amount and types of space the school of engineering has in the existing building and the amount it will have in the new replacement building.

The UC does not explain how it plans to accommodate activities currently housed in the almost 32,000 asf of space that will be lost to the school of engineering as a result of this project. We recommend UC report at budget hearings on how it proposes to make up for this lost space in the school of engineering.

Research Space Should Be Funded by Garamendi Bonds. As discussed above, we recommend the Legislature authorize UC to use Garamendi bonds to finance construction of research space. This would allow the state to use its limited resources to fund capital improvements for other purposes. Almost half of the space in the proposed new building will be for research laboratories. Because the revenue that research activities generate can be used to underwrite Garamendi bonds, we recommend the Legislature finance that research space using this type of revenue bond financing.

Figure 5

**Los Angeles, Engineering 1 Seismic Mitigation
School of Engineering,
Space in Existing and New Buildings**

Space Use	Space in Existing Building (ASF) ^a		Space in New Replacement Building (ASF)		Increase/Decrease (ASF)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent
	Research	39,928	53%	21,416	49%	-18,512
Teaching labs	10,673	14	10,054	23	-619	-6
Offices	9,189	12	11,540	26	2,351	26
Support	15,812	21	990	2	-14,822	-94
Totals	75,602	100%	44,000	100%	-31,602	-42%

^a ASF - Assignable square feet.

High Construction Cost. We recommend the Legislature fund construction of new facilities in accordance with the cost guidelines we discussed in the “Crosscutting Issues” section of this chapter. Figure 6 shows the funding we recommend for the construction contract cost of this project.

Figure 6

**Los Angeles, Engineering 1 Seismic Mitigation
LAO Recommended Construction Contract Cost**

(In Thousands)

Space Use	Cost per ASF ^a	Cost
Research laboratories	Garamendi bonds	
Teaching laboratories	\$398	\$4,001
Offices	270	3,116
Support	270	267
Total	—	\$7,384

^a ASF = Assignable square feet.

When additional construction phase costs for contingencies and architectural engineering services are added to the construction contract cost, we recommend state funding of \$8,258,000 for the construction phase of this project and \$447,000 for working drawings. Accordingly, we recommend the Legislature reduce this item by \$17.6 million. This will free up almost \$18 million of limited state resources to fund high priority projects elsewhere in higher education.

Santa Cruz, Humanities and Social Sciences Facility

We recommend the Legislature reduce \$462,000 from this item for development of preliminary plans for the Humanities and Social Sciences Facility at the University of California, Santa Cruz, and recognize future costs of \$19,760,000, because the construction cost is high. (Reduce Item 6440-301-6028 [8] by \$462,000.)

The budget includes \$1.5 million for development of preliminary plans to construct a new 51,140 asf humanities and social sciences building at the Santa Cruz campus. The building is proposed to contain over 80 percent faculty and administrative offices and research space, and about 19 percent classrooms and teaching laboratories. The office and instructional space in the project is justified on the basis of projected enrollment growth and our recommended space standards.

Our concern with this project is that the estimated construction contract cost of the building is high. We have previously discussed construction cost guidelines and recommended the Legislature use them in considering higher education capital outlay proposals. Figure 7 (see next page) shows how our recommended construction cost guidelines apply to this project. We recommend the Legislature reduce funding for this project in order to bring the estimated construction contract cost within our recommended guidelines. To do this, we recommend the Legislature reduce the amount proposed in the budget for development of preliminary plans to \$1,017,000 and recognize future costs of \$19,760,000 (\$788,000 for working drawings, \$16,972,000 for construction, and \$2 million for equipment).

The estimated total project cost will be reduced from \$29.3 million to \$20.8 million, freeing up \$8.5 million for other high priority projects throughout the three segments of higher education.

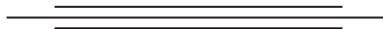
Figure 7

**Santa Cruz, Humanities and Social Sciences Facility
LAO Recommended Construction Contract Cost**

(Dollars in Thousands)

Space Use	Assignable Square Feet (ASF)	LAO Recommendation	
		Construction Cost Per ASF	Construction Cost
Classrooms	7,000	\$256	\$1,890
Teaching labs	2,800	398	1,078
Research ^a	12,480	398	4,805
Offices	28,860	270	7,734
Totals	51,140	—	\$15,507

^a Research facilities for the humanities and social sciences do not have the special plumbing, ventilation, and work space requirements needed in science and engineering research laboratories. We recommend research space for the humanities and social sciences be funded using the same construction cost guidelines used for teaching laboratories—\$398 per asf.



CALIFORNIA STATE UNIVERSITY (6610)

The budget proposes \$450 million from general obligation and lease-payment bonds for the California State University's (CSU) capital program. Of this total:

- \$259 million is appropriated in the budget bill from the proposed Higher Education Capital Outlay Bond Fund of 2002 for 31 projects.
- \$191 million is appropriated from lease-payment bonds for three projects proposed in pending legislation as part of the Governor's economic stimulus package. Of the amount, \$6 million is proposed for expenditure in the current year and \$185 million in the budget year.

We recommend the Legislature approve \$224 million for 30 projects (estimated future cost totals \$112 million) in the budget bill and \$84 million for two projects in the Governor's economic stimulus package. Our concerns with the remainder of the request are discussed below.

Capital Outlay Plan Should Reflect Fuller Use of Year-Round Operation

The California State University (CSU) has set campus goals for summer term enrollment, and uses them in developing its capital outlay program. It does not indicate an intent to fully utilize facilities in the summer, and this results in overstatement of the need to construct new instructional facilities. We recommend the Legislature direct CSU to base its capital outlay plan on full utilization of campus instructional facilities during the summer.

As discussed in the "University of California" section of this chapter, the Legislature has previously indicated its interest in CSU, as well as UC, operating year-round in order to reduce the need to construct new instructional facilities to accommodate projected enrollment growth. The

CSU has set goals for summer enrollment at campuses but they are very low. The CSU's latest report comparing campus capacity and enrollment shows that in 2007-08 (the last year in the report), summer enrollment will range from none to 50 percent of current campus capacity. Of the 21 campuses that we reviewed, CSU's report indicated 17 were planned to have summer enrollment of less than 30 percent of their physical capacity.

Despite the large amount of unused capacity in the summer term at all the campuses, CSU's capital outlay plan includes new projects which add instructional space to address projected enrollment growth.

The most important reason for implementing year-round operation is to reduce the need to construct new instructional facilities. In order to do this, CSU's capital outlay plan must be based on *full utilization* of classrooms and teaching laboratories in summer. The CSU's current five-year capital outlay plan assumes campus instructional facilities will be used only a fraction of their full capacity in the summer. This may result in a perceived need to construct new classrooms and teaching laboratories in order to accommodate enrollment growth, when the growth can actually be accommodated by full utilization of instructional facilities in the summer. (We would note that not all enrollment growth can be accommodated by better utilizing summer capacity. For example, some campuses may experience needs for certain types of space—such as lab space—that even year-round operation cannot address.) To avoid building unnecessary classrooms and teaching laboratories, we recommend the Legislature direct CSU to base its evaluation of capacity and enrollment, and its capital outlay plan, on full enrollment in summer term.

Information on CSU's Utilization of Facilities Is Needed

Information on how intensively California State University (CSU) uses its existing facilities is essential for the Legislature when it is considering capital outlay proposals. The CSU does not, however, report this information. So that the Legislature can better evaluate proposals to construct new instructional facilities, we recommend the adoption of supplemental report language directing CSU to report biennially on its utilization of campus facilities.

As we discussed in a recently released report (*Building Standards in Higher Education*, January 2002), it is important for the Legislature to know how intensively CSU and the other segments use their facilities. This information is needed when the Legislature considers proposals to construct new instructional space. In the "Crosscutting Issues" section of this chapter, we note that CSU does not report on its utilization of facilities. This makes it difficult for the Legislature to know if new facilities included in the Governor's budget proposals need to be constructed, or if students

could be accommodated more cost-effectively in existing facilities—perhaps with renovations to better suit programmatic needs.

Utilization standards have been used by CSU for years. They provide the Legislature with a benchmark to measure how efficiently CSU is using its classrooms and teaching laboratories. The CSU's standards for station use (the amount of time a classroom desk or laboratory bench space, for example, is occupied) are an average of 35 hours per week for classrooms, and 23.4 hours per week for lower division and 17.6 hours per week for upper division teaching laboratories. These standards, however, are not very useful to the Legislature because CSU does not report its *actual* utilization of instructional facilities.

To permit the Legislature to understand how well state-funded instructional facilities are being used, we recommend that the Legislature adopt supplemental report language directing CSU to report biennially on how it is utilizing its classrooms and teaching laboratories. The CSU should provide information on a campus-by-campus basis showing how much of the time instructional stations are being used, and how this compares to its utilization standards.

PROJECTS RECOMMENDED FOR DELETION

Los Angeles: Science Replacement Building

We recommend the Legislature delete \$76 million from the Governor's economic stimulus package to develop preliminary plans, working drawings, construction, and equipment for the Science Replacement Building at the California State University, Los Angeles because the project is not justified based on enrollment projections and the alternative of accommodating instructional needs by renovating existing facilities has not been adequately addressed. (Delete \$75,773,000 from Section 2(a)(5)(B), Senate Bill 3xxx [Alarcón].)

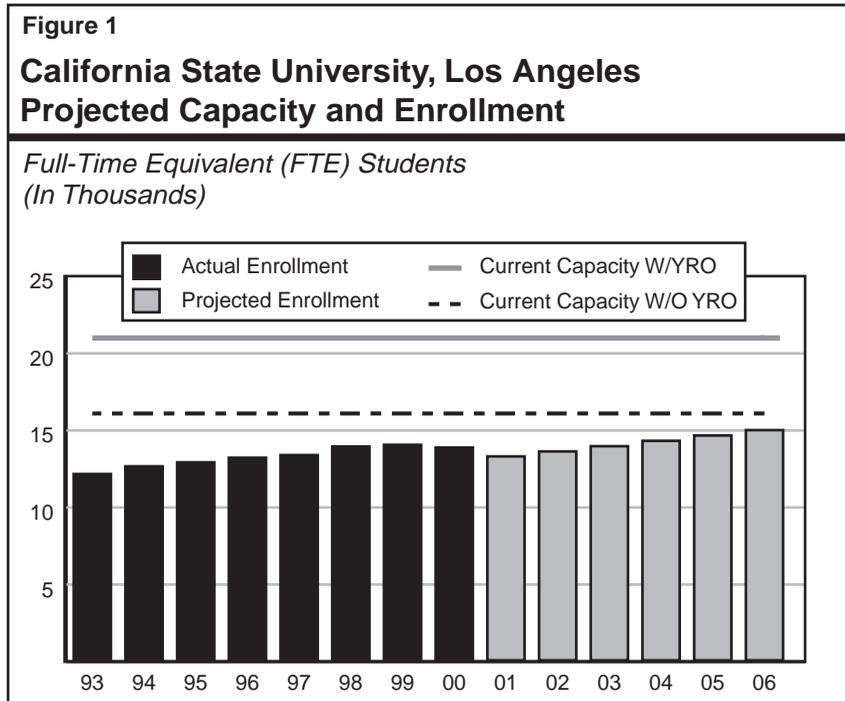
The Governor's budget proposal includes \$76 million in an economic stimulus package (SB 3xxx, Alarcon) for a new 119,965 assignable square feet (asf) (193,493 gross square feet) science building that would provide a total capacity for 1,157 full-time equivalent (FTE) students—551 FTE in teaching laboratories and 606 FTE in classrooms. The current physical capacity of the campus (without year-round operation) is 16,022 FTE and its enrollment is about 13,900 FTE students. The planned occupants for the building are currently housed in several campus facilities, with the majority in the existing 120,322 asf Physical Sciences Building and 76,626 asf Biological Sciences Building. These two buildings are less than 35 years old.

This project replaces one previously approved by the Legislature. The 1999-00 Budget Act provided \$655,000 to develop preliminary plans for a project to renovate the existing Physical Sciences Building, which has a capacity to accommodate 1,121 FTE students. The total estimated cost of that project was about \$33 million. The CSU indicates that after beginning development of the preliminary plans for the renovation project, it decided to cancel it and propose this project in its place. The CSU says it made this decision because the cost to renovate the existing Physical Sciences Building would be too high and a new building was needed to accommodate enrollment growth.

Project Would Commit State to Additional Future Projects. This project is the first of three related projects that CSU plans to undertake. The CSU indicates if the Science Replacement Building is approved, two subsequent projects will also be needed. After construction of the proposed Science Replacement Building, it plans to renovate the existing Biological Sciences Building at an estimated cost of \$27 million and to demolish the Physical Sciences Building at an estimated cost of \$4 million. The CSU indicates all three of these projects are needed to meet its instructional needs. Thus, the Legislature is being asked to undertake a related group of projects with a total estimated cost of \$107 million.

Project Not Justified by Enrollment. Construction of the proposed new Science Replacement Building, renovation of the existing Biological Sciences Building, and demolition of the Physical Sciences Building would reduce the physical campus capacity (without year-round operation) by 153 FTE to 16,175 FTE. However, with year-round operation the campus instructional capacity is about 21,000 FTE per year. Enrollment at CSU Los Angeles has not increased significantly in the past ten years. Figure 1 shows that in the past ten years enrollment has been between 12,000 and 14,000 FTE, which is well within the capacity of the existing facilities at the campus. The CSU projects enrollment growth at the Los Angeles campus up to about 15,000 FTE by 2006.

Earlier Approved Project More Cost-Effective. The 1999-00 Budget Act approved funding for development of preliminary plans for a \$33 million total estimated cost project to renovate the existing Physical Sciences Building. As noted earlier, it plans to renovate the existing Biological Sciences Building at an estimated cost of \$27 million. These two renovation projects would accommodate the needs of the occupants of the proposed Science Replacement Building at an estimated cost of about \$62 million, \$45 million less than the cost of the three related projects now planned by CSU. Based on the \$296 per asf that CSU estimates it will cost to renovate the Biological Sciences Building, this \$47 million savings could renovate about 160,000 asf of other buildings. This means that for the same amount of money as the total estimated cost of this project and the two future



projects that CSU is planning, about 350,000 asf of the approximately 1.2 million asf of state-supported space on the Los Angeles campus (29 percent) could be renovated.

Because of this project’s high cost, the substantial existing capacity of the campus, and the fact the existing Physical Sciences Building can be renovated to meet programmatic needs, we recommend the Legislature delete funding for this proposal. This will free up \$76 million to fund high priority projects elsewhere in the three segments of higher education.

San Luis Obispo: Engineering and Architecture Renovation and Replacement, Phase II

We recommend the Legislature delete \$35 million for preliminary plans, working drawings and construction of a portion of the Engineering/Architecture Renovation and Replacement, Phase II project at the California State Polytechnic University, San Luis Obispo because the project is not justified under year-round operation and the alternative of accommodating instructional needs by renovating existing facilities would meet the same programmatic needs at lower cost. (Delete \$34,948,000 from Item 6610-302-6028[19], with an estimated future saving of \$39,018,000.)

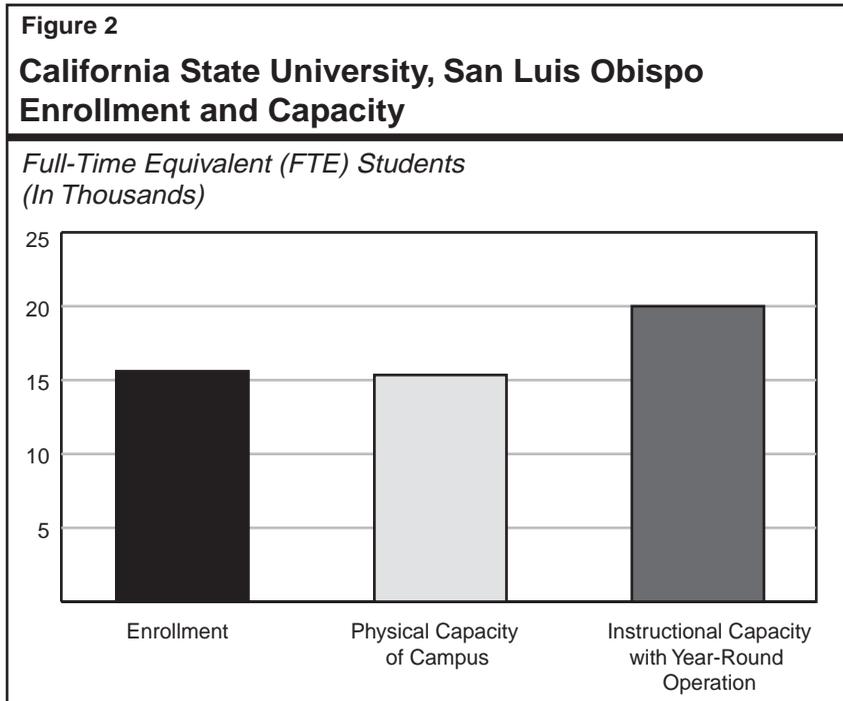
The Engineering and Architecture Renovation and Replacement, Phase II project consists of a sequence of new construction and renovation projects proposed for both state and nonstate funding. Total estimated project cost is \$83 million—\$74 million of state funds and \$9 million of nonstate funds. The first state-funded increment of this work is in the Governor’s budget. This increment provides:

- \$34 million for preliminary plans, working drawings, and construction of the Engineering IV Building. This building would provide about 82,000 asf for engineering programs. (This building has a future state cost of \$5 million for equipment.)
- \$1 million for preliminary plans for construction of a second new building and renovation work in several buildings. (Construction of the second new building and renovation work at existing buildings has a future state cost of \$34 million for working drawings, construction, and equipment.)

The net effect of the entire project is to provide an additional capacity of 333 FTE students in classrooms, 368 FTE students in teaching laboratories, and 33 additional faculty offices. The current physical capacity of the campus (without year-round operation) is 15,347 FTE and peak enrollment (fall term) is about 15,600 FTE. The planned occupants for the new and renovated buildings are currently accommodated in several existing buildings on campus.

Project Not Justified Under Year-Round Operation. Even though the current *physical* capacity of the campus is 15,347 FTE students, if the campus operated year-round at approximately equal enrollments in all terms, the *instructional* capacity of the campus would be about 20,000 FTE students (see Figure 2). This means the campus could serve about 20,000 FTE students annually without having to increase the physical capacity of the campus. Currently the summer term enrollment at the San Luis Obispo campus is only about 18 percent of that in other terms. If facilities were more fully utilized during summer term, the campus could handle a lot more enrollment growth without additions to its current physical capacity.

Renovation of Existing Facilities Would Be Less Expensive. When Phase I of the Engineering and Architecture Renovation and Replacement project was approved (1999-00), CSU indicated its intent to seek about \$13 million for a second phase. This phase, which CSU indicated was integrally linked to Phase I, was to consist of renovation of several buildings and demolition of others. The information previously submitted by CSU clearly indicates that programmatic needs could be met by renovating existing buildings.



Since enrollment growth can be accommodated by year-round operation (as described above), and the campus's programmatic needs can be addressed with a much less costly renovation proposal (\$13 million), we see no reason for the state to undertake the proposed \$74 million project. The \$50 million that would be freed up by renovating buildings as originally proposed could be used to fund other high priority projects at higher education campuses. A recast proposal providing for renovation of existing buildings along the lines of CSU's original Phase II plan would merit legislative consideration.

PROJECTS RECOMMENDED FOR REDUCTION

Three of the projects proposed for CSU are justified on the basis of instructional needs, but their costs are high. As discussed in the "Cross-cutting Issues" section of this chapter, we recommend the Legislature use construction cost guidelines when evaluating capital outlay proposals for higher education. Doing this will provide sufficient funding for high quality facilities for students, but will also contain costs to a reasonable level. This will allow limited state resources to fund other high priority projects in higher education. These three projects are discussed below.

**San Francisco: J. Paul Leonard Library,
Addition and Renovation, Phases 1 and 2**

We recommend the Legislature reduce \$29 million from the Governor's economic stimulus package for development of preliminary plans, working drawings, construction, and equipment for the J. Paul Leonard Library, Addition and Renovation, Phases 1 and 2, because the proposed cost of the project is high. (Delete \$28,805,000 from Section 2(a)(5)(A), Senate Bill 3xxx [Alarcón].)

The Governor's budget proposals include an economic stimulus package (SB 3xxx, Alarcón) containing \$89 million for a 101,726 asf addition to the J. Paul Leonard Library and renovation of 180,366 asf of the existing library building. The project includes an additional 1,000 asf in the addition and 19,505 asf of renovation in the existing library building for the California State Library (CSL). The CSL will provide separate funding for this space. The project is divided into two phases. Phase 1 consists of development of the addition and Phase 2 renovation of the existing building. The proposal in SB 3xxx provides funding for both phases.

As discussed above, we recommend the Legislature use construction cost guidelines in funding capital outlay for higher education. Our recommended construction cost guideline for libraries is based on the guideline used by CSU for the 2001-02 budget, increased for inflation by the California Construction Cost Index.

With these adjustments, we recommend total construction cost of the Phase 1 addition be funded at \$220 per asf. The budget's proposed costs for the same work are \$335 per asf. We recommend the renovation of buildings be funded at not more than 60 percent of the cost of replacement of buildings, so we recommend the total construction cost of Phase 2 renovation be funded at \$132 per asf. This compares to CSU's cost of \$198 per asf. (In both cases, our recommended construction costs include escalation to the start of construction.) Using our recommended construction cost guidelines and adding in other costs not directly related to construction, we recommend a total project cost for both phases of \$60,205,000, a reduction of \$28,805,000. We recommend the Legislature recognize costs for the different phases of the work as shown in Figure 3.

Our recommended reduction would free up over \$28 million of limited state resources to fund other high priority projects at campuses of the three segments of higher education.

Figure 3	
San Francisco:	
J. Paul Leonard Library, Addition	
And Renovation, Phases 1 and 2	
LAO Recommended Costs	
<i>(In Thousands)</i>	
Phase 1	
Preliminary plans	\$1,309
Working drawings	734
Construction	25,542
Equipment	2,240
Subtotal	\$29,825
Phase 2	
Working drawings	\$907
Construction	27,738
Equipment	1,735
Subtotal	\$30,380
Total	\$60,205

San Marcos: Academic Hall II, Building 13

We recommend the Legislature reduce \$2,713,000 from the Governor's economic stimulus package for preliminary plans, working drawings, and construction of the Academic Hall II, Building 13 at the California State University, San Marcos because the proposed cost of the project is high. (Delete \$2,713,000 from Section 2(a)(5)(C), Senate Bill 3xxx [Alarcón].)

The Governor's economic stimulus proposal includes \$26,526,000 for development of preliminary plans, working drawings, and construction of a new 47,555 asf (75,765 gsf) classroom and office building for the colleges of business administration, and arts and sciences. It will provide 10,340 asf for 94 faculty offices, 27,461 asf of classrooms that will increase the physical capacity of the campus by 3,064 FTE students, and 9,754 asf of other space.

Construction Cost Should Be Reduced. As discussed above, we recommend the Legislature use construction cost guidelines in funding capital outlay projects for higher education. Figure 4 (see next page) shows how our recommended construction cost guidelines apply to this project.

Figure 4
San Marcos: Academic Hall II, Building 13
LAO Recommended Total Building Construction Cost^a

Space	Area (asf)	LAO Recommended Construction Cost Guideline (per asf)	LAO Recommended Construction Cost (In Thousands)
Classrooms	27,461	\$256	\$7,030
Offices	10,340	\$270	2,792
Other ^b	9,754	\$270	2,634
LAO Recommended Total Building Construction Cost			\$12,456

^a Our recommended construction cost guidelines are applied to the total building construction cost. The cost of such items as site development, utilities, cost escalation, fees, and contingencies are in addition to the total building construction cost.

^b This space has not been classified by CSU. We have used the more general \$270 per asf construction cost guideline for this space in our recommendation.

When other costs not directly related to construction are included, our recommended funding is shown in Figure 5. This figure also compares our recommendation with the funding proposed in the Governor’s economic stimulus package.

Figure 5
San Marcos: Academic Hall II, Building 13
LAO Recommended Project Funding

(In Thousands)

Phase	Proposal	LAO Recommendation	Difference
Preliminary Plans (P)	\$462	\$381	\$81
Working Drawings (W)	665	549	116
Construction (C)	23,088	20,572	2,516
Equipment (future cost)	2,311	2,311	—
Totals	\$26,526	\$23,813	\$2,713

This will reduce the total project cost to \$501 per asf, or a total of \$2.7 million, and make additional funds available for other high priority capital outlay projects in the three segments of higher education.

Stanislaus: Science II (Seismic)

We recommend the Legislature reduce \$180,000 for development of preliminary plans for the Science II (Seismic) building at California State University, Stanislaus and recognize future costs of \$45,341,000 because the proposed cost of the project is high. (Delete \$180,000 from Item 6610-302-6028[17].)

The budget includes \$922,000 for development of preliminary plans for a 66,905 asf science building with future cost of \$53,281,000 for working drawings, construction and equipment. The new building is to contain classrooms, teaching laboratories, offices, and other space such as conference rooms, group study areas, and storage rooms. The system indicates this new building needs to be constructed to replace an existing 33,500 asf science building that has been determined to be seismically deficient. It indicates that, after this new science building is constructed, the existing science building will be seismically strengthened and remodeled to provide classrooms and faculty offices.

We recommend the Legislature use construction cost guidelines in funding capital outlay projects for higher education. Figure 6 shows how the space is planned to be used in the new building and how we apply our construction cost guidelines to determine our recommended construction budget for the project.

Figure 6			
Stanislaus: Science II (Seismic)			
LAO Recommended Total Construction Cost			
<i>(Dollars in Thousands)</i>			
Type of Space	Amount (asf)	LAO Recommendation	
		Cost Guideline (per asf)	Cost
Classrooms	4,920	\$256	\$1,260
Offices	9,700	270	2,619
Teaching laboratories	24,870	398	9,898
Other ^a	27,415	\$270	7,402
LAO Recommended Total Building Construction Cost			\$21,179

^a The CSU indicates these other spaces consist mostly of conference rooms, group study spaces, storage, and service rooms. The CSU's construction cost guidelines, which are the basis of our construction cost guideline recommendations, do not have guidelines for these types of space. Since these spaces are architecturally similar to classrooms and offices, we have used the more generous construction cost guideline for classrooms in developing our recommendations.

When other costs that are not directly related to construction are included, our recommended funding is shown in Figure 7. This figure also compares our recommendation with the funding proposed in the budget.

Figure 7			
Stanislaus: Science II (Seismic)			
LAO Recommended Project Funding			
<i>(In Thousands)</i>			
Phase	Budget Proposal	LAO Recommendation	Difference
Preliminary plans	\$922	\$742	\$180
Future Costs:			
Working drawings	1,104	888	216
Construction	44,592	36,868	7,724
Equipment	7,585	7,585	—
Subtotals, Future Cost	<u>(\$53,281)</u>	<u>(\$45,341)</u>	<u>(\$7,940)</u>
Totals, Project Cost	\$54,203	\$46,084	\$8,120

Applying our construction cost guidelines, we recommend the Legislature reduce the budget proposal for preliminary plans by \$180,000 and recognize future costs of \$45 million. This will reduce the total project cost to \$46 million. This will make about \$8 million of additional funds available for other high priority capital outlay projects in the three segments of higher education.



CALIFORNIA COMMUNITY COLLEGES (6870)

The California Community Colleges consists of 107 community colleges organized into 72 districts. The proposed capital outlay program for the community colleges totals \$340 million, funded from both the 2002-03 Budget Bill and proposed economic stimulus legislation. As Figure 1 shows, that legislation would fund \$109 million in projects in 2001-02 and \$62 million in 2002-03, all from lease-payment bonds. Proposed budget bill expenditures in 2002-03 consist of \$7.6 million from the Higher Education Capital Outlay Bond Fund of 1998 and \$161.8 million from a general obligation higher education bond proposed to be submitted to the voters for approval in 2002.

Figure 1		
California Community Colleges Capital Outlay Program		
<i>(Dollars in Millions)</i>		
	2001-02	2002-03
Budget Bill		
General Obligation Bonds		
Existing	—	\$7.6
Proposed	—	161.8
Economic Stimulus Legislation		
Lease-Payment Bonds	\$108.7	\$61.8
Totals	\$108.7	\$231.2
Grand Total	\$339.9	

The budget bill proposes funding for 67 projects—three new and 64 continuing. Figure 2 summarizes these by project type.

Figure 2			
California Community Colleges Projects in the Budget Bill			
<i>(Dollars in Thousands)</i>			
Type of Project	Number of Projects	Budget Bill Amount	Estimated Future Cost
Seismic corrections	11	\$19,904	\$5,524
Equipment	9	12,145	—
Site development and utilities	2	4,764	—
Libraries	11	20,312	122,293
Child development centers	9	10,395	40,913
Undergraduate instructional improvements	25	101,881	198,428
Totals	67	\$169,401	\$367,437

In addition to the projects shown in Figure 2, the Governor’s economic stimulus package proposes to fund 11 continuing projects from lease-payment bonds. Eight of these are for undergraduate instructional improvements and three are libraries.

Capital Outlay Plans Should Be Based on Year-Round Operation

We recommend the Legislature direct the community colleges to evaluate their need to construct new classrooms and teaching laboratories based on operating instructional facilities at full capacity during the summer term. Future district five-year capital outlay plans should be revised to reflect the reduced need to construct new instructional facilities which results from full utilization in the summer.

The Legislature has expressed its intent in supplemental report language (the *Supplemental Reports* of the 1999-00 and 2001-02 *Budget Acts*) and legislation (Chapter 383, Statutes of 2000 [AB 2409, Migden]) that California State University and the University of California implement year-round operation as a way to reduce the need to construct new instructional facilities in order to accommodate enrollment growth. Con-

sistent with this intent, we recommend the Legislature direct the community colleges to evaluate their need to construct new instructional facilities on the basis of year-round operation at enrollments that are generally equal throughout the year. This means that enrollment growth should be accommodated by fully utilizing the summer term before constructing new classrooms and teaching laboratories.

The chancellor's office has indicated that most community college districts already offer some classes throughout the year. It is our understanding, however, that the number of courses these districts offer is only a small proportion of those offered during a regular term. If enrollment in the summer is not generally the same as in other terms during the year, instructional facilities are not being fully utilized. If a campus operates on the quarter system, full enrollment during summer quarter can provide instructional capacity for up to one-third more students. Since many community college students are committed to their community year-round because of family or employment, effective implementation of year-round operation at community college campuses should reduce the need to construct new instructional facilities.

Some community college campuses have excess physical capacity and can accommodate current enrollment operating only three quarters or two semesters a year. Their need to construct new classrooms and teaching laboratories, however, should still be evaluated on the basis that enrollment growth will be accommodated first by fully implementing year-round operation. Evaluation of the need for instructional space on the basis of full year-round operation will reduce the need to construct new instructional facilities. Therefore, we recommend that the Legislature direct the community colleges to adjust their future five-year capital outlay plans to reflect the deletion or reduction of instructional facilities that would result from such an evaluation.

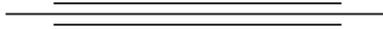
Community Colleges Should Report Utilization

We recommend the Legislature adopt supplemental report language directing the community colleges to report on the utilization of their instructional facilities at least biennially.

Utilization is the amount of time instructional stations (such as classroom desks and teaching laboratory benches) are used during the week. Community college classrooms are considered to be available 53 hours per week and teaching laboratories 27.5 hours per week. Community college utilization *standards*—the amount of time instructional stations are expected to be occupied—are 35 hours per week for classrooms and 23.4 hours per week for teaching laboratories.

Utilization standards are a benchmark that helps in understanding how efficiently districts are managing their facilities, and when there may be a need to construct new instructional facilities. As we discuss in the “Crosscutting Issues” section of this chapter, the community colleges do not report their utilization of instructional facilities. Without this information, the Legislature has no way of knowing if classrooms and teaching laboratories at community college campuses are overcrowded or underused. Utilization information is needed by the Legislature in order to evaluate proposals to construct new instructional facilities.

To provide the Legislature with the information it needs, we recommend the Legislature adopt supplemental report language directing the community colleges to report at least biennially on how they are utilizing classrooms and teaching laboratories. The community colleges should provide information on a campus-by-campus basis for classrooms and teaching laboratories, showing how much of the time instructional stations are being used, and how this compares to CCC’s utilization standards. With this information the Legislature will be better able to evaluate the need to construct new instructional facilities.



MILITARY DEPARTMENT (8940)

The Military Department is responsible for the command and management of the California Army and Air National Guard. To support its operations, the department maintains 118 armories and 32 maintenance operations throughout the state. Most of these facilities were built before 1960. The department's capital outlay program for 2002-03 includes \$9,485,000 from the General Fund.

The budget includes the following proposals:

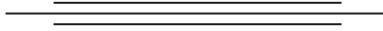
- \$6,077 from the General Fund for design and construction of a new armory in Azusa.
- \$2,328 from the General Fund for design and construction of a new armory in Lancaster.
- \$225,000 from the General Fund for design to replace the electrical distribution system at the Los Alamitos airfield.
- \$855,000 for minor capital outlay projects.

Facility Survey and Master Plan Phase II Not Complete

We withhold recommendation on funding the Military Department's capital outlay program pending receipt and review of the department's phase II facility master plan because absent this information, the Legislature cannot assess the department's facility needs and priorities. (Withhold \$9,485,000 under Item 8940-301-0001 [1] [2] [3] and [4].)

In the 2001-02 Budget Act, the Legislature appropriated \$545,000 of funding for the Military Department to complete the phase II portion of their facility master plan to identify deficiencies in, and assess the condition of, the department's facilities and identify solutions. According to the proposal from the prior year, "the end goal of the Master Plan phase is an automated 20-year Master Plan Report that provides specific objec-

tive recommendations for which facilities to build, renovate, expand. . .”
However, this report has not been completed. Therefore, the Legislature
has insufficient information to evaluate the need for, or priority of, the
proposed projects. We withhold recommendation on the department’s
capital outlay program pending receipt and review of the results of the
master plan phase II.



DEPARTMENT OF VETERANS AFFAIRS (8955-60)

The Department of Veterans Affairs operates the Veterans' homes of California in Yountville, Barstow, and Chula Vista. The Yountville facility provides five levels of care, ranging from residential to acute health care. The Barstow home provides residential services and skilled nursing care. The Chula Vista home provides residential services and will add skilled nursing services. The budget includes requests totaling \$2.7 million for capital improvements at the existing institutions. The estimated future cost to complete these projects is \$8.3 million. The projects include the following:

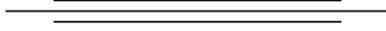
- \$253,000 from the General Fund for the Northern California Veterans Cemetery in Shasta County. The department anticipates reimbursing these funds with federal funds.
- \$273,000 from the General Fund for minor capital outlay at the Yountville home.
- \$743,000 from the Veterans' Home Fund (general obligation bond funds) and \$1,378,000 from federal funds, for three projects at the Yountville home.

Yountville: Needed Federal Matching Funds Currently Unavailable

We recommend the Legislature adopt budget bill language authorizing \$743,000 of general obligation bond funds for the three Yountville projects contingent on receipt of federal funds.

The budget includes three projects at the Yountville home funded by \$743,000 of general obligation bonds, approved by the voters through Proposition 16 (Veterans' Homes Bond Act of 2000) and \$1,378,000 of federal funds. According to the language of the proposition, the bond funds are available for the 35 percent state share to match federal grant funds. At the time this analysis was prepared, no federal funds were available

for the projects. It is unclear when federal funds will be available or what funding priority the federal government will give the Yountville projects. Consequently, we recommend the Legislature adopt budget bill language requiring the federal funds be available before the bond funds can be spent.



FINDINGS AND RECOMMENDATIONS

Capital Outlay

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Crosscutting Issues

California Infrastructure Plan

- G-17 ■ **New Capital Outlay Projects.** Recommend that the Legislature defer approval of new projects until the required infrastructure plan has been submitted by the administration.

Capital Outlay Project Management Fees

- G-21 ■ **Capital Outlay Project Fees.** Recommend that the Legislature direct the Bureau of State Audits to conduct an audit of the Department of General Services relative to its capital outlay project management costs in order to evaluate (1) the appropriateness of fees charged, (2) the method of determining fee levels, and (3) the quality control process in place for budget development.

Funding Higher Education Capital Outlay

- G-27 ■ **Funding Priorities and Guidelines.** Recommend the Legislature provide funding for higher education capital outlay based on

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statewide priorities and criteria, using reasonable construction cost guidelines and based on year-round operation.

Department of Justice

- G-33 ■ **New DNA Laboratory. Reduce Item 0820-301-0001 by \$5 Million.** Recommend the Legislature delete \$5 million for site acquisition to construct a new statewide DNA analysis laboratory because insufficient information has been provided to justify the request.

Department of General Services

- G-35 ■ **State Building Seismic Retrofit Program.** Recommend approval of administration's proposed spending with the understanding it effectively commits the state to General Fund spending of \$47 million in 2003-04. Further recommend that future seismic retrofit projects be prioritized based on the actual usage of the building, rather than building code prescribed occupancy in order to minimize the risk to life.

California Conservation Corps

- G-37 ■ **Delta Service District Center Construction. Reduce Item 3340-301-0660 by \$11.7 Million.** Recommend deletion of funding for working drawings and construction

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because the California Conservation Corps has not yet acquired a site on which to construct the facility and preliminary plans are not scheduled for completion until September 2003.

Department of Forestry and Fire Protection

- G-39 ■ **Projects Recommended for Approval.** Recommend approval of \$25 million of funding requests for working drawings and/or construction of 15 continuing projects that are consistent with project scope and cost previously recognized by the Legislature.
- G-41 ■ **South Operations Area Headquarters Recommended for Approval Contingent on Review of Preliminary Plans.** Recommend approval of \$16.4 million to fund working drawings and construction for the South Operations Area Headquarters—Relocate Facility project contingent on receipt and review of preliminary plans consistent with prior legislative approval.
- G-41 ■ **Five Lease-Payment Bond Projects Proposed for Full Funding of All Project Phases. Reduce Item 3540-301-0660 by \$9.7 Million.** Recommend the Legislature only fund preliminary plans and working drawings—contingent on review of completed budget packages—and delete \$9.7 million because these projects will not proceed to construction until 2003-04.

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Department of Parks and Recreation

- G-44 ■ **Projects Without Completed Preliminary Plans.** Withhold recommendation on \$12.4 million for seven projects because preliminary plans are not complete.

- G-44 ■ **No Preliminary Plans for Border Field State Park.** Withhold recommendation on \$6.4 million for construction for the Sediment Basins and Road Realignment project at Border Field State Park pending receipt of information that defines the scope of the project and provides a basis for verifying the need and cost.

- G-46 ■ **DPR Support Budget Does Not Appear to Accurately Offset Capital Outlay Project Management Costs.** Recommend that the Department of Parks and Recreation report at hearings on how it calculates its project support and project management costs for its capital outlay program and provide a more accurate accounting of these costs.

Department of Developmental Services

- G-47 ■ **Additional Information Needed.** Withhold recommendation on \$3.8 million for construction of the Security Improvement Project pending receipt and review of information explaining (1) reasons for delay in seeking environmental review/compli-

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ance of the project, (2) the status of the project, and (3) what actions have been taken to assure that the project will begin construction in 2002-03.

Department of Mental Health

- G-50 ■ **Projects Recommended for Approval Contingent on Review of Preliminary Plans.** We recommend the Legislature approve \$20.8 million to fund working drawings and construction for two projects contingent on receipt and review of preliminary plans consistent with prior legislative approval.

Department of Corrections

- G-52 ■ **The New California State Prison II at Delano.** Recommend the department report at budget hearings regarding progress made in resolving the lawsuit which has stopped construction of the of the new maximum security prison in Delano.

Department of the Youth Authority

- G-54 ■ **Department Has Not Provided Mental Health Treatment Program Implementation Plan Detail. Withhold Recommendation on \$7,171,000 Under Items 5460-301-001 (1) and (3).** Withhold recommendation on \$7.2 million of lease-payment bonds, pending receipt and review of the

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department's pending mental health program study in order to verify the facility and programmatic needs of the department.

University of California (UC)

- G-55 ■ **UC Capital Outlay Plans Should Be Based on Full Implementation of Year-Round Operation.** Recommend the Legislature direct the UC to revise its capital outlay plans so they are based on summer enrollment generally equal to the average enrollment in other terms. Also recommend UC be directed not to include off-campus enrollment with summer enrollment when developing and reporting on capital outlay plans.

- G-57 ■ **Garamendi Bonds Are an Option to Fund Research Facilities.** Recommend the Legislature authorize UC to use Garamendi bonds to fund research facilities.

- G-58 ■ **Irvine: Computer Science Unit 3. Reduce Item 6440-302-0574 (3) by \$1,152,000 and Reduce Item 6440-302-6028 (4) by \$618,000.** Recommend the Legislature reduce a total of \$1,770,000 from these two items to develop preliminary plans and working drawings for the Computer Science Unit 3 building at UC, Irvine and recognize future costs of \$10,685,000 for construction and \$3,000,000 for equipment.

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- G-61 ■ **Los Angeles: Engineering 1 Seismic Mitigation. Reduce Item 6440-302-0574 (2) by \$903,000 and Reduce Item 6440-302-6028 (3) by \$16,670,000.** Recommend the Legislature reduce a total of \$17,573,000 from these two items for development of working drawings and construction of the Engineering 1 Seismic Mitigation building at UC, Los Angeles.
- G-63 ■ **Santa Cruz: Humanities and Social Sciences Facility. Reduce Item 6440-301-6028 (8) by \$462,000.** Recommend the Legislature reduce \$462,000 from this item for development of preliminary plans for the Humanities and Social Sciences Facility, and recognize future costs totaling \$19,760,000—\$788,000 for working drawings, \$16,972,000 for construction, and \$2 million for equipment.

California State University

- G-65 ■ **Capital Outlay Plan Should Reflect Fuller Use of Year-Round Operation.** Recommend the Legislature direct the California State University (CSU) to base capital outlay plan on full utilization of facilities during summer term.
- G-66 ■ **Information on CSU's Utilization of Facilities Is Needed.** Recommend the Legislature adopt supplemental report language directing CSU to report on its utilization of campus instructional facilities.

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- G-67 ■ **Los Angeles: Science Replacement Building. Delete \$76 Million From Governor's Economic Stimulus Package.** Recommend the Legislature delete \$75,773,000 for preliminary plans, working drawings, construction, and equipment for the Science Replacement Building at the California State University, Los Angeles.
- G-69 ■ **San Luis Obispo: Engineering and Architecture Renovation and Replacement, Phase II. Delete \$35 Million From Item 6610-302-6028 (19).** Recommend the Legislature delete \$34,948,000 for preliminary plans, working drawings, and construction for the Engineering/Architecture Renovation and Replacement, Phase II project at the California State Polytechnic University, San Luis Obispo. Recognize deletion of all future costs (\$39,018,000).
- G-72 ■ **San Francisco: J. Paul Leonard Library, Addition and Renovation, Phases 1 and 2. Reduce \$29 Million From Governor's Economic Stimulus Package.** Recommend the Legislature reduce \$28,805,000 for preliminary plans, working drawings, construction, and equipment for the J. Paul Leonard Library, Addition and Renovation, Phases 1 and 2, from the Governor's economic stimulus package.

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- G-74 ■ **San Marcos: Academic Hall II, Building 13. Reduce \$2.7 Million From Governor’s Economic Stimulus Package.** Recommend the Legislature reduce \$2,713,000 for preliminary plans, working drawings, and construction of Academic Hall II, Building 13 at California State University, San Marcos from the Governor’s economic stimulus package.
- G-75 ■ **Stanislaus: Science II (Seismic). Reduce \$180,000 From Item 6610-302-6028 (17).** Recommend the Legislature reduce \$180,000 for development of preliminary plans for the Science II (Seismic) building at California State University, Stanislaus, and recognize future costs of \$45,341,000.

California Community Colleges

- G-78 ■ **Capital Outlay Plans Should Be Based on Full Year-Round Operation.** Recommend the Legislature direct the community colleges to evaluate the need for new instructional facilities based on full summer term enrollment. Recommend community colleges be directed to revise their capital outlay plans to reflect the reduced need to construct new classrooms and teaching laboratories due to full utilization of summer term.

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- G-79 ■ **Community Colleges Should Report Utilization.** Recommend the community colleges be directed to report at least biennially on their utilization of instructional facilities.

Military Department

- G-81 ■ **Facility Survey and Master Plan Phase II Not Complete.** Withhold recommendation on \$9,485,000 in funding for the Military Department's capital outlay program, pending receipt and review of the department's phase II facility master plan because absent this information, the Legislature cannot assess the department's facility needs and priorities.

Department of Veterans Affairs

- G-83 ■ **Yountville: Needed Federal Matching Funds Unavailable.** We recommend the Legislature adopt budget bill language authorizing \$743,000 of general obligation bond funds for three Yountville projects contingent on receipt of federal funds as the necessary matching federal funds are not available at this time.

