

## 2010-11 CAPITAL OUTLAY PROJECTS

4.1

### *FIRST READING*

*Presentation:* Erik Skinner, Vice Chancellor, Fiscal Policy

### **Issue**

This item presents information in the following areas:

1. An overview of the capital outlay programs including project scope approval, funding approval, and the appeals process.
2. The projects funded in the 2008-09 Budget Act (*Attachment A*).
3. The projects submitted to Department of Finance for funding consideration in the 2009-10 Budget Act (*Attachment B*).
4. The projects proposed for the 2010-11 Board of Governor's Request for Capital Outlay funding including "new start" projects proposed for scope approval at the January 2010 Board meeting (*Attachment C*).

### **Background**

The California Community Colleges comprise the largest postsecondary system of education in the world. More than 2.7 million students are enrolled each year at 72 districts encompassing 110 campuses, 69 approved off-campus centers and 22 separately reported district offices. These assets include 21,600 acres of land, 4,885 buildings, and 64.4 million gross square feet of space. The system also has innumerable off-campus outreach centers at various facilities.

The Department of Finance projects significant increases in enrollment for higher education over the next decade. Their November 2006 enrollment projections for postsecondary institutions project total enrollment growth of approximately 504,000 students over a 10-year period, including approximately 394,000 students for the community college system. Based on this projection, approximately 78 percent of the enrollment growth in public higher education over the next decade will occur in the community college system.

The 2009-10 Five-Year Capital Outlay Plan, covering 2009-10 through 2013-14 estimates a total unmet facilities need of approximately \$26.6 billion. This translates into an additional need of 12.9 million square feet for new facilities to meet enrollment growth and 28.2 million square feet for the modernization of existing facilities. This five-year capital outlay plan includes \$17.6 billion of capital facility needs for the system. Of that amount, \$9.9 billion is included for construction of new facilities for enrollment growth and \$7.7 billion for modernization of existing facilities. An additional \$9 billion of facilities needs are deferred to future years, with \$1.9 billion of out-year costs for continuing phases of projects started within the five-year time frame and \$7.1 billion of need carryover into subsequent plan years, primarily for modernization projects.

The passage of Proposition 47 in November 2002 and Proposition 55 in November 2004, the Kindergarten-University Public Education Facilities Bond Acts of 2002 and 2004, respectively, provided \$25.3 billion for public educational facilities. Both bond acts provided community colleges with \$170.5 million from lease-revenue bonds and \$1.67 billion from general obligation bonds. In November 2006, Proposition 1D, the Kindergarten-University Public Education Facilities Bond Acts of 2006, was approved by the voters and provides \$1.478 billion for community college projects. Proceeds from these three bond measures finance the community college capital outlay projects presented in the three attachments.

Proposition 39 was approved by the voters in November 2000, and lowered the threshold for voter approval of local bonds to 55 percent. During the 12 years prior to passage of Proposition 39, only 10 districts passed a total of \$875.5 million in local bonds. Since its passage, 64 districts have passed \$22.8 billion in local bonds. With this influx of local funds, districts are providing massive amounts of resources to help address their facilities needs.

## **Analysis**

### **Project Approval Process**

District projects become part of the community college statewide annual Capital Outlay Plan through an application process. Districts first submit concept papers that present the intent and purpose of each capital outlay project. These concept papers, called Initial Project Proposals (IPPs), provide information about the type of projects proposed for state funding, along with their merits and costs. System Office staff review the IPPs in conjunction with each district's Five-Year Construction Plan. They then estimate the amount of funds available statewide for new projects and, if funds are available, direct districts to prepare Final Project Proposals (FPPs) for the more meritorious proposals. The FPPs are requested in the fall and are submitted by districts the following summer.

System Office staff review the submitted FPPs and the district Five-Year Construction Plans to determine both the (1) cost and scope of each project, and (2) category for each project, and (3) to compare a project's merits with other projects in the same category. The scope of work in a capital outlay proposal is eligible for Board of Governors approval if it is consistent with the requirements, standards, and guidelines outlined in the Education Code, title 5 of the California

Code of Regulations, the State Administrative Manual/Capitalized Assets, section 6800, and the Facilities Planning Manual.

System Office staff first determines that the scopes of work for projects proposed to be included in the annual state Capital Outlay Plan are consistent with state requirements. System Office staff then determine which projects are to be included in the annual spending plan for a specific fiscal year. The spending plan is developed using a “**zero-based**” **budgeting method** in which all proposals eligible to compete in a specific fiscal year are evaluated to determine that the highest priority projects are included in the spending plan based on the funds available. Final Project Proposals not included in a specific year’s spending plan must compete in a subsequent budget cycle. Between budget cycles, districts may update or modify the proposals as needed to reflect changing local needs or priorities. Final Project Proposals that are submitted for state funding and do not receive appropriations in a State Budget Act have no special standing in subsequent budget cycles.

The Board is notified in a **First Reading Agenda** item of those projects that are under consideration for inclusion in the Plan. After further staff analysis in which state financing needs are finalized, the Board is presented with an **Action Agenda** item that lists those projects to approve and include in the next year’s budget request for state capital outlay funds.

The annual state Capital Outlay Plan includes projects seeking state financing to complete preliminary plans, working drawings, construction, and equipment phases. Brand new projects are known as “new start projects,” and projects seeking to obtain state funding for their remaining project phases are known as “continuing projects.” A “Ready Access” project is a special type of new start project that is seeking a state appropriation for all phases in a single budget cycle. A district is required to finance at least ten percent of the state supportable cost of a Ready Access project and to complete the project with no changes in scope or state financing.

The next step in preparing a proposed annual state Capital Outlay Plan is for each project to be classified into one of six Capital Outlay Priority categories. These six categories are described in the following table.

### Capital Outlay Priority Categories and Definitions

Category	Definitions and Spending Plan Guidelines
<b>A</b>	<b>Provide for Safe Facilities and to Activate Existing Space</b> (No more than 50 percent of the total funds available will be designated for Category A projects)
A1	Buildings or systems with conditions that create imminent danger to the life or limb of building occupants. (Solutions must be the least expensive available and provide for no expansion of space or increase in facility capability)
A2	Equipment to complete previously started state-funded projects
A3	Buildings with seismic deficiencies or severe seismic risk. (Solutions must be the least expensive available and provide for no expansion of space or increase in facility capability)
A4	Buildings or systems that have failing infrastructure and cannot function as designed. (Solutions must be the least expensive available and provide for no expansion of space or increase in facility capability)
<b>B</b>	<b>Increase Instructional Capacity</b> (Up to 50 percent of the funds available after addressing Category A projects) (Solutions need to provide for no expansion of space except to comply with existing regulations and building codes)
<b>C</b>	<b>Modernize Instructional Space</b> (Up to 25 percent of the funds available after addressing Category A projects)
<b>D</b>	<b>Promote Completion of Existing Campuses</b> (Up to 15 percent of the funds available after addressing Category A projects)
D1	Physical Education, Child Development Centers, Performing Art and other facilities that promote a complete campus and generate FTES
D2	Cafeterias, Maintenance Shops, Warehouses, capital energy projects and other improvement projects that promote a complete campus
<b>E</b>	<b>Increase Institutional Support Services Capacity</b> (Up to 5 percent of the funds available after addressing Category A projects)
<b>F</b>	<b>Modernize Institutional Support Services Space</b> (Up to 5 percent of the funds available after addressing Category A projects) (Solutions need to provide for no expansion of space except to comply with existing regulations and building codes)

The development of a proposed spending plan draws upon a project's classification, ranking within the category and total need for state funds to determine which projects may be included in the plan. Prior to the creation of the proposed plan, staff review each FPP to determine the project's characteristics, category, and ranking compared to other projects within that category. Projects in Category A are ranked according to the number of people threatened (Categories A1 and A3) or effected (Category A4) by a facility's or site's condition. Projects that expand space on sites (Categories B and E) earn eligibility scores based upon a site's need for space, the anticipated growth in enrollment expected over the next five years, the extent to which the proposed solution provides the needed space and the extent to which any district funds provided by the district directly mitigate state funds needed to build the projects. Projects that modernize existing space (Categories C and F) earn eligibility points based upon the age or condition of the existing facility or its infrastructure and the extent to which any district funds directly mitigate state funds. The development of the spending plan also considers the state funds needed by

projects in future budget years so that a project that is included in a plan can have a reasonable expectation to receive the state funds it needs to complete its construction.

Each proposed spending plan includes a maximum of one new project per site if the project is classified in Category B, C, D, E, or F. This ensures that, with the exception of projects that address health and safety, seismic or infrastructure failure problems, more campuses are likely to have new proposals included in a spending plan in a single year. An exception to this one-project-per-year-per-site limitation is granted if every project from a site is seeking only equipment funds. In that case, the limit is a total of \$5 million in state funds for equipment per site. If more than one project is eligible for funding from Categories B through F per authorized site, the project with the highest ranking from the district's five-year plan is proposed for funding. In recent years, the number of proposals seeking state funds and obtaining Board approval has greatly exceeded the amount of state funds available. Every year valid, meritorious proposals are excluded from the statewide spending plan. To mitigate such exclusions, the development of the proposed spending plan may include a realignment of funds between categories.

Inclusion of projects in the Governor's Budget is contingent upon the ability of the projects to meet the Administration's priorities and the availability of funds to meet continuing needs. After the Board approves the spending plan, each project is reviewed by the Administration and Legislative Budget Subcommittees to determine if the project meets current priorities, i.e., seismic, life-safety, vital infrastructure, major code deficiencies, and increased instructional access.

### **Appeals Process**

An appeals process is available if a district feels its project was omitted in error from either the scope approval or proposed funding lists. Districts are urged to contact their facilities planner in the System Office for an explanation of the project's priority status. After discussions with the facilities planners, districts may appeal in writing to the Chancellor.

## **Annual State Capital Outlay Plans**

### **2008-09 Budget Act (Current Year)**

The 2008-09 Proposed Spending Plan was approved by the Board in August 2007 and was submitted to the Department of Finance that same month. Five continuing projects were removed from the Plan during the review by the Department of Finance, three at the request of the districts because updated project calendars did not anticipate needing construction funds in fiscal year 2008-09 and two projects due to significant changes in the planned designs. During its review of the Plan, the Department of Finance also provided the opportunity for System Office staff to assign to projects more than \$6 million in residual bond funds from Propositions 78 (1988) and 153 (1992).

During Budget hearings, the Legislature decided to postpone discussion of a future state general obligation bond issue. Given this postponement, legislative members in both houses amended the proposed 2008-09 budget bills and removed all projects that were dependent on a new General Obligation Bond for funding. This action reduced the community college capital outlay plan for 2008-09 by 64 new start projects costing more than \$450 million. The revised Budget Act appropriated \$443,562,000 for twenty nine continuing and eight new start projects. Funds remaining from Proposition 78 (1988) were used to finance one new start and one continuing project. Funds remaining from Proposition 153 (1992) were used to finance the equipment phases of two continuing projects whose construction phases were financed in another budget item from Proposition 1D (2006). Six new start Category A projects were financed from Proposition 55 (2004) and the remaining projects in the plan were financed from Proposition 1D (2006). The authorized budget includes the following:

- \$54.1 million for eleven Category A projects.
- \$265.7 million for fifteen Category B projects.
- \$74.0 million for six Category C projects.
- \$40.9 million for four Category D projects.
- \$8.9 million for one Category F project.

See *Attachment A* for specific project details.

### **2009-10 Budget Proposal (Proposed Budget Year)**

Actions by the Legislature to postpone a future state general obligation bond also had significant impact on the proposed 2009-10 state Capital Outlay Plan. The original 2009-10 request was designed to commit \$738.1 million in state funds of which \$548.7 million was to be from the 2008 General Obligation Bond. Due to the action in the Legislative hearings for the 2008-09 budget, the Department of Finance staff directed all agencies to modify their 2009-10 capital outlay budget requests so that they could be financed only with funds from previously authorized bonds. System Office staff applied the zero-based budgeting method discussed earlier and reevaluated the unfunded 2008-09 projects as additional 2009-10 proposals to assemble a revised 2009-10 state Capital Outlay Plan. The revised 2009-10 Plan totals \$193.6 million and will require financing from a future bond in the 2010-11 budget year to complete the new start projects. Those future needs are included in the cost of the 2010-11 Plan presented below.

The revised 2009-10 state Capital Outlay Plan submitted to the Department of Finance in August 2008 requests state financing from three previously authorized bond issues to fund 10 continuing and 18 new start projects. Funds from Proposition 47 (2002) finance one continuing project and one new start project. Funds from Proposition 55 (2004) finance two continuing and five new starts and funds from Proposition 1D (2006) finance seven continuing and 12 new starts as follows:

- \$88.0 million for seven Category A projects.
- \$73.2 million for three Category B projects.
- \$25.2 million for 11 Category C projects.
- \$5.7 million for three Category D projects.
- \$1.4 million for two Category E and two Category F projects.

See *Attachment B* for specific project details.

### **2010-11 Budget Proposal (Future Budget Year)**

The proposed 2010-11 state Capital Outlay Plan for community colleges has been developed based upon the evaluation of 2010-11 Final Project Proposals submitted last July and the 2008-09 new start proposals and the 2009-10 new start proposals that were removed from their respective state Capital Outlay Plans when the Legislature decided to postpone a state general obligation bond. The proposed state Capital Outlay Plan seeks to commit \$606.4 million in 2010-11 to finance nineteen continuing projects and sixty eight (68) new start projects. More than \$573 million of this amount will need to come from a future state bond with the remaining funds available from uncommitted Proposition 1D (2006) bond funds. The cost to complete those projects is presently estimated at \$919.9 million. The Proposition 1D funds will be used to finance three Category A projects; one continuing project and two new start projects. The eight-seven (87) projects in the proposed 2010-11 plan are in the following categories:

- \$63.4 million for four Category A projects.
- \$286.7 million for 30 Category B projects.
- \$153.1 million for 37 Category C projects.
- \$78.3 million for 11 Category D projects.
- \$22.4 million for two Category E and three Category F projects.

### **Conclusion**

The 2010-11 state Capital Outlay Plan is presented to the Board of Governors for initial review and comment. The completed Plan will recommend projects for scope and cost approval, and will come before the Board of Governors for approval at its March 2009 meeting.

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