



The 2015-16 Budget: The Governor's General Fund Deferred Maintenance Proposal

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Summary

The Governor's budget for 2015-16 proposes \$125 million from the General Fund to address deferred maintenance backlogs in various departments. The Governor's budget proposal does not identify the specific projects the departments would undertake with the proposed funding. Instead, it requires that project lists be provided to the Joint Legislative Budget Committee (JLBC) prior to the allocation of the funds.

We commend the Governor's attention to deferred maintenance as deferring maintenance can often result in substantial costs in the long run. However, we find that the Governor's proposal lacks important details necessary to evaluate the proposed allocations to departments, and that the JLBC process does not provide the Legislature with an adequate opportunity to review proposed projects. Additionally, the Governor's proposal fails to identify and address the underlying causes of these departments' deferred maintenance backlogs.

Accordingly, we recommend that the Legislature require individual departments to report at budget hearings on: (1) the specific projects that they propose to fund, (2) whether other potential funding sources are available, and (3) the factors that led to the accumulation of their deferred maintenance backlogs. We also recommend that the specific projects which are approved by the Legislature be listed in the *Supplemental Report of the 2015-16 Budget Package* and that the JLBC process be reserved for amending project lists during the budget year, as necessary. These recommendations will promote legislative oversight in this important area and ensure that funded projects are aligned with legislative priorities.

Background

Defining Deferred Maintenance. Facilities require routine maintenance and repair to keep them in acceptable condition and to preserve and extend their useful lives. When such maintenance is delayed or does not occur, we refer to this as deferred maintenance. Defining and estimating the amount of deferred maintenance is often complicated because departments vary in what types of activities they consider maintenance. For example, some departments include energy and water efficiency upgrades, studies, and code compliance work as maintenance, while other departments do not include such activities when identifying maintenance projects.

State Has Large Deferred Maintenance Backlog. The Governor’s budget and the associated five-year infrastructure plan identify total state infrastructure deferred maintenance needs of \$66 billion, as shown in Figure 1. Of this total, \$59 billion (89 percent) is related to the state’s transportation system. Deferred maintenance can be caused by various factors, including insufficient funding for ongoing maintenance, diverting maintenance funding to other operational purposes (such as by holding maintenance positions vacant), or poor facility management practices.

Deferred Maintenance Funding Ultimately Not Included in 2014-15 Spending Plan. The 2014-15 enacted budget included up to \$200 million in one-time General Fund spending for deferred maintenance in various departments. However, this funding was contingent on certain revenue conditions being met. The Department of Finance (DOF) determined that the relevant conditions were not satisfied, and, therefore, state departments ultimately did not receive the additional funding for deferred maintenance activities.

Governor’s Proposal

One-Time Funding for Deferred Maintenance. The Governor’s budget proposes Control Section 6.10, which provides \$125 million from the General Fund to various departments for deferred maintenance. Figure 2 shows how those dollars would be distributed among the 14 recipient departments. The Governor’s budget does not make the proposed funding contingent on any revenue conditions. (The Governor’s budget also includes \$379 million in Proposition 98 General Fund support, which could be used by the California Community Colleges for deferred maintenance, but is available to districts for any one-time purpose.)

Reporting of Projects Required Prior to Expenditures. Control Section 6.10 does not

Figure 1	
Administration’s Identified Deferred Maintenance Need	
<i>(In Millions)</i>	
Department/Program	Governor’s Identified Need
Transportation	\$59,000
Judicial Branch	1,930
Parks and Recreation	1,420
Community Colleges	1,034
Corrections and Rehabilitation	996
California State University	692
Developmental Services	387
General Services	138
Forestry and Fire Protection	126
Military	109
University of California	100
California Fairs	57
State Hospitals	54
State Special Schools	25
Veterans Affairs	21
Fish and Wildlife	21
Highway Patrol	17
Science Center	6
Motor Vehicles	5
Emergency Services	4
Food and Agriculture	3
Conservation Corps	<1
Total	\$66,145

identify the specific projects that departments would undertake with the proposed funding. Instead, the budget requires that for each entity receiving deferred maintenance funds, DOF has to provide a list of projects to the JLBC 30 days prior to allocating those funds. The proposal further requires DOF to notify the JLBC 30 days prior to approving any changes to the approved list of projects.

Governor’s Focus on Deferred Maintenance Is Positive

We believe that it is important that the state address its substantial accumulated deferred maintenance backlog. The state has invested many billions of dollars in these assets, which play critical roles in the state’s economy and overall well-being. Moreover, when repairs to key building and infrastructure components are put off, facilities can eventually require more expensive investments, such as emergency repairs (when systems break down), capital improvements (such

as major rehabilitation), or replacement. Thus, while deferring annual maintenance lowers costs in the short run, it often results in substantial costs in the long run.

Additional Details Warranted

While a positive first step, we find that the Governor’s proposal lacks important details that would allow the Legislature to evaluate the specific allocations and underlying causes of deferred maintenance. We note that last year our office provided analyses related to deferred maintenance in certain departments. (Please see *The 2014-15 Budget: Maintaining Education Facilities in California* and “Crosscutting Issues: Deferred Maintenance” in *The 2014-15 Budget: Resources and Environmental Protection*.)

No Clear Prioritization of Projects. The absence of an identification of specific projects that would be funded makes it difficult for the Legislature to evaluate the proposal. In particular, it is unclear how the administration prioritized the distribution of funds across departments. This creates challenges for the Legislature as it assesses whether the distribution is consistent with its priorities. We note, for example, that the proposal includes sufficient funding to cover roughly three-quarters of the Office of Emergency Services (OES) identified need. In contrast, the proposal funds less than 2 percent of the California Department of Corrections and Rehabilitation’s identified need. Differing funding levels may make sense to the extent they reflect differing levels of need or priorities. However, the Governor’s proposal does not provide such justification. In fact, based on the list of each department’s identified needs as provided by the administration, it appears the budgeted funding levels would be sufficient to fund some very low priorities in some departments—such as new carpets and interior painting in OES—while other departments would continue

Figure 2
Administrations’s General Fund (Non-Proposition 98) Deferred Maintenance Proposal
(In Millions)

Department/Program	Proposed Amount
University of California	\$25
California State University	25
Parks and Recreation	20
Corrections and Rehabilitation	15
Developmental Services	7
State Hospitals	7
California Fairs	7
General Services	5
State Special Schools	3
Emergency Services	3
Military	2
Forestry and Fire Protection	2
Veterans Affairs	2
Food and Agriculture	2
Total	\$125

to have significant fire, life, and safety projects unfunded. In addition, some departments that the administration has identified as having deferred maintenance needs (such as the Department of Fish and Wildlife and the California Highway Patrol) are not proposed to receive any deferred maintenance funding under the proposal.

Other Funding Sources Should Be Explored.

It is unclear whether some projects identified by the administration as deferred maintenance needs could be funded by other sources rather than the General Fund—such as user fees, federal funds, donations, or bonds. For example, energy and water efficiency projects identified as deferred maintenance needs by some departments might be able to be funded by various state revolving fund programs (where project costs are recouped over time through the project’s energy savings).

Plan Does Not Address Causes of Deferred Maintenance. Providing one-time funding, while a step in the right direction, is only a short-term response to the problem. The administration has not identified a long-term plan for working through the rest of the deferred maintenance backlog. Perhaps even more important, the administration does not include an assessment of, or a plan to address, the underlying causes of the accumulation of deferred maintenance. Without such a strategy, there is no certainty that departments will have the necessary tools or other resources to address the underlying causes of their deferred maintenance backlogs. Thus, a strategy for preventing the accumulation of new deferred maintenance projects is essential to ensuring that the problem does not get worse.

Notification Process for Projects Is Inadequate. The Governor’s proposal does not require the identification of specific projects *prior to* passage of the budget. Instead, Control Section 6.10 includes a JLBC notification process. This proposed JLBC process raises a couple of concerns. First,

the process would identify projects proposed for funding after the Legislature has made its decisions on the budget. This would divorce decision making on the amount of funding provided to each department from the set of projects to be funded. As a result, the funding amounts might not correspond with the projects that would be prioritized by the Legislature. Second, the proposed JLBC process provides the Legislature with less time to review proposed projects than the traditional budget process. For this reason, the JLBC process is typically reserved for mid-year changes to the budget rather than for the initial identification of projects proposed for funding.

LAO Recommendations

Require Individual Departments to Report at Budget Hearings. We recommend that the Legislature use its budget hearings to gather more information from the administration and individual departments. In particular, we recommend that the Legislature seek lists of specific projects that would be funded by each department. The Legislature could then review these lists to determine if the proposed funding levels and projects are consistent with its General Fund priorities based on various factors, including whether the projects address critical program needs, reduce state liability, and prevent higher future costs. We recommend the Legislature also seek information from departments on other potential sources of funding that could be available to support the proposed projects. This could allow the proposed General Fund resources to support a greater number of projects overall. If, on the other hand, any departments are unable to justify their proposed projects to the Legislature’s satisfaction during budget hearings, the Legislature could reduce their funding or delay it until the next fiscal year to give them additional time to assemble the requested information.

In addition, the Legislature could use budget hearings to hear from individual departments on what factors led to the accumulation of deferred maintenance. This information could assist the Legislature in crafting policies to ensure that departments effectively manage their maintenance programs on an ongoing basis. Additionally, the Legislature could seek information from the administration regarding whether it has a longer-term plan to (1) address accumulated deferred maintenance backlogs and (2) ensure that appropriate ongoing maintenance is sustained so that deferred maintenance does not continue to accumulate.

Require Projects Be Listed in Supplemental Report. Because we recommend that departments

be required to report on specific projects in budget hearings, we find that the proposed language requiring a report to JLBC prior to allocating funds is unnecessary. Instead, we recommend that all projects approved by the Legislature be included in the *Supplemental Report of the 2015-16 Budget Package* and that the budget require departments to only fund those projects included in that list. However, there will likely be some instances when departments have reasonable rationales for changing the projects on their proposed lists after the budget is adopted. Therefore, we recommend retaining the control section language that allows departments to modify their proposed lists no sooner than 30 days after notifying the JLBC.

2015-16 BUDGET

2015-16 BUDGET

2015-16 BUDGET

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