

BUDGET LETTER

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| | NUMBER: 10-05 |
| SUBJECT: CAPITAL OUTLAY FIVE-YEAR INFRASTRUCTURE PLAN AND BUDGET SUBMISSION FOR 2011-12 | DATE ISSUED: March 8, 2010 |
| REFERENCES: STATE ADMINISTRATIVE MANUAL SEC 6821, ET. SEQ. AND AB 1473 (CHAPTER 606, STATUTES OF 1999) | SUPERSEDES: BL 09-07 |

TO: Agency Secretaries
Department Directors
Department Budget Officers
Department Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

NOTE: Budget Officers are requested to forward a copy of this Budget Letter (BL) to the Department's Facilities Manager as well as program personnel with capital outlay infrastructure needs.

This Budget Letter (BL) provides detailed instructions and due dates for submitting Major and Minor Capital Outlay Budget Change Proposals (COBCPs) and Five-Year Infrastructure Plans. Major COBCPs, detailed Minor COBCPs and a summary Minor COBCP, if applicable, and Five-Year Infrastructure Plans are due by **July 1, 2010**. Any state agency with capital outlay needs in 2011-12 through 2015-16 must submit a Five-Year Infrastructure Plan, including the necessary COBCPs and/or Capital Outlay Concept Papers (COCPs) as detailed in this BL. Adjustments that are needed to conform to the enacted 2010-11 Budget and the 2010 Five-Year Infrastructure Plan are due by **September 1, 2010**.

1. Submittal of the 2011 Five-Year Infrastructure Plans, COBCPs, and COCPs.

A. FIVE-YEAR INFRASTRUCTURE PLANS

The Governor is required to annually submit a Five-Year Infrastructure Plan in conjunction with the Governor's Budget. A procedures manual for completing the five-year plan in accordance with the statutory requirements is available on the Department of Finance's (Finance) website: <http://www.dof.ca.gov/fisa/bag/bagtoc.htm>, Capital Infrastructure Plan Procedure. Per this BL, these plans are due **July 1, 2010**, along with all necessary COBCPs and COCPs.

Reminder – All Five-Year Infrastructure Plans must consider the state planning priorities, as required by Government Code section 65041.1, including, but not limited to the following:

- Promote infill development by rehabilitating existing infrastructure.
- Protect environmental and agricultural resources by protecting and preserving the state's most valuable natural resources.
- Encourage efficient development patterns by ensuring that infrastructure associated with development, other than infill, support efficient use of land and is appropriately planned for growth.

All state entities are required to provide a narrative explanation of how these planning priorities have been incorporated into their five-year infrastructure plan on a statewide basis as it relates to programmatic drivers and infrastructure needs as reported in the Five-Year Infrastructure Plans.

Because these planning priorities are most relevant at the project level, **the COBCP includes a section to describe how each project is or is not consistent with these statewide planning priorities.** Additional justification must be provided for projects that are not consistent with these statewide planning priorities.

B. MAJOR CAPITAL OUTLAY

Consistent with last year's schedule, all COBCPs and COCPs for all *major* capital outlay projects proposed for the 2011-12 Governor's Budget and the 2011 Five-Year Infrastructure Plan must be submitted to Finance no later than **July 1, 2010.**

Reminder – State agencies requesting new or expanded facilities must clearly demonstrate how existing facilities do not meet programmatic needs.

- **Documents Required to Request Capital Outlay Funds:**
 - ✓ For budget year and project specific out-year proposals included in the Five-Year Infrastructure Plan: COBCP(s) as described in Attachment 1.
 - ✓ For conceptual proposals: COCP(s) as described in Attachment 2.
 - ✓ For **ALL** proposals: Fiscal Impact Worksheet(s) (FIW) as described in Attachment 3. All FIW documents must be e-mailed to the appropriate Finance capital outlay budget analyst. It is requested that FIWs for all COBCPs and COCPs be submitted in one Excel workbook (except as approved by Finance) with each tab clearly labeled with the corresponding project title.
 - ✓ It is essential that FIW formatting, including the number of lines and calculated cells, is not adjusted. Therefore, the FIW in attachment 3 must be used to generate all FIWs for the 2011 Five Year Infrastructure Plan. **Do not use previous versions of the FIWs.**

All documents submitted to Finance must also be provided in hard copy.

- **When to Prepare a COBCP: Complete COBCPs are required for all new projects or capitalized leases (See Attachment 1) proposed to be included in the 2011-12 Governor's Budget.** For continuing phases of previously funded projects, departments may request continuation by submitting the COBCP cover sheet and the FIW, *provided* there has been no change to the cost or scope of the project. A complete COBCP must be submitted for continuing projects where the scope and/or costs have changed.
- **Requesting Budget Packages:** Budget packages are used to verify feasibility, scope, and costs of projects. Finance utilizes infrastructure planning funds for budget packages when Finance determines a budget package is required for a specific project and funding is not otherwise available. Departments may submit requests to Finance to fund specific budget packages or utilize departmental support funds to contract with the Department of General Services (DGS), Real Estate Services Division, prior to submission of COBCPs. However, use of support funds does not guarantee future funding of a project, so departments are advised to check with Finance prior to initiating their own budget package.

- **Agency Review and Distribution:** Five-Year Plans, including COBCPs and COCPs must be approved by the Agency Secretary, as applicable, *prior to* submission to Finance. After agency approval, submit:
 - ✓ Three copies to Finance, Capital Outlay Unit, 915 L Street, Ninth Floor. (Submit *four* copies to the Capital Outlay Unit for projects based on enrollment/caseload/population changes, program workload adjustments, or program policy changes [the extra copy will be given to the Finance support analyst]).
 - ✓ **DO NOT** submit copies of COBCPs or COCPs to the Legislative Analyst's Office (LAO). Finance will coordinate release of the information to the LAO.

These copies are in addition to any copies that the Agency Secretary may require.

- **Late Five-Year Plans:** Requests for late Five-Year Plan submittals must be approved by the Agency Secretary, as applicable, and submitted in writing to Greg Rogers, Assistant Program Budget Manager, by **June 1, 2010**. Late submittals without prior approval may be returned without review.
- **Updates to COBCPs, COCPs, and Five-Year Infrastructure Plan:** Updates to 2010-11 COBCPs, COCPs, and the Five-Year Infrastructure Plan will be accepted no later than **September 1, 2010**, and only under the following circumstances:
 - ✓ Changes in construction cost indexes (see Budget Letter 08-13 for more details).
 - ✓ Conforming action to the 2010-11 Budget (update must be technical in nature). Changes for any other reason will be deferred to the 2012-13 capital outlay budget cycle unless previously approved by Finance.
- **Major Capital Outlay Budget Reminders:**
 - ✓ All major capital outlay projects are subject to the administrative oversight of the State Public Works Board (PWB) unless specifically exempted. Departments must follow PWB and Finance administrative requirements when implementing projects. Questions on these requirements should be directed to the Finance Capital Outlay Unit at (916) 445-9694.
 - ✓ Augmentations to capital outlay appropriations may be made by the PWB in accordance with GC Section 13332.11, through the Budget Act, or through special legislation.
 - ✓ Project scope may **not** be altered except in conformance with GC Section 13332.11. The Director of Finance determines which project changes are classified as scope changes. Project managers and departments must review potential scope changes with the Finance Capital Outlay Unit. **Unapproved scope changes may result in project termination.**
 - ✓ Funds may not be transferred between major capital outlay projects, unless specifically authorized in the Budget Act or by other statute.
 - ✓ Capital outlay appropriations and reappropriations are generally available for three years. However, appropriations for preliminary plans and working drawings are only available for encumbrance for one year. Construction appropriations are available for encumbrance for up to three years, but revert at the end of the first year of appropriation if Finance has not allocated the funding through fund transfer or approval to proceed to bid (see Section 1.80, Budget Act of 2009 for current availability periods for all project phases).
- **Assistance for Major Projects and the Five-Year Plan:** Departments are encouraged to contact either their Finance capital outlay budget analyst at (916) 445-9694 or DGS at (916) 376-1800 for assistance.

C. MINOR CAPITAL OUTLAY

Minor capital outlay is any project under **\$400,000** (except an acquisition project), which has been specifically budgeted as a minor project and which a department has been authorized to implement directly pursuant to Public Contract Code Section 10808. Resources Agency capital outlay projects up to \$777,000 (adjusted per BL 10-01) may be budgeted as minor projects with the concurrence of Finance. Departments may not circumvent the budget process by “piecemealing” larger projects through several minor projects. Please note that the Department of Finance has proposed trailer bill language that would increase the limit for all minor capital outlay projects to \$800,000 for all departments. If this language is adopted, a subsequent Budget Letter will be issued.

Departments shall not include Minor COBCPs in the 2011 Five Year Infrastructure Plan that exceed the current minor capital outlay limits in anticipation of the increased project limits. Projects in excess of \$400,000 or acquisition projects (regardless of amount) must be submitted as Major COBCPs (\$777,000 for Resources Agency projects).

- **Deadlines and Distribution:** Minor capital outlay projects are included in the five-year program as a lump sum for each of the five years. As noted above, this lump sum is to be detailed by specific project with cost and scope information no later than **July 1, 2010**, as part of the Five-Year Infrastructure Plan submittal for 2011-12. A single summary COBCP is also required for minor projects. Send two copies to Finance and two copies to DGS.
- ✓ **Augmentations:** A minor capital outlay project is not subject to PWB oversight, and by practice PWB does not augment projects, which are not subject to its approval. However, Finance may authorize increases to the amount approved for a minor project by redirection within the department’s minor program within the same fiscal year, if the increase does not result in a project that exceeds the minor capital outlay limit as set forth in Public Contract Code Section 10808.

If you have any questions, please contact your Finance capital outlay budget analyst at (916) 445-9694.

/s/ Karen Finn

Karen Finn
Program Budget Manager

Attachments

CAPITAL OUTLAY BUDGET CHANGE PROPOSALS

A Capital Outlay Budget Change Proposal (COBCP) is required for all capital outlay projects (both major and minor) proposed for the Governor's Budget and for certain capitalized leases that do not have prior legislative authority. This attachment provides:

- An overview of the purpose of the COBCP.
- Additional information on when a COBCP is required.
- A sample of the required COBCP format. *An electronic copy of the COBCP form and instructions for completion with illustrations are available on disk or on the Department of Finance (Finance) website at: http://www.dof.ca.gov/html/budlettr/forms/fin_form.htm, or from your Finance Capital Outlay analyst.*

Purpose of the COBCP: In broad terms, the COBCP justifies the funding request. Specifically, the COBCP must:

- Define the department's problem and establish its significance.
- Provide basic background and detail of alternatives considered.
- Demonstrate that the department has explored all reasonable alternatives to solving the problem and offered the most logical solution.
- Provide detailed documentation for the proposed solution and its cost.
- Explain how the project supports the department's strategic plan.

Finance will consider only those proposals that **convincingly** meet all five of these requirements.

A COBCP (or an updated COBCP) is required for:

- **Any request for a capital outlay appropriation**, whether for acquisition of land, structures, or construction, including minor projects. A COBCP is also required for project augmentations that exceed the State Public Works Board's (PWB's) augmentation authority (i.e., over 20 percent).
- **Requests for Finance Letters** to adjust an existing project proposal, whether for technical or policy reasons, or to add an urgent new proposal.
- **Requests for provisional language to enter into a lease with purchase option.** Although no capital expenditure is made when entering into a lease with a purchase option, the potential for a capital acquisition is created. The department must demonstrate, through a cost-benefit analysis and an associated economic analysis, that it has analyzed the potential alternatives (e.g. state construction, lease-purchase agreement, pure lease) and selected the best alternative before Finance will concur with the associated space request. Requests to exercise purchase option authority through the Budget Act must be submitted as a separate COBCP with an accompanying economic analysis. (A COBCP is required whether or not there is a related support BCP for lease costs.)
- **Requests to enter into a lease-purchase agreement for capital assets.** Although no capital expenditure is made under a lease-purchase agreement, a capital acquisition does occur. If the authorization for a lease-purchase is sought through the Budget Act, the department must submit a COBCP comparing alternatives to meeting its space requirements and demonstrating, through a cost-benefit analysis, that a lease-purchase agreement is the most cost-beneficial method of project delivery.

- **Exercising a purchase option on capital assets.** Exercising a purchase option (even a \$1 purchase option) requires a capital outlay appropriation. An updated COBCP must be submitted showing that the proposed acquisition is still cost-beneficial considering any possible changes in program need, lease market conditions, and state construction alternatives.
- **Entering into any other lease, which meets the definition of *capitalized lease*.** A lease agreement is a capitalized lease (in substance, a purchase) when substantially all of the risks and benefits of ownership are assumed by the lessee. If a lease meets *any one of the following conditions*, it is a capitalized lease:
 1. Ownership of the leased asset is transferred to the state at the end of the lease period.
 2. The lease gives the lessee the option of purchasing the leased asset at a nominal value at some point during or at the end of the lease period.
 3. The period of the lease (a *single* term of a lease, not including renewals) is 75 percent or more of the estimated useful life of the leased asset.
 4. The present value of the minimum lease payments is 90 percent or more of the fair value of the leased asset (i.e., the lease payments over a *single* term of the lease are substantially the same as the purchase price).

Unless existing statute authorizes a capitalized lease, the lease requires specific legislative authority. If the Budget Act will be used to provide that authority, a COBCP is required whether or not a capital outlay appropriation is needed.

- **Modulars and trailers.** Acquisitions of modular buildings or trailers (temporaries) where the temporary is intended as a permanent facility must be submitted as a COBCP. Acquisitions intended as an interim solution for a permanent facility or housing need must be submitted as a support budget request. In any event, both the Finance support and Capital Outlay analyst will concurrently review requests for temporaries to determine if the proposal is the most cost effective resolution to the identified problem.
- **Minor alterations projects authorized by Control Section 6.00 of the Budget Act.** Section 6.00 authorizes the use of support funds for some minor alteration projects (i.e., those costing more than \$100,000 but not greater than \$750,000), subject to Finance approval and legislative notification. Requests must be submitted for review to the Finance Capital Outlay Unit with substantially the same information as required in a COBCP. Finance approval is required prior to the encumbrance of funds.
- Additionally, if a support budget increase is needed as a result of a capital outlay project—including rent increases pursuant to a lease—a support BCP must also be submitted separately to the appropriate Finance support unit.
- Capital outlay projects that include an information technology (IT) component must also comply with the IT reporting requirements contained in Sections 4800 to 5953 and Sections 6700 to 6780 of the State Administrative Manual (SAM) and the Statewide Information Management Manual (SIMM). Examples of IT activities typically addressed in capital outlay projects include: the purchase and/or upgrade of IT equipment or software; the installation and/or upgrade of telecommunications equipment (excluding voice only); or the installation and/or upgrade of local area network equipment or software. The Office of the State Chief Information Officer (OCIO) is responsible for the review and approval of IT activities from a technology and business cost/benefit perspective. The typical review vehicle is the Feasibility Study Report. Questions regarding the state's IT reporting requirements should be directed to the OCIO. *All IT reporting requirements must be met before the IT component of a capital outlay project may be approved.*

- **Group 2 equipment phases of projects.** Group 1, fixed equipment, is incorporated into or attached to the facility and therefore is included in the construction phase of a project. Group 2, movable equipment, is budgeted as a separate phase. For a COBCP requesting the Group 2 equipment phase of a project, provide the project appropriation history, including the project name, Budget Act items, and project code. Definitions of Group 1 and Group 2 equipment are provided in SAM Section 6855.

For Group 2 equipment, identify how funding needs were determined. Show *all* items of equipment to be placed in a room, indicating whether the item is to be purchased by the agency or transferred from another building or location. Account for all equipment currently available in buildings to be replaced by the new structure. Final approval of equipment lists generally follows approval of preliminary plans. Exceptions to this rule are discussed in SAM Section 6855.

Movable equipment that does not meet the definition of capital outlay per SAM Section 6806 is not a capital outlay expenditure. These costs are proposed and funded in the state operations appropriation (i.e., they require a support budget change proposal).

- **Coordination of STD. 9s with COBCPs and BCPs.** Departments submit space action requests (STD. 9s) for:
 - ✓ New or additional space (including swing space), lease extensions, or renewals desired by an agency in noninstitutional buildings—whether state-owned or leased.
 - ✓ Relocatable buildings and trailers.

Finance approval of a STD. 9 does not constitute approval for a support budget increase or a capital outlay appropriation, or approval to include authorization language for a lease-purchase, purchase option, or option execution in the Budget Act. If any of these is required, either a support BCP or a COBCP (or both) must be submitted to Finance. SAM Section 6453 provides additional information.

- **Architectural and engineering (A&E) fees.** A&E fees (basic and nonbasic) are charged for architectural and engineering work performed either by the department or by consulting professionals. Expenses may also include project-related construction management support, such as construction inspection, travel, bidding expenses, and drawings. Contact DGS for assistance with budgeting A&E fees.
- **Swing space for capital outlay projects.** Swing space (i.e., temporary accommodations during a facility remodel) is a state operations cost that must be noted as informational on the COBCP but requested separately as a support BCP.
- **Allowable cost indices.** Departments must use the California Construction Cost Index (CCCI). Use of any other index requires Finance concurrence. **Budget Letter 09-26** outlines the process for establishing the base CCCI for a project and how to estimate future construction costs (currently 0.42 percent per month to the start and midpoint of construction).

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| STATE OF CALIFORNIA CAPITAL OUTLAY BUDGET CHANGE PROPOSAL (COBCP) COVER PAGE (REV 01/10) | DEPARTMENT OF FINANCE 915 L Street Sacramento, CA 95814 IMS Mail Code: A15 |
| BUDGET YEAR 2011-12 | |

ORG CODE: _____ COBCP NO. _____ PRIORITY: _____ PROJECT ID: _____

DEPARTMENT: _____

PROJECT TITLE: _____

TOTAL REQUEST (DOLLARS IN THOUSANDS): \$ _____ MAJOR/MINOR: _____

PHASE(S) TO BE FUNDED: _____ PROJ CAT: _____ CCCI/EPI: _____

SUMMARY OF PROPOSAL:

HAS A BUDGET PACKAGE BEEN COMPLETED FOR THIS PROJECT? (E/U/N/?): _____

REQUIRES LEGISLATION (Y/N): _____ IF YES, LIST CODE SECTIONS: _____

REQUIRES PROVISIONAL LANGUAGE (Y/N) _____

IMPACT ON SUPPORT BUDGET: ONE-TIME COSTS (Y/N): ___ FUTURE COSTS (Y/N): ___

FUTURE SAVINGS (Y/N): ___ REVENUE (Y/N): ___

DOES THE PROPOSAL AFFECT ANOTHER DEPARTMENT (Y/N): ___ IF YES, ATTACH
COMMENTS OF AFFECTED DEPARTMENT SIGNED BY ITS DIRECTOR OR DESIGNEE.

SIGNATURE APPROVALS:

| | | | |
|-------------|-------|-------------|-------|
| _____ | _____ | _____ | _____ |
| PREPARED BY | DATE | REVIEWED BY | DATE |

| | | | |
|---------------------|-------|------------------|-------|
| _____ | _____ | _____ | _____ |
| DEPARTMENT DIRECTOR | DATE | AGENCY SECRETARY | DATE |

DOF ANALYST USE

DOF ISSUE # _____ PROGRAM CAT: _____ PROJECT CAT: _____ BUDG PACK STATUS: _____

ADDED REVIEW: SUPPORT: _____ OCIO: _____ FSCU/ITCU: _____ OSAE: _____ CALSTARS: _____

PPBA: _____

Date: _____

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| STATE OF CALIFORNIA CAPITAL OUTLAY BUDGET CHANGE PROPOSAL (COBCP) NARRATIVE PAGE (REV 01/10) BUDGET YEAR 2011-12 | DEPARTMENT OF FINANCE 915 L Street Sacramento, CA 95814 IMS Mail Code: A15 |
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ORG CODE:_____ COBCP NO. _____ PRIORITY: _____ PROJECT ID:_____

Using the attached page, follow the format outlined below and fully address all of the items. Use additional pages as needed. Certain projects may require additional information. Questions should be referred to DOF.

- A. PURPOSE OF THE PROJECT: (problem, program need, infrastructure deficiency)
- B. RELATIONSHIP TO THE STRATEGIC PLAN: (relevance of problem/need to mission and goals)
- C. ALTERNATIVES: (for each, describe the proposed alternative and provide a brief summary of scope, cost, funding source, program benefits, facility management benefits, and impact on support budget)
- D. RECOMMENDED SOLUTION:
1. Which alternative and why?
 2. Detail scope description.
 3. Basis for cost information.
 4. Factors/benefits for recommended solution other than the least expensive alternative.
 5. Complete description of impact on support budget.
 6. Identify and explain any project risks.
 7. List requested interdepartmental coordination and/or special project approval (including mandatory reviews and approvals, e.g. technology proposals).

E. Consistency with Government Code Section 65041.1:

1. Does the recommended solution (project) promote infill development by rehabilitating existing infrastructure and how? Explain.
2. Does the project improve the protection of environmental and agricultural resources by protecting and preserving the state's most valuable natural resources? Explain.
3. Does the project encourage efficient development patterns by ensuring that infrastructure associated with development, other than infill, support efficient use of land and is appropriately planned for growth? Explain

NARRATIVE, PAGE ___ OF ____

CAPITAL OUTLAY BUDGET CONCEPT PAPER

A Capital Outlay Budget Concept Paper (COCP) is required for all conceptual capital outlay proposals included in the Five-Year Infrastructure Plan. This attachment provides:

- An overview of the purpose of the COCP.
- Information on when a COCP is required.
- A sample of the required COCP format. *An electronic copy of the COCP form and instructions for completion are available on the Department of Finance (Finance) Budget Letters website.*

Purpose of the COCP: The COCP has been developed for use in place of the traditional COBCP for those needs that cannot be described as a specific project. To the extent possible, the COCP must justify the funding request. Specifically, the COBCP must:

- Define the department's problem and establish its significance.
- Provide basic background and detail of alternatives considered.
- Demonstrate that the department has explored all reasonable alternatives to solving the problem and offered the most logical solution.
- Provide assumptions/methodology for the proposed solution and its cost.

A COCP (or an updated COBCP) is required for:

- **Any request for inclusion in the Five-Year Infrastructure Plan**, whether for acquisition of land, structures, or construction, including minor projects.

Capital Outlay Concept Paper

Plan Year: (year for which capital outlay plan is proposed)

Department: (Name of Department)

Org. Code: (4 digit code)

Program Category:

Program Subcategory:

Project Title:

Project ID: xx.xx.xxx (project specific proposals only)

Funding Source: (Fund Name and Code)

Impact on Support Budget:

Yes No

| | BY+1 | BY+2 | BY+3 | BY+4 |
|-------------|--------|--------|--------|--------|
| Cost | \$\$\$ | \$\$\$ | \$\$\$ | \$\$\$ |

| | ASF/USF | GSF |
|-------------------------|---------|-----|
| New Construction | | |
| Reconstruction | | |

1. Summary of Proposal:

2. Problem Identification:

3. Alternative Solutions Considered:

4. Detailed Project Description/Recommended Solution:

5. Summary of Space Standards/Methodology:

6. Summary of Cost Methodology:

| Approval: | Signature | Printed Name | Date |
|----------------------|------------------|---------------------|-------------|
| Preparer: | | | |
| Budget Officer: | | | |
| Department Director: | | | |
| Agency Secretary: | | | |

FISCAL IMPACT WORKSHEET

A Fiscal Impact Worksheet (FIW) is required for ALL capital outlay proposals, conceptual and project specific, included in the Five-Year Infrastructure Plan. This attachment provides:

- An overview of the purpose of the FIW.
- A sample of the required FIW format. *An electronic copy of the FIW form and instructions for completion are available on the Department of Finance (Finance) Budget Letters website.*

Purpose of the FIW: The FIW serves as the source data for Finance's Capital Outlay Project Tracking System (COPTS). **IT IS CRITICAL TO FOLLOW THIS FORMAT.**

DO NOT ADD OR DELETE ROWS OR COLUMNS.

- The Fiscal Impact Worksheet (lines 1 through 50 of the COBCP spreadsheet) is used to report a project's cost and funding data, schedules, and project specific codes.
- The Fiscal Detail Worksheet (lines 51 through 100 of the FIW) is used to collect detail information to support the cost/benefit analysis for the project.
- The Scope Worksheet (lines 101 through 111) is used to summarize the scope language related to a project.

An FIW is required to be included with any request for inclusion in the Five-Year Infrastructure Plan.

A separate FIW is to be completed for each project. All FIWs are to be submitted to the Finance capital outlay budget analyst electronically (one workbook containing all FIWs with tabs clearly labeled with each project's name) in addition to the hardcopy included in the COBCP.