CAPITALIZED ASSET BUDGET DEVELOPMENT HIGHLIGHTS **6812**
(New 5/98)

No base budget for capital outlay. Capital outlay budgets are zero-based each year. This means the client department must submit a written capital outlay budget change proposal (COBCP) for each new project or subsequent phase of an existing project for which the department would like funding. The requirements for COBCPs are presented in Section 6818.

When COBCPs are due. In general, COBCPs for major capital outlay projects are due in February of each year for the fiscal year commencing *17 months later* (COBCPs for minor projects are due in July, 12 months prior to the budget year). This timing allows DGS to complete feasibility studies and cost estimates for the project and DOF to make site visits. Copies of the COBCPs are simultaneously due to DOF, DGS, and the Legislative Analyst's Office (LAO). See Section 6814 for an overview of the budget enactment timetable. See Section 6816 for a listing of documents in addition to COBCPs required to request capital outlay funding.

When COBCPs are updated. The client department submits *technical* updates (including cost index updates) to the COBCP and five-year plan, generally by September 1, prior to the budget year. New project proposals, unless of a truly urgent nature, are usually not accepted after initial submittal of the COBCPs and five-year plan in February. Cost updates received from DGS (based on budget package estimates) will be incorporated into the *Governor's Budget* if received by early December before the budget year. Otherwise, technical cost updates will be presented to the Legislature through a Finance Letter due to the Legislature no later than May 1, before the budget year. Scope changes to existing projects, or new projects justified on an urgency basis, may be presented to the Legislature in a Finance letter due no later than April 1. Departments' requests for technical and policy Finance Letters are generally due in mid-February; specific due dates are published annually by DOF Budget Letter. *An updated or new COBCP is required for policy and technical Finance Letters.*

COBCPs must clearly support the department's strategic plan. Each department, as defined in Section 6816, must have a strategic plan, and its budget change proposals—including COBCPs—must demonstrate the relationship and relevancy to the department's strategic plan.

Five-year capitalized assets plans, *by project*, are required annually. Each department submitting a COBCP must also submit, at the same time, a five-year capitalized assets plan *by project*. The requirements for this plan are set out in Section 6820. A copy of the five-year plan is due simultaneously to LAO. Exceptions to project-level plans must be approved by DOF.

Annual Budget Letters for COBCPs and five-year plans. DOF releases a Budget Letter each fall setting specific due dates for COBCPs and five-year plans, reiterating information requirements, and describing any form or processing changes. A separate Budget Letter is released in late Fall setting due dates for requests for Finance Letters the following Spring to make policy or technical changes to capital outlay projects proposed in the *Governor's Budget.* Another Budget Letter is released in July of each year publishing the annually-updated cost indexes used to adjust construction costs for inflation.

Ten-year capital outlay survey responses, *by program and fund source*, are required annually. All departments which anticipate needing funds for capital outlay or state-funded infrastructure *in the next ten years* must annually respond to a DOF survey questionnaire regarding those needs. A response is required whether or not the client department will be submitting a COBCP for the upcoming budget year. The requirements for the ten-year survey response are described in Section 6837.

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CAPITALIZED ASSET BUDGET DEVELOPMENT HIGHLIGHTS **6812** (Cont. 1)
(New 5/98)

The state uses the design-bid-build process for most projects; therefore, capital outlay projects are frequently budgeted in multiple phases. The design-bid-build process means that project specifications must be completely developed (i.e., through the working drawings phase) before construction is bid out. Consequently, working drawings and construction appropriations are often not provided until cost information from the previous phases is available. This can result in multiple, sequential appropriations for a single project. However, at the discretion of DOF and subject to legislative concurrence, more than one phase may be budgeted at a time, and in some cases all phases may be budgeted simultaneously. The typical phases for projects are described in Section 6808. A discussion of the design-bid-build process is provided in Section 6841.

No capital outlay deficiencies. The annual Budget Act includes control section language forbidding the Director of Finance to propose a deficiency for any capital outlay projects. If a project is anticipated to exceed its budget, the remedies are a scope reduction (subject to approval by DOF and legislative notification) and/or an augmentation of up to 20 percent (subject to approval by the Public Works Board and, when required, to legislative notification). If those remedies are insufficient, the remaining options are to terminate the project or halt it while seeking a new or supplemental appropriation. Augmentations and scope changes are discussed in Sections 6861 and 6863.

No transfer of capital outlay funds between scheduled projects. The annual Budget Act includes control section language forbidding the transfer of funds between scheduled projects in a client department's capital outlay item. (There may be some exceptions on an item-by-item basis.) However, PWB retains the authority to augment a project's appropriation, provided there are sufficient revenues available in the source fund.

Period of appropriation availability. The *Governor's Budget* includes only those projects or project phases for which funds can be encumbered within the appropriation period. Section 2.00 of the Budget Act specifies that, in general, appropriations and reappropriations for capital outlay pursuant to that act are available for expenditure for three years (with an additional two years for liquidation), with the exception of appropriations for studies, preliminary plans, working drawings, or minor capital outlay which are available for encumbrance for a single year only. However, a construction appropriation reverts to its source fund *at the end of the first year of appropriation availability* if DOF has not allocated the funding through fund transfer or approval to proceed to bid.

A capital outlay appropriation provided through special legislation is also available for expenditure for three years (followed by a two-year liquidation period), unless otherwise specified or unless the chapter makes the appropriation continuous.

CEQA review required. The California Environmental Quality Act (CEQA) requires environmental review of any project undertaken in whole or in part by any public agency. See Section 6850 for more information.

Process exceptions for certain departments. The University of California, the California State University, the California Community Colleges, some Resources Agency departments, and the Department of Corrections' New Prison Construction Program (Penal Code 7003) may handle the design and construction of their own projects without using DGS' services. However, the instructions contained in this chapter are otherwise fully applicable unless waived by statute or Budget Act language. (The Department of Water Resources for the State Water Project and the Department of Transportation for highway-related projects are not subject to the instructions contained in this chapter.)