

BUDGET LETTER

SUBJECT: ARCHITECTURE REVOLVING FUND (ARF) DEFICIT RECOVERY	NUMBER: 10-02
REFERENCES: CONTROL SECTION 4.70, BUDGET ACTS OF 2008 AND 2009 DEPARTMENT OF GENERAL SERVICES MANAGEMENT MEMO 10-02	DATE ISSUED: January 21, 2010
	SUPERSEDES: BL 08-30

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 their Department Facilities Manager as well as program personnel with capital outlay infrastructure and special repair needs.

<i>Deadlines and Deliverables</i>	
February 11, 2010	Deficit Repayment Plan for review by the Department of Finance

This BL establishes new and reiterates existing statewide policies and procedures regarding the use of the Architecture Revolving Fund (ARF), as well as establishes a methodology to recover, in part, the ARF deficit pursuant to Control Section 4.70 of the Budget Acts of 2008 and 2009. This BL should be read in conjunction with the Department of General Services (DGS) Management Memo (MM) 10-02. It gives instructions on how specified departments are to pay project deficits, which have accumulated over time, by June 30, 2013. In addition, this BL clarifies the implementation of the ARF project assessment (surcharge) that has been charged to new projects beginning in November 2008. Departmental payment plans (Attachment B) must be completed and submitted to your Finance Budget Analyst by February 11, 2010.

A. BACKGROUND

The ARF is a depository whereby departments make payments to fund projects performed by DGS. Such projects include: construction, alteration, maintenance, repair and improvement of state buildings. Most of these projects are managed by the DGS, Real Estate Services Division. As of January 2008, the ARF had an estimated cumulative deficit approximating \$27.2 million. The DGS, Department of Finance (Finance), and Legislature collaborated to develop a comprehensive plan to recover the ARF deficit over a five-year period, ending June 30, 2013. DGS has implemented the necessary steps to ensure that appropriate controls and oversight are in place to prevent the future recurrence of a similar deficit situation.

B. CONTROL SECTION 4.70 OF THE BUDGET ACTS OF 2008 AND 2009

Control Section 4.70 identifies two methods for DGS to recover the ARF deficit: 1) allocating and collecting from specified client departments through June 30, 2013 for past deficits incurred and 2) assessing an annual surcharge to specified new ARF projects to recover the remainder of the ARF deficit.

C. ARF DEFICIT RECOVERY FROM CLIENT AGENCIES

As part of the ARF Deficit Recovery Plan, DGS identified various client agencies and their respective projects that incurred deficits, representing approximately one half of the deficit. Attachment A lists client agencies and their corresponding deficits and includes the fund source from the original project(s) that resulted in a deficit. This attachment also identifies agencies with projects that may have additional deficit amounts to be identified after the construction work-in-progress reconciliation process is completed. These are identified by an "X" in the "Additional Amounts to be Identified" column of Attachment A. Pursuant to Control Section 4.70, DGS will recover this portion of the deficit from these client agencies by June 30, 2013. The following options are available to client agencies to pay the deficit amounts included on Attachment A:

- Form 22 – Client agencies may transfer funds to DGS using the Form 22 process.
- Redirecting existing ARF funds – Upon approval by Finance, client agencies may submit a written request to DGS to redirect support (special repair) funds previously deposited in the ARF and apply those funds to the deficit.
- Direct Transfer – Client agencies may pay DGS by direct transfer of funds by providing their appropriation data to DGS.
- Check/State Warrant – Client agencies may pay the deficit amount by a check/warrant made payable to the "Department of General Services."

Departments listed on Attachment A must develop a plan to pay the identified deficit amount using any of the above methods, or a combination thereof, by June 30, 2013. Using information in Attachment A, departments are expected to work with their budget office to determine the appropriate funding source(s) for repayment or seek additional assistance from the Department of General Services or your Finance Budget Analyst. Departments must completely fill out Attachment B to identify their payment plan and submit it to their Finance Budget Analyst by February 11, 2010.

D. ARF PROJECT ASSESSMENT (SURCHARGE)

Pursuant to Control Section 4.70, specified new ARF projects initiated during fiscal years 2008-09 through 2012-13 will incur an assessment at the point in which project costs are estimated, sufficient to recover the remainder of the ARF deficit. Beginning in November 2008, DGS began assessing a 1.233 percent surcharge on all new cash (i.e. non-bond and non-federal) funded projects where funds are deposited in the ARF. These projects include project planning, special repair, capital outlay, acquisition, major lease, studies, direct construction and equipment.

1. **Capital Outlay Projects** – The 1.233 percent assessment is calculated for each applicable, individual phase of the project (e.g., study/acquisition, preliminary plans, working drawings and construction). While the ARF assessment was not applied to Capital Outlay project phases appropriated in the 2008 Budget Act, phases funded in future budget acts will include the assessment.
2. **All Other Projects** – The 1.233 percent assessment is calculated for the entire value of the Form 22. If the funding is split between state and federal funding, the assessment will only be applied to the state portion. These projects include, but are not limited to, project planning, acquisition, major lease (cash portion), special repair, studies, direct construction, and equipment.
3. **Budget Packages** – The ARF assessment will be included in all non-federal and non-bond funded Capital Outlay budget packages prepared for fiscal years 2009-10 through 2012-13.

For additional clarification on the implementation of the ARF surcharge, please refer to DGS MM 10-02.

If you have any questions regarding the process outlined in this Budget Letter, please contact Kristin Shelton at (916) 445-8913 or if you require additional information to allocate your repayment, contact Gary Lee at the Department of General Services at (916) 376-1862.

/s/ Nona Martinez

Nona Martinez
Assistant Program Budget Manager

Attachments