BUDGET LETTER

NUMBER:	10-09
SUBJECT: GENERAL OBLIGATION BOND FUNDED PROGRAMS/PROJECTS	**DATE ISSUED:** April 27, 2010
REFERENCES: BUDGET LETTERS 08-33, 09-02, 09-09, & 09-15	**SUPERSEDES:** BL 08-33 AND BL 09-15

TO: Secretary of State
State Controller
State Treasurer
Superintendent of Public Instruction
Administrative Office of the Courts
Agency Secretaries
Office of the President, University of California
Chancellor's Office, California State University
Board of Governors, California Community Colleges
Department Directors
All GO Bond Financing Committees
California Institute for Regenerative Medicine
Departmental Budget Officers
Departmental Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Budget Officers are requested to forward this Budget Letter (BL) to their Department Facilities, Construction, and Contract Managers.

Background

In December 2008, the Department of Finance (Finance) issued BL 08-33 which directed departments and agencies that had expenditure authority over bond funds to cease making any new contracts or obligations for programs or projects that were funded from both general obligation (GO) bonds and lease revenue bonds. That direction was necessary as the Pooled Money Investment Board had voted to freeze all disbursements from the Pooled Money Investment Account because of the significant cash crisis that the state was experiencing at that time.

Since that time, capital projects, grant programs, and funding for staff support has been provided by the upfront sale of bonds. Bond projects and programs have had limited authority to initiate new obligations to the extent bond proceeds have been made available.

Issue

As a result of successful GO bond sales and departments being aware of the need to have bond proceeds on hand before making any binding commitments, departments may now begin to plan on having those bond proceeds at specific times of the year. This BL sets out a framework and process for GO bond funded projects and programs to provide some amount of certainty and assurances in planning and moving forward. This BL supersedes the restrictions in the previous BLs so that departments, grant applicants, and the contracting community can begin to plan for the future.

Over the last year, state agencies and departments have been reporting semi-annually estimated cash needs for GO bond projects and programs that have been underway as well as estimating cash needs for new and future projects to Finance and the State Treasurer's Office (STO). While the allocation of bond proceeds have been prioritized to fund projects, programs, and other commitments underway, funding to initiate new projects has not been consistent or easy to anticipate.

Initial Plan

The information collected by Finance in preparation for the spring 2010 bond sales was used as the starting point for planning future GO bond sales. Based on the bond cash needs reported by departments and agencies in February 2010, for the 2010-11 through 2012-13 fiscal years and beyond, the proceeds of the spring 2010 bond sales, as well as planned future sales, have been allocated as detailed in the attached Bond Proceeds Allocation Plan (Plan). This Plan should be used by departments and agencies to plan, design, and adjust staffing levels for future workload associated with the spring 2010 bond sale proceeds and those included in subsequent cycles covered in this Plan.

After a review of the bond cash need information reported for the fall of 2010, it is expected that bond proceeds from the fall 2010 bond sales should provide sufficient funds to allow departments and agencies to start planning up to the amount identified on the attached Plan in anticipation that the bonds will be issued as proposed. This Plan will be reevaluated and updated at least twice a year, prior to each bond sale cycle. Actual allocations made during the fall of 2010 may be different than those currently proposed in this Plan. Therefore, project or program commitments may only be made on a contingent basis until upfront bond proceeds (cash) have been allocated for a specific project or program.

For planning purposes, it is generally assumed that projects that take multiple years to fund should be a higher funding priority in the fall bond sales because it provides more certainty that the design phases could be started sooner on these long lead projects and to allow sufficient time to award contracts by the following spring. Projects and grants that need funding on a one-time basis should be a higher funding priority in the spring bond sales because this provides the ability to begin planning grant solicitations in the fall with cash distributed in the spring of each year. Further prioritization, if needed, because of insufficient GO bond proceeds in any sales cycle should be as follows:

- Projects already underway that have a need for continuing funding should always have priority.
- In order to ensure bond cash is used expeditiously, projects and grants that are generally constructed over multiple years should not have all the cash provided up front, but rather over multiple bond sales.
- Additional prioritization should take into consideration the following: health and safety, contractual liabilities if not funded, benefit to the General Fund and or cash situation, significant job creation, leveraging other non-state funding, and other critical factors as determined.

Plan Updates

Updated bond cash need estimates will generally be requested twice a year prior to each spring and fall sale period. The updating and reevaluating of the bond cash needs prior to each bond sale could change the estimated allocations for each subsequent Plan. The attached Plan, including the fall 2010 bond cash needs, will be further reevaluated and updated prior to the fall 2010 bond sale period and thereafter. Below are some high-level parameters under which each Plan will be updated:

1. Following the release of each approved Plan, Finance will distribute reporting documents and more detailed instructions to agencies and departments, at least twice a year, in preparation of the fall and spring bond sale periods.
2. Departments and agencies will also be required to allocate bond proceeds specifically approved for new projects from the prior bond sale at the project or program level and will be required to report these allocations as part of each subsequent Plan update.

3. In the event the amount of funding allocated for new projects is less than those needs reported to Finance for the group of projects or programs the funds were requested, departments and agencies will be responsible and accountable for determining which new projects get started consistent with the prioritization criteria above.
4. To ensure consistent data collection for both Finance and the STO and as a condition of plan approval, departments and agencies will be required to update and complete the Finance designed reporting documents with requested project/program information within the timeframe requested. Modifications or substitutions to the format or content of these reporting documents will not be permitted unless prior Finance approval is granted.
5. Finance will collect and summarize the department and agency information on a statewide level and will coordinate with the STO to help plan the size and structure of future bond sales.
6. The release of each approved Plan would then start the next Plan update cycle.
7. Departments and agencies will be responsible for managing their bond proceeds allocated from each bond sale. Department and agencies who do not manage bond cash resources efficiently (meaning growing cash balances that do not match the original cash flows submitted) could be left out of a subsequent bond sale until existing bond cash is disbursed unless the discrepancies can be adequately justified.

Please contact your Finance budget analyst if you have any questions.

/s/ Karen Finn

Karen Finn
Program Budget Manager

Attachment