

SUBCOMMITTEE NO. 1

Agenda

Senator Marty Block, Chair
Senator Benjamin Allen
Senator John M. W. Moorlach



Thursday, March 3, 2016
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State Capitol - Room 3191

Consultant: Anita Lee

PART B

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Public Comment

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6440 UNIVERSITY OF CALIFORNIA
6610 CALIFORNIA STATE UNIVERSITY**Issue 1: Overview of the Governor’s University of California and California State University 2016-17 Budget Proposals – Information Only****Panel**

- Maritza Urquiza, Budget Analyst, Department of Finance
- Jason Constantouros, Fiscal & Policy Analyst, Legislative Analyst’s Office
- Kieran Flaherty, University of California
- Ryan Storm, Assistant Vice Chancellor for Budget, California State University

Background

During the recent recession, the state was limited in its ability to invest in public higher education and significantly cut state support to the universities. The universities responded by shifting more of the financial burden to the students through increased tuition. Most notably, between 2004 and 2013, tuition at the University of California (UC) and California State University (CSU) more than doubled. Rapid tuition increases led to growing concerns about the affordability of higher education. The December 2012 Public Policy Institute of California (PPIC) Statewide Survey found that 65 percent of Californians were concerned about the cost of college. However, as the economy recovered, this trend of divestment started to reverse. The passage of Proposition 30 and recent budget acts facilitated a renewed investment in public higher education. Since the passage of Proposition 30 in 2012, the state has funded a multiyear investment plan, starting in 2013-14 for the public universities.

Since 2012-13, funding for UC has grown by \$691 million, and funding for CSU has grown by \$823 million. The budget continues that growth, proposing an additional \$125 million ongoing General Fund for UC and \$148 million ongoing General Fund for CSU in 2016-17. Additionally, the state has continued to fund robust financial aid programs, maintaining the Cal Grant entitlement even during the economic downturn, amounting to significant levels of indirect state support for institutions.

University of California. The 1960 Master Plan for Higher Education designates the UC as the primary state-supported academic agency for research. In addition, the UC is designated to serve students at all levels of higher education and is the public segment primarily responsible for awarding the doctorate and several professional degrees, including in medicine and law.

There are ten UC campuses: Berkeley, Davis, Irvine, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Barbara, and Santa Cruz. Nine of these are general campuses and offer undergraduate, graduate, and professional education. The San Francisco campus is devoted exclusively to the health sciences. The UC operates five teaching hospitals in Los Angeles, San Francisco, Sacramento, San Diego, and Orange counties. The UC has more than 800 research centers, institutes, laboratories, and programs in all parts of the state. The UC also provides oversight of one United States Department of Energy laboratory and is in partnerships with private industry to manage two additional Department of Energy laboratories.

The UC is governed by the Board of Regents which, under Article IX, Section 9 of the California Constitution, has "full powers of organization and governance," subject only to very specific areas of legislative control. The article states that "the university shall be entirely independent of all political and sectarian influence and kept free therefrom in the appointment of its Regents and in the administration of its affairs." The Board of Regents consists of 26 members, as defined in Article IX, Section 9, each of whom has a vote (in addition, two faculty members — the chair and vice chair of the Academic Council — sit on the board as non-voting members):

- 18 regents are appointed by the governor for 12-year terms.
- One is a student appointed by the Regents to a one-year term.
- Seven are ex officio members — the Governor, Lieutenant Governor, Speaker of the Assembly, Superintendent of Public Instruction, president and vice president of the Alumni Associations of UC and the UC president.

The Governor is officially the president of the Board of Regents; however, in practice the presiding officer of the Regents is the Chair of the Board, elected by the board from among its members for a one-year term, beginning each July 1. The regents also appoint its officers of general counsel; chief investment officer; secretary and chief of staff; and the chief compliance and audit officer.

The following table displays the budgeted expenditures and positions for the UC, as proposed in the Governor's budget. Of the amounts displayed in the table, \$2.9 billion in 2014-15, \$3.3 billion in 2015-16, and \$3.4 billion in 2016-17 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

**University of California
Budgeted Expenditures and Positions
(Dollars in Millions)**

	2014-15	2015-16	2016-17
Personal Services	\$11,147	\$11,715	\$12,285
Operating Expenses and Equipment	\$16,709	\$17,161	\$17,490
Total Expenditures	\$27,856	\$28,876	\$29,775
Positions	96,008	96,872	9,687

California State University. The CSU system is comprised of 23 campuses, consisting of 22 university campuses and the California Maritime Academy. The California State Colleges were brought together as a system by the Donahoe Higher Education Act of 1960. In 1972, the system became the California State University and Colleges; the name of the system was changed to the California State University in January 1982. The oldest campus, San Jose State University, was founded in 1857 and became the first institution of public higher education in California. Joint doctoral degrees may also be awarded with the UC. The program goals of the CSU are to:

- Provide instruction in the liberal arts and sciences, the professions, applied fields that require more than two years of college education, and teacher education to undergraduate students and graduate students through the master's degree.
- Provide public services to the people of the state of California.
- Support the primary functions of instruction, public services, and student services in the University.
- Prepare administrative leaders for California public elementary and secondary schools and community colleges with the knowledge and skills needed to be effective leaders by awarding the doctorate degree in education.
- Prepare physical therapists to provide health care services by awarding the doctorate degree in physical therapy.
- Prepare faculty to teach in postsecondary nursing programs and, in so doing, help address California's nursing shortage by awarding the doctorate degree in nursing practice.

The CSU Board of Trustees is responsible for the oversight of the system. The board adopts rules, regulations, and policies governing the CSU. The board has authority over curricular development, use of property, development of facilities, and fiscal and human resources management. The 25-member Board of Trustees meets six times per year. Board meetings allow for communication among the trustees, chancellor, campus presidents, executive committee members of the statewide Academic Senate, representatives of the California State Student Association, and officers of the statewide Alumni Council. The trustees appoint the chancellor, who is the chief executive officer of the system, and the presidents, who are the chief executive officers of the respective campuses.

The following table displays the budgeted expenditures and positions for the CSU, as proposed in the budget. Of the amounts displayed in the table, \$2.76 billion in 2014-15, \$3.03 billion in 2015-16, and \$3.15 billion in 2016-17 are supported by the General Fund. The remainder of funding comes from tuition and fee revenue and various special and federal fund sources.

**California State University
Budgeted Expenditures and Positions
(Dollars in Millions)**

	2014-15	2015-16	2016-17
Personal Services	\$4,081	\$4,303	\$4,373
Operating Expenses and Equipment	4,968	4,836	4,953
Total Expenditures	\$9,049	\$9,139	\$9,326
Positions	44,079	46,608	46,608

Governor's Proposal

University of California

Multi-Year Funding Plan. The Governor's proposed budget includes a \$125.4 million General Fund increase for the UC to support the Administration's fourth installment of their four-year investment plan in higher education. This plan, initiated in 2013-14, assumes additional General Fund support for the UC, the CSU, and Hastings College of the Law.

For UC, the budget assumes no systemwide tuition and fee increases for resident undergraduate students, except for a \$54 (five percent) increase in the Student Services Fee. The budget assumes UC will enroll 5,000 more resident undergraduates in 2016-17 and receive an associated \$25 million ongoing augmentation in 2015-16, pursuant to the 2015 Budget Act. Additionally in May 2015, the Governor announced his intention to propose four percent General Fund increases for UC in 2017-18 and 2018-19. The Governor also proposed for UC to begin increasing tuition around the rate of inflation in 2017-18.

Deferred Maintenance. The budget proposes \$35 million one-time General Fund for deferred maintenance. Last year, the budget provided \$25 million for this purpose, which UC distributed to campuses for projects ranging from roof repair to fire alarm replacements. UC recently compiled a list of deferred maintenance from its campuses, totaling \$1.2 billion. UC asserts this list is not exhaustive and understates its total backlog.

Energy Projects. The budget proposes \$25 million one-time cap-and-trade funds for energy projects for UC.

Pay Down Debts and Liabilities. The budget provides \$171 million one-time Proposition 2 funds to pay down the unfunded liability of the UC Retirement Plan. This is the second of three proposed payments from Proposition 2 to UC for this purpose. Consistent with the 2015 funding agreement, the UC Regents are expected to establish a retirement program that limits pensionable compensation consistent with the Public Employees' Pension Reform Act of 2014, no later than June 30, 2016.

The Legislative Analyst's Office developed the following charts that display the Governor's January revenue assumptions and UC's corresponding expenditure plan.

University of California Budget
(Dollars in Millions)

Revenue ^a	
2015–16 Revised	
General Fund	\$3,257
Tuition and fees	3,028
Total	\$6,285
2016–17 Changes	
General Fund	\$209
Tuition and fees ^b	158
Subtotal	(\$367)
Other ^c	145
Total	\$512
2016–17 Proposed	
General Fund	\$3,467
Tuition and fees	3,186
Total	\$6,652

Changes in Spending	
UC's Plan for Unrestricted Funds	
General salary increases (3 percent)	\$152
Resident undergraduate enrollment growth (3.4 percent) ^d	50
Academic quality initiatives ^e	50
Faculty merit salary increases	32
Operating expenses and equipment cost increases	30
Health benefit cost increases (5 percent)	27
Deferred maintenance	25
Pension benefit cost increases	24
Debt service for capital improvements	15
Nonresident enrollment growth (3.2 percent) ^f	14
Dream Loan Program	5
Retiree health benefit cost increases	4
Subtotal	(\$428)
Restricted General Fund	
Proposition 2 payments for UC Retirement Plan (one time)	\$171
Deferred maintenance (one time)	35
Remove one-time funding provided in 2015–16	-122
Subtotal	(\$84)
Total	\$512
^a Includes all state General Fund. Reflects tuition after discounts. (In 2016–17, UC is projected to provide \$1.1 billion in discounts.)	
^b Reflects increases in nonresident supplemental tuition (8 percent), the Student Services Fee (5 percent), and increased enrollment, offset by increases in discounts.	
^c Reflects: (1) General Fund for enrollment growth UC intends to carry over into 2016–17, (2) savings from administrative efficiencies, (3) increased revenue from investments, and (4) philanthropy.	
^d UC has not yet indicated its final plan for resident graduate enrollment growth.	
^e For purposes such as increasing instructional support, reducing student-to-faculty ratios, recruiting faculty, increasing faculty salaries, and providing stipends to graduate students. UC indicates it will allow campuses to determine how to spend the funds.	
^f Funded from nonresident tuition.	

California State University

Multi-Year Funding Plan. The Governor’s proposed budget includes a \$148.3 million General Fund increase for CSU—to support the Administration’s fourth installment of their four-year investment plan in higher education.

For CSU, the budget proposes: (1) a \$125.4 million unallocated augmentation identical to UC’s base increase, (2) an additional unallocated \$15 million associated with savings from changes to the Middle Class Scholarship program made in 2015-16, and (3) \$7.9 million for lease-revenue bond debt service. The Governor does not propose enrollment targets or enrollment growth funding and assumes no increase in tuition.

Deferred Maintenance. The budget proposes \$35 million one-time General Fund for deferred maintenance. Last year, the budget provided \$25 million for this purpose, which CSU distributed to campuses for projects ranging from roof repair to fire alarm replacements. CSU has reported that it has roughly \$2.6 billion in deferred maintenance needs, with nearly \$2 billion for facilities and the remainder for campus infrastructure.

Energy Projects. The budget proposes \$35 million one-time cap-and-trade funds for energy projects for CSU. CSU states that it would fund several types of projects with this money, including mechanical retrofit projects (\$18 million), such as replacing fan motors, insulation, boilers, and chilling systems, lighting replacement projects (\$10.4 million), and projects to replace and improve energy information systems on campuses (\$6.6 million).

Precision Medicine. The budget proposes one-time \$10 million over a three year period to the Office of Planning and Research to further research or develop precision medicine. Funding will be distributed through an interagency agreement between OPR and the Regents of the University of California, or an auxiliary organization of the California State University.

The LAO developed the chart on the following page that displays the Governor’s January revenue assumptions and CSU’s corresponding expenditure plan.

California State University Budget
(Dollars in Millions)

Revenues ^a	Amount
2015–16 Revised	
General Fund	\$3,297
Tuition	2,273
Total	\$5,570
2016–17 Changes	
General Fund	\$187
Tuition ^b	16
Total	\$203
2016–17 Proposed	
General Fund	\$3,484
Tuition	2,288
Total	\$5,772
Changes in Spending	
CSU's Plan for Unrestricted Funds	
Employee compensation increase (2 percent)	\$70
Resident enrollment growth (1 percent)	37
Employee health benefits	35
Lease–revenue debt service	8
Pension benefits ^c	7
Maintenance of newly constructed facilities	1
Other ^d	7
Subtotal	(\$164)
Restricted General Fund	
Deferred maintenance (one time)	\$35
Retiree health benefits	27
College Textbook Affordability Act (ongoing)	2
Remove one–time funding in 2015–16	–25
Subtotal	(\$39)
Total	\$203
^a Reflects General Fund, including most appropriations outside of CSU's main appropriation. Reflects tuition after discounts. In 2016–17, CSU is projected to provide \$668 million in discounts.	
^b Generated from 1 percent enrollment growth.	
^c Reflects higher pension costs that CSU must fund from within its base increase. The state is providing CSU an estimated \$52 million (not shown) for higher pension costs attributed to its 2013–14 payroll level.	
^d CSU has not yet specified how it would allocate this funding. It has identified capital improvements and student success initiatives as possible priorities. This amount slightly differs from CSU's Academic Sustainability Plan due to different tuition revenue assumptions made by the Governor and CSU.	

Segments' Adopted Budget

UC's Budget Plan. As a part of the 2016-17 budget approved by the Regents in November of 2015, UC requests additional funding above the Governor's proposal. UC requests the following increases:

- **Graduate Student Enrollment** - \$6 million General Fund to enroll 600 more graduate students. As UC increases enrollment for undergraduates, it states that additional graduate students are needed to support faculty in the research mission of the University and to help with the teaching load associated with additional undergraduates.
- **Cap-and-Trade** - \$69.1 million in one-time cap-and-trade funds in 2016-17, which UC would match with \$81 million of university funds, to reduce greenhouse gas emissions and reduce energy use in existing buildings to help support the UC's commitment to become carbon neutral by 2025. UC proposes using this funding for energy efficiency improvements, solar installations, and biogas development, which seeks to convert agricultural waste into energy.
- **Transportation Research** - \$9 million over three years from the Public Transportation Account to augment the state contribution to the Institute for Transportation Studies. The Institute conducts research in five areas that the state has identified as critical, including climate change and infrastructure development. The institute currently receives less than \$1 million from the state's Public Transportation Account.

CSU's Budget Plan. As a part of the 2016-17 budget approved by the Board of Trustees, CSU requests additional increases above the Governor's proposal. CSU requests the following increases:

- **Enrollment Growth** - \$110 million for funded three percent, or 10,700 FTES, enrollment growth, including undergraduate and graduate students. Under the Governor's proposal, CSU would only be able to grow enrollment by one percent, or 3,565 FTES. This includes net tuition revenue adjustment, which is associated with increased enrollment.
- **Student Success and Completion Initiative** - \$50 million across the system, with an average allocation of \$2.2 million per campus to prioritize investments to improve graduation rates, reduce achievement gaps, and increase the number of degree completions at CSU.
- **Facilities and Infrastructure Needs** - \$25 million ongoing for infrastructural renewal needs and improvements, such as technology network, building replacements/renovations, and debt service.
- **Cap-and-Trade** - \$55 million one-time to implement greenhouse gas and energy reduction projects.
- **Deferred Maintenance** - \$15 million one-time to address maintenance backlog.

Given that significant budget authority has been delegated to UC and CSU, the Legislature has historically relied on two primary budgetary control levers or “tools”— earmarks and enrollment targets — to ensure that state funds are spent in a manner consistent with the Legislature’s intent and that access is maintained. The use of these tools has also ensured a clear public record and transparency of key budget priorities.

Earmarks. Historically, the annual budget act included a number of conditions on UC's and CSU's General Fund appropriations. These earmarks have varied over the years in keeping with the Legislature's and Governor's priorities at the time. Due to the Governor’s vetoes, earmarks for the UC and CSU were essentially eliminated from the budget acts of 2012, 2013 and 2014.

Enrollment Targets. Historically UC’s and CSU’s budgets have been tied to a specified enrollment target. To the extent that the segments failed to meet those targets, state funding associated with the missing enrollment reverted to the General Fund. Since 2007-08, the state budget only twice included both enrollment targets and enrollment growth funding. This was largely due to difficult budget years in which the state reduced support for the universities, and in turn provided the universities with increased flexibility in how to respond. Though the state began to recover its fiscal footing in 2013-14, the Administration’s 2013-14, 2014-15, 2015-16 budget proposals did not provide enrollment targets or enrollment funding, and instead gave the UC and CSU even greater flexibility in managing their resources to meet obligations, operate instructional programs most effectively, and avoid tuition and fee increases. However in the 2015-16 Budget Act, the budget included language to provide UC \$25 million in ongoing funding should UC increase resident undergraduate enrollment by 5,000 students by the 2016-17 academic year, when compared to the 2014-15 academic year. Additionally, budget bill language for CSU stipulates that CSU increase their enrollment by 10,400 full-time equivalent students.

Access. California students seeking to enter college continue to face obstacles. Since fall 2010, CSU has annually turned away more than 20,000 students who are eligible for entrance to a CSU campus, based on Master Plan criteria. (The Master Plan declares that any student finishing in the top one-third of their high school class is eligible for CSU.) When campuses or specific programs receive more eligible applicants than they have resources for, impaction occurs and campuses or programs restrict enrollment. For 2015-16, all programs are impacted at CSU Fullerton, CSU Long Beach, San Diego State University, San Jose State University, and Cal Poly San Luis Obispo. And while UC officials state that they are accepting all eligible high school students (those finishing in the top 12.5 percent of their class), three of UC's campuses – UC Berkeley, UCLA and UC San Diego - have recently enrolled fewer Californians than in the past as they have increased out-of-state and foreign enrollment.

Completion. The Governor’s budget summary notes that fewer than one in five students who enter the CSU as freshman graduate in four years. In a recent report, the CSU indicate that four-year graduation rates of first-time freshman Pell Grant students are 11 percent lower than their peers. Specifically only 11percent of first-time freshman Pell Grant students in the entering class of 2010 graduated in four years, compared with 22 percent to their peers. As noted in their budget request, the CSU have expressed a commitment to addressing this persistent challenge.

Legislative Analyst's Office (LAO) Comments

The LAO recently released "The 2016-17 Budget: Higher Education Analysis" which includes detailed information regarding the Governor's higher education budget proposals. The LAO's analyses of specific proposals such as UC's unfunded pension liability and UC and CSU enrollment and academic quality and performance, will be discussed in detail when the subcommittee hears the related program area.

Unallocated Base Augmentation. Similar to last year, the Governor provides each segment with an unallocated base augmentation that is not linked to a specific purpose. In general, the LAO raised serious concerns about the Governor's overall budgetary and states this proposal makes it difficult to assess whether the augmentations are needed and whether any monies provided would be spent on the highest state priorities. According to the LAO, the Administration's discretionary funding approach diminishes the Legislature's role in key policy decisions and allows the universities to pursue their own interests rather than the broader public interest. The continued unallocated base increases at the UC and CSU dilute the role and authority of the Legislature in the budget process and, as a result, the Legislature will have difficulty assessing whether augmentations are needed and ultimately whether any monies provided would be spent on the highest state priorities. Linking funding with enrollment serves an important state purpose because it expresses the state's priority for student access and connects funding with student-generated costs. Despite these benefits, the Governor continues to disregard the state's longstanding enrollment practices for UC and CSU.

The subcommittee may wish to ask:

- In their 2016-17 budget proposal, the UC Board of Regents requested an additional \$6 million General Fund to support growth in graduate student enrollment, which the board believes will help support the undergraduate student enrollment growth it is pursuing. Why does UC need additional funding for graduate students? What does the Administration think of this proposal?
- CSU has reported that it added more than 10,000 full-time equivalent students in Fall 2015, when compared to 2014. Which campuses added students? Which CSU campuses are in the best position to increase enrollment going forward?
- How many qualified students were not admitted to CSU in Fall 2015? Can CSU develop a referral process to ensure students understand which campuses and programs have openings?

Staff Recommendation. Hold Open.

Issue 2: Capital Outlay – Oversight

Panel

- Raghda Nassar, Budget Analyst, Department of Finance
- Jason Constantouros, Fiscal & Policy Analyst, Legislative Analyst’s Office
- Dan Feitelberg, Vice Chancellor for Planning and Budget, UC Merced
- Elvyra San Juan, Assistant Vice Chancellor, Capital Planning, Design & Construction, California State University

Background

Prior to 2013-14 for UC and 2014-15 for CSU, the state funded construction of state-eligible projects by issuing general obligation and lease-revenue bonds and appropriated funding annually to service the associated debt. General obligation bonds are backed by the full faith and credit of the state and require voter approval. Lease-revenue bonds are backed by rental payments made by the segment occupying the facility and only require a majority vote of the Legislature. The debt service on both is repaid from the General Fund. State eligible projects are facilities that support the universities’ core academic activities of instruction and, and in the case of UC, research. The state does not fund nonacademic buildings, such as student housing and dining facilities.

Chapter 50, Statutes of 2013 (AB 94, Committee on Budget) and Chapter 34, Statutes of 2014 (SB 860, Committee on Budget), revised this method by authorizing UC and CSU, respectively, to pledge its state support appropriations to issue bonds for state eligible projects, and as a result the state no longer issues bonds for university capital outlay projects. The authority provided in AB 94 and SB 860 is limited to the costs to design, construct, or equip academic facilities to address: (1) seismic and life safety needs, (2) enrollment growth, (3) modernization of out-of-date facilities, and (4) renewal or expansion of infrastructure to serve academic programs. SB 860 also included the costs to design, construct, or equip energy conservation projects for CSU. Additionally, the state allows each university to pay the associated debt service and deferred maintenance of academic facilities using its state support appropriation.

Under the new authority, UC and CSU are required to submit project proposals to the Department of Finance and the budget committees of the Legislature by September 1 for the upcoming fiscal year. By February 1, DOF is required to notify the Legislature as to which projects it preliminarily approves. The budget committees then can express any concerns with the projects to DOF. The DOF can grant final approval of projects no sooner than April 1 for the upcoming fiscal year.

SB 81 (Committee on Budget and Fiscal Review), Chapter 22, Statutes of 2015, revised UC’s capital outlay authority to allow them to enter into contracts with private partners to finance, design, construct, maintain and operate state-eligible facilities. SB 81 also expanded the eligible uses of state support funds to include availability payments, lease payments, installment payments, and other similar or related payments for capital expenditures. For the Merced project,

SB 81 requires UC to use its own employees for routine maintenance, meaning the partner only would perform maintenance on major buildings.

Governor's Proposal

On February 17th, the Department of Finance submitted letters to the Legislature listing one UC and 21 CSU projects DOF preliminarily approved.

CSU's 2016–17 capital outlay request includes 21 projects totaling \$535 million. To pay for these projects, CSU would issue bonds worth \$473 million in the coming year, and campuses would provide the remaining funds from their operating reserves. The projects include \$194 million for new facility space at eight campuses and \$341 million for improvements and renovations to facilities and infrastructure at every campus across the system. CSU estimates the total debt service on these projects would range from \$30 million to \$47 million, depending on market conditions at the time the bonds are sold.

The DOF preliminarily approved the following CSU capital outlay proposals:

1. Statewide Infrastructure Improvements (PWC): \$138,291,000 for preliminary plans, working drawings, and construction of approximately 73 projects at 23 campuses. Projects include building systems modernization (plumbing, mechanical, and electrical), replacement of chillers, boilers, and HVAC systems, energy management upgrades, and Americans with Disabilities Act (ADA) upgrades. Campus reserves in the amount of \$18,630,000 will fund various phases of the projects, for a total cost of \$156,921,000.
2. Monterey Bay Academic Building III: \$34,364,000 (\$718,000 for a portion of working drawings and \$33,646,000 for construction) to construct a new 50,800 GSF lecture and office building to address the need for additional capacity related to academic growth in the college of Arts, Humanities, and Social and Behavioral Sciences. Campus reserves in the amount of \$500,000 will fund a portion of the working drawings phase of the project, for a total cost of \$34,864,000.
3. Dominguez Hills Center for Science and Innovation: \$65,321,000 (\$1,526,000 for working drawings, \$60,547,000 for construction, and \$3,248,000 for equipment) to construct a new 80,000 GSF science laboratory and classroom building to serve the biological, physical, and earth science disciplines. Campus reserves in the amount of \$500,000 will fund a portion of the working drawings phase of the project, for a total cost of \$65,821,000.
4. Fullerton McCarthy Hall Science Renovation, Phase 1: \$12,726,000 for construction, to address fire and life safety needs, ADA upgrades, and electrical upgrades. Campus reserves in the amount of \$1,646,000 will fund preliminary plans and \$393,000 will fund working drawings, for a total cost of \$14,765,000.
5. Humboldt Jenkins Science Hall Renovation: \$11,389,000 (\$333,000 for preliminary plans and \$11,056,000 for construction) to renovate and repurpose the building; updates

to the building systems will improve energy use and operating cost efficiency, and will address ADA deficiencies. Campus reserves in the amount of \$368,000 will fund working drawings and \$212,000 will fund equipment, for a total cost of \$11,969,000.

6. San Diego IVC North Classroom Seismic Renovation: \$2,022,000 (\$58,000 for preliminary plans, \$83,000 for working drawings, and \$1,881,000 for construction) to renovate and upgrade the North Classroom Building on the IVC campus. Seismic upgrades as well as ADA code deficiencies will be addressed.
7. Chico Siskiyou II Science Replacement Building: \$73,651,000 (\$2,606,000 for preliminary plans and \$71,045,000 for construction) to construct a new building to replace the existing seismically deficient Physical Sciences Building. The replacement building will include science classrooms, wet lab space, faculty office space, a data center, and a vivarium. Campus reserves in the amount of \$2,414,000 will fund working drawings and \$4,521,000 will fund equipment for a total cost of \$80,586,000.
8. San Jose Science Replacement Building: \$2,755,000 for preliminary plans to build a replacement facility for the Biology and Chemistry Departments in the College of Science. The facility will include wet laboratories, faculty offices, and graduate research space.
9. Fresno Central Plant Replacement, Phase 1: \$23,087,000 (\$1,428,000 for preliminary plans and \$21,659,000 for construction) to replace the existing central plant components (chillers/boilers/cooling towers/HVAC systems) campus wide. Campus reserves in the amount of \$5,601,000 will fund working drawings and \$851,000 will fund equipment for a total cost of: \$29,539,000.
10. Fullerton Pollak Library Renovation, Phase 1: Campus reserves in the amount of \$12,748,000 (\$320,000 for preliminary plans, \$385,000 for working drawings, \$11,295,000 for construction, and \$748,000 for equipment) will renovate the entire first floor of the library, as well as the fourth and fifth floors of the south wing. This campus-funded project will be completed in four phases.
11. Long Beach Student Success Building/Peterson Hall 2: \$38,156,000 for construction to renovate the building to provide space for academic advising, disabled student services, learning assistance, teaching lab spaces. The project will address seismic deficiencies (the building is currently rated a seismic level 5). Campus reserves in the amount of \$1,084,000 will fund preliminary plans, \$1,355,000 will fund working drawings, and \$2,762,000 will fund equipment for a total cost of \$43,357,000.
12. East Bay Library Seismic Renovation: \$50,255,000 (\$1,541,000 for preliminary plans and \$48,714,000 for construction) to renovate the East Bay library building. The renovation will address seismic deficiencies; upgrade fire and life safety systems, and building system renewals. The facility is currently rated a seismic level 6. Campus reserves in the amount of \$1,571,000 will fund working drawings and \$3,000,000 will fund equipment for a total cost of \$54,826,000.

13. Stanislaus Library Seismic Renovation: \$3,539,000 (\$1,841,000 for preliminary plans, \$1,728,000 for working drawings) to renovate the library building. The renovation will address seismic deficiencies, upgrade fire and life safety systems, ADA compliance, and will upgrade plumbing and mechanical equipment. The facility is currently rated a seismic level 5.
14. Northridge Sierra Hall Renovation, Phase 1: \$1,867,000 for preliminary plans to renovate the instructional lab building. The renovation will be completed in two phases; phase 1 will reconfigure and modernize lecture space and teaching labs. The renovation will also address ADA and fire and life safety deficiencies. Campus reserves in the amount of \$1,862,000 will fund working drawings, for a total cost of \$3,729,000.
15. San Diego Utilities Upgrade, Phase 1: Campus reserves in the amount of \$1,730,000 will fund the preliminary plans phase of this project, to correct campus utility infrastructure deficiencies. Upgrades will be made to campus electrical systems, chiller plant systems, steam lines, and steam boilers.
16. Sacramento Utilities Infrastructure, Phase 1: \$3,724,000 (\$1,996,000 for preliminary plans and \$1,728,000 for working drawings) for the first phase of utilities infrastructure improvements. Improvements will upgrade and extend the storm water collection system, irrigation pumps, natural gas distribution system, chilled water system, and the domestic water distribution system.
17. Channel Islands Gateway Hall: \$1,983,000 for the preliminary plans phase of a new project to renovate and expand the facility. The project also includes the demolition of hospital wings on the north side of the campus. Expansion will add 56,900 square feet of space to accommodate 1,485 full-time students and 80 faculty offices.
18. Los Angeles JFK Library Seismic Renovation: \$1,900,000 for the preliminary plans phase of a new project to renovate the library and correct seismic deficiencies. The facility is currently rated a seismic level 5.
19. Maritime Academy Learning Commons: \$1,458,000 (\$708,000 for preliminary plans and \$750,000 for working drawings) to construct a new 50,000 square foot building that will connect to the existing campus library to allow for the expansion of enrollment and programs.
20. Sonoma Professional Schools Building: \$2,306,000 (\$1,125,000 for preliminary plans and \$1,181,000 for working drawings) to construct a new 62,300 square foot building to house professional disciplines of business administration, education, and nursing. The project will include lecture space to accommodate 513 full-time students and 100 faculty offices.
21. Bakersfield Humanities Classroom: \$4,386,000 (\$109,000 for preliminary plans and \$4,277,000 for construction) to construct a 6,700 square foot addition to the Humanities

Office Building complex. The addition will allow the campus to accommodate the general lecture requirements of the undergraduate degree program by utilizing larger classrooms with 120 or more stations, as opposed to multiple smaller classrooms with 20-30 stations. Campus reserves in the amount of \$143,000 will fund working drawings and \$72,000 will fund equipment for a total cost of \$4,601,000.

UC capital outlay project preliminarily approved for 2016-2017. The DOF preliminarily approved one UC capital outlay projects totaling \$527 million in 2016-17, including \$400,000,000 from external financing and \$127,300,000 from developer funding

- **The Merced—State 2020 Project:** \$527,300,000 total costs (\$18,857,000 for preliminary plans, \$43,999,000 for working drawings, \$428,343,000 for construction, and \$36,101,000 for equipment). The Merced—State 2020 Project will include instructional, research, and academic office space, an enrollment center, and campus operations. This project is part of the larger comprehensive Merced 2020 Project (totaling \$1.1 billion) that will accommodate enrollment growth from the current 6,200 students to 10,000 students by the year 2020, allowing the campus to attain self-sufficiency. The annual cash flow requirement to fulfill the Merced 2020 Project obligations for state eligible facilities is estimated to be \$47 million (and \$58 million for non-state eligible facilities). UC anticipates financing its payment obligations from several different sources, including revenue generated by campus auxiliaries, other campus revenue and fee sources, and its General Fund support appropriation.

**Proposed New Space and Cost for UC Merced Project
(Dollars in Millions)**

	Assignable Square Feet	Cost
State—Eligible		
Research labs and support	181,000	\$300
Faculty and administrative offices	144,600	121
Classrooms, teaching labs, and other instructional space ^a	69,800	86
Other ^b	19,000	20
Subtotals	(414,400)	(\$527)
Not State—Eligible		
Housing	380,500	\$258
Student recreation	122,600	163
Parking	—	95
Other	—	100
Subtotals	(503,100)	(\$616)
Totals	917,500	\$1,143
^a Includes flexible space adjacent to research laboratories. UC indicates this space will be for faculty and student interaction.		
^b Facilities for public safety, environmental safety, and workplace safety personnel.		

UC Proposes to Deliver Project Using Public–Private Partnership. Under the partnership, the partner would design and construct the facilities. As noted above, UC would issue \$400 million in bonds for construction of the state–eligible facilities. The partner would finance the remaining \$127 million for these facilities. Under the contract, UC would pay the partner for the construction costs in three installments upon completion of certain construction milestones. UC states that this payment schedule would provide an incentive for the partner to complete construction without delays.

Annual Ongoing Costs. The LAO notes that that the UC’s annual ongoing costs for the project would initially total \$47 million, specifically UC would cover annual debt service on the bonds it issued for state–eligible facilities (\$21 million) and would perform annual routine maintenance on the new facilities (\$7.3 million). In addition, UC would make annual payments to the partner for the partner’s financing costs (\$13 million) and for the partner to perform maintenance on major building systems (\$5.4 million). UC indicates that the contract it plans for the partnership would allow it to reduce or withhold these payments if the facilities do not meet certain operational standards. For example, if a facility were to shut down and no longer be available for use, UC could withhold funding from the partner. In 2055, UC would assume full responsibility for the operation and maintenance of the facilities.

Legislative Analyst’s Office Comments

The Legislative Analyst’s Office recently released a report, “Review of the UC’S Merced Campus Expansion Proposal,” which includes detailed information regarding the UC Merced proposal and issues for legislative consideration.

Enrollment Considerations. UC cites enrollment growth as the key justification for expanding the Merced campus, and LAO notes that the Legislature may wish to consider the appropriate enrollment growth UC should undertake. Student demand varies by campus, with Berkeley, Los Angeles and San Diego receiving the most applicants. In order to accommodate all eligible applicants UC traditionally redirects some eligible students to UC Merced. The 2015-16 budget set an expectation that UC enroll 5,000 more undergraduate resident students in 2016-17 than in 2014-15. The 2015-16 budget made a \$25 million augmentation contingent on meeting this enrollment expectation. UC plans to meet these expectations, and accordingly, UC Merced is expected to increase enrollment by 450 students.

LAO notes that over 40 percent of the proposed state-eligible space and over 50 percent of the estimated state construction cost is for new research facilities. Increasing research activities increases cost because it increases the campus’s overall space needs and research space is the costliest type of space to construct. The LAO suggests that the Legislature could prioritize the construction of instructional space, including teaching laboratories, enabling the campus to continue to continue accommodating more student and reducing cost.

Procurement Method and Costs Considerations. UC asserts that a private partner could develop innovative construction and maintenance practices that would produce long-term savings relative to a design-bid-build or design-build procurement method. Although these savings are plausible, LAO notes savings are highly uncertain because the state has entered into only a few partnerships and evidence from other states is limited. The partner will face higher interest rates than UC when issuing debt, thereby increasing financing costs for the project. In LAO's view, UC has not been able to provide sufficient evidence that construction and maintenance costs would be low enough under a public-private partnership to outweigh the likelihood of increased financing costs. Therefore, LAO notes that savings from public-private partnership are uncertain.

Although UC asserts that a public-private partnership would transfer risks associated with the construction and operations of a facility onto the private partner, the partner most likely will factor these risks into its bid. As public-private partnerships tend to entail complex legal contracts, with each side attempting to minimize risk, disputes are common. For this project, future disputes between UC and the partner over the terms of the contract could be numerous and serious. For instance, UC could experience costly disputes with the partner if the contract fails to address an unforeseen issue or lacks clarity on a specific performance metric. Such disputes have occurred in other public-private partnership projects in California and created increased costs for the state agencies involved in the disputes.

Improve Maintenance. Under the proposal, UC would be contractually obligated to provide ongoing payments to the partner to maintain the project's facilities. The contract also would require the partner to maintain a reserve account to ensure that funding is available for scheduled facility renewal. A stable budget for maintenance could prevent the campus from accumulating a large deferred maintenance backlog.

Staff Comments: The Governor's approach was a dramatic departure from how UC and CSU capital outlay has been historically addressed. The Administration indicated the motivation for combining the universities' support and capital budgets was to provide universities with increased flexibility, given limited state funding. However, the Administration did not identify specific problems with the previous process used or any specific benefits the state might obtain from the new process.

Project Prioritization. The change occurred without any analysis of ongoing need, not only for capital outlay but also deferred maintenance at existing buildings, and for campuses that might be needed in the future. While UC only has one proposed project this year, LAO notes that UCOP does not have a process for prioritizing projects across campuses, and gives campuses broad discretion to set their own capital priorities. Whereas, the CSU Chancellor's Office performs assessments and ranks projects on behalf of all campuses, giving priority rankings to projects that mitigates risks associated with campus or partial campus shutdown. However, some ambiguity remains with CSU's prioritization of other projects included in its capital outlay request. For example, some projects do not appear to be associated with mitigating risks of a campus shutdown. Additionally, the Department of Finance also notes they do not provide UC and CSU guidance on how to prioritize their capital outlay projects. Lastly, the Legislature does

not have a system to prioritize projects within each higher education segment and among all higher education segments. Last year, the LAO recommended the state set priorities for projects to provide more guidance to segments. For example, the Legislature could state its priorities for funding projects in a certain order, such as (1) life safety, (2) seismic corrections, (3) modernization, and (4) program expansions.

Timeline for Review. As noted above, statute requires DOF to notify the Legislature as to which projects it preliminarily approves by February 1. The budget committees then can express any concerns with the projects to DOF, and DOF can grant final approval of projects no sooner than April 1 for the upcoming fiscal year. However, DOF submitted the preliminary approved list on February 17, 2016, past the statutory deadline. The subcommittee may wish to request an extension on the timeframe for legislative review.

The subcommittee may wish to ask:

- Regarding the UC Merced 2020 Project, why does UC believe a public-private partnership is the appropriate method to construct and operate new buildings? Will UC seek state funding for the \$47 million annual payment associated with this project once it is completed in 2020? Is UC considering other public-private partnerships?
- How does UC prioritize capital outlay projects?
- Based on the Governor's budget, how is CSU prioritizing capital outlay projects?