
SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair

2017 - 2018 Regular

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| Bill No: | SB 1225 | Hearing Date: | March 21, 2018 |
| Author: | Glazer | | |
| Version: | February 15, 2018 | | |
| Urgency: | Yes | Fiscal: | Yes |
| Consultant: | Ian Johnson | | |

Subject: Education finance: Higher Education Facilities Bond Act of 2018

NOTE: This bill has been referred to the Committees on Education and Governance and Finance. A "do pass" motion should include referral to the Committee on Governance and Finance.

SUMMARY

This bill, an urgency measure, places a \$4 billion general obligation bond on the November 2018 ballot for the construction, reconstruction, and remodeling of existing or new facilities at the University of California (UC), the California State University (CSU), and the Hastings College of the Law.

BACKGROUND

From the late 1980s to 2006, the Legislature placed on the ballot and voters approved bonds that have included support for public higher education every two to four years. The last statewide general obligation bond to include support for public higher education was Proposition 1D (AB 127, Núñez and Perata, Chapter 35, Statutes of 2006), authorizing the sale of \$10.4 billion in general obligation bonds, of which \$3.087 billion was earmarked for higher education facilities. Of this amount, \$1.5 billion was provided for the community colleges, \$890 million for UC, and \$690 million for CSU. All Proposition 1D higher education facilities funds have been depleted.

Since 2006, no general obligation bonds supporting higher education have been enacted. Instead, the higher education segments have received capital funding from lease-revenue bonds through the annual budget acts. Bond funds, whether lease-revenue or general obligation, are allocated through the budget process in accordance with the segments' five-year capital facility plans.

ANALYSIS

This bill places a \$4 billion general obligation bond on the November 2018 ballot for the construction, reconstruction, and remodeling of existing or new facilities at UC, CSU, and the Hastings College of the Law. Of the total amount of bonds authorized, one-half are for UC and the Hastings College of the Law and one-half are for CSU.

Specifically, this bill:

- 1) Enacts the Higher Education Facilities Bond Act of 2018, which, upon approval at the November 2018 statewide election, authorizes no more than \$4 billion of

state general obligation bonds for the construction, reconstruction, and remodeling of existing or new facilities at the University of California (UC), the California State University (CSU), and the Hastings College of the Law.

- 2) Specifies that allowable uses of the funds include the following: (1) construction of buildings and the acquisition of related fixtures, (2) the equipping of new, renovated, or reconstructed facilities, including preconstruction costs, including, but not necessarily limited to, preliminary plans and working drawings, (3) renovation and reconstruction of facilities, and (4) the construction or improvement of off-campus facilities of CSU, approved by the CSU Trustees on or before July 1, 2014, including the acquisition of sites upon which these facilities are to be constructed.
- 3) Authorizes the Higher Education Facilities Finance Committee, consisting of the Governor, the Controller, the Treasurer, the Director of Finance, the UC President, the CSU Chancellor, and the Chancellor of the California Community Colleges, to create debt or debts, liability or liabilities, of the State of California pursuant to this measure.
- 4) States that any request forwarded to the Legislature and the Department of Finance for funds from this bond issue for expenditure by the UC or CSU shall be accompanied by the five-year capital outlay plan of the particular university or college, and shall include a schedule that prioritizes the seismic retrofitting needed to significantly reduce, by the 2024–25 fiscal year, in the judgment of the particular university or college, seismic hazards in buildings identified as high priority by the university or college.
- 5) Specifies that the Treasurer shall sell the bonds authorized by the committee at times necessary to service expenditures required by the apportionments and bonds authorized by this part shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code).
- 6) Requires the Committee to authorize the issuance of bonds only to the extent necessary to fund the apportionments that are expressly authorized by the Legislature in the annual Budget Act, as specified.

STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, “Since 2006, despite a deteriorated fiscal condition for both the UC and CSU, no higher education-specific bonds have been authorized. Instead, the UC and CSU are able to raise capital funding in limited amounts through their General Revenue Bond Program and Systemwide Revenue Bond Program, respectively. This, however, is an unsustainable way for the segments to meet their capital needs—currently identified to be over \$8 billion combined. Further, these bond programs, which must be paid back by the systems themselves, can result in higher costs to students and their families.”

“The last higher education-specific bond passed was Proposition 153 in 1992, which authorized a bond issue of \$900 million for the strengthening, upgrading and constructing of public colleges and universities throughout the state.”

“Public support is growing for improving campus infrastructure: In a December 2016 PPIC statewide survey on higher education, two in three Californians (65%) agree with the general idea of a bond measure on the state ballot for higher education construction projects. This is an 11-point increase in support since December 2014 and the highest level of support since PPIC first began asking the question in 2007.”

- 2) ***What are the facilities needs of the segments?*** The University of California (UC) and California State University (CSU) report the following capital needs:
 - a) The UC reported that combining the projects included in its Capital Financial Plan with its current deferred maintenance backlog puts the five-year capital need at nearly \$14 billion. However, UC conceded that, of this amount, about \$6 billion could be funded with existing resources.
 - b) The CSU reported their capital needs for academic programs total about \$8.4 billion. However, about \$200 million of the need was anticipated to be met with current revenue bonds.

The last statewide general obligation bond supporting the higher education segments, Proposition 1D, provided \$890 million for UC and \$690 million for CSU. After accounting for the available resources at UC and CSU, the capital needs of the segments appear to be equivalent.

- 3) ***How are the segments funded for their facilities needs currently?*** Over the past few years, the responsibility for capital outlay projects has shifted from the state to the UC and CSU through the state’s annual budget. The segments are now able to use their general fund to support capital outlay projects or to fund revenue bond debt service, with the expectation that they prioritize their capital expenditures within their overall operating budgets. However, UC and CSU maintain that this shift does not preclude them from participating in a state general obligation bond. Further, the segments have expressed that they are not funded adequately for their operations currently, let alone at a level that can also support all of their facilities costs.
- 4) ***What is the state’s cost exposure?*** Based on the legislative analyst office’s analysis of the costs associated with Proposition 51 of 2016, the \$4 billion in bonds authorized by this bill would cost about \$7.8 billion to repay, including an estimated \$3.8 billion in interest, at an annual cost of about \$220 million per year.
- 5) ***Previous Legislation***

SB 483 (Glazer and Allen, 2017) would have placed a \$2 billion general obligation bond on the November 2018 ballot for the construction, reconstruction, and remodeling of existing or new facilities at the University of California (UC),

the California State University (CSU), and the Hastings College of the Law. The measure was held in the Senate Appropriations Committee.

AB 1433 (Gray, 2016) would have authorized an unspecified amount of state general obligation bonds for the California Community Colleges (CCC), the UC, the Hastings College of the Law, and the CSU to construct and modernize education facilities. The measure was held in the Assembly Appropriations Committee.

AB 1088 (O'Donnell, 2015), would have authorized an unspecified amount of state general obligation bonds for school districts, county superintendents of schools, county boards of education, charter schools, the CCC, the UC, the Hastings College of the Law, and the CSU to construct and modernize education facilities. The measure was held in the Assembly Appropriations Committee.

SUPPORT

California State University
University of California

OPPOSITION

None received

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