

Date of Hearing: June 26, 2018

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

SB 1225 (Glazer) – As Introduced February 15, 2018

**SENATE VOTE:** 34-5

**SUBJECT:** Education finance: Higher Education Facilities Bond Act of 2018.

**SUMMARY:** Enacts a \$4 billion general obligation bond for higher education facilities, to be considered by the voters at the November 2018 ballot for the construction, reconstruction, and remodeling of existing or new facilities at the University of California (UC), the Hastings College of the Law (Hastings), and the California State University (CSU); and, specifies that of the total amount of bonds authorized, one-half are for UC and Hastings, 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 UC, Hastings, and the CSU.
- 2) Specifies that allowable uses of the funds include the following:
  - a) Construction of buildings and the acquisition of related fixtures;
  - b) The equipping of new, renovated, or reconstructed facilities, including preconstruction costs, including, but not necessarily limited to, preliminary plans and working drawings;
  - c) Renovation and reconstruction of facilities; and,
  - d) 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 (Committee), consisting of the Governor, the Controller, the Treasurer (who serves as the Chair), the Director of Finance, the UC President, the CSU Chancellor, or their designees, 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.

**EXISTING LAW:**

- 1) Stipulates that the Legislature shall not, in any manner create any debt or debts, liability or liabilities, which shall, singly or in the aggregate with any previous debts or liabilities, exceed \$300,000 unless enactment has been passed by a two-thirds vote of all the members elected to each house of the Legislature and until, at a general election or at a direct primary, it shall have been submitted to the people and shall have received a majority of all the votes cast for and against it at such election (California Constitution, Article XVI, Section 1).
- 2) Requires the Governor to annually submit to the Legislature, in conjunction with the Governor's Budget, a proposed five-year infrastructure plan, which among other things, shall include the instructional and support facilities needs of UC and CSU (Government Code Section 13102).
- 3) Authorizes CSU to use up to 12 percent of its General Fund support budget, less the amount required to fund general obligation bond payments and State Public Works Board rental payments, to fund capital outlay projects, either on a pay-as-you-go approach or to pay principal and interest on university-issued revenue bonds (Education Code (EC) Section 89770, et seq.).
- 4) Authorizes UC to use up to 15 percent of its General Fund support budget, less the amount required to fund general obligation bond payments and State Public Works Board rental payments, to fund capital outlay projects, either on a pay-as-you-go approach or to pay principal and interest on university-issued revenue bonds (EC Section 92943, et seq.).
- 5) Under the State University Revenue Bond Act of 1947, authorizes the CSU Board of Trustees to construct operate and control certain facilities, including student housing and boarding facilities, and to establish charges for use of such facilities (EC Section 90010, et seq.).
- 6) Under the UC Dormitory Revenue Bond Act of 1947, authorizes the UC Board of Regents to construct operate and control certain facilities, including student housing and boarding facilities, and to establish charges for use of such facilities (EC Section 92400, et seq.).
- 7) The Kindergarten-University Public Education Facilities Bond Act of 2006, authorized \$10.4 billion in general obligation bonds, including \$3.1 billion for higher education facilities, of which UC received \$890 million and CSU received \$690 million (EC Section 101000, et seq.).
- 8) The Kindergarten Through Community College Public Education Facilities Bond Act of 2016, approved by the voters in November 2016 (Proposition 51), authorized \$9 billion state general obligation bonds for K-12 facilities (\$7 billion) and California Community College (CCC) facilities (\$2 billion) (EC Sect. 101110, et seq.).

**FISCAL EFFECT:** According to the Senate Appropriations Committee, the authorization of \$4 billion in general obligation bonds is expected to result in General Fund costs of approximately \$7.8 billion to repay, including \$3.8 billion in interest, at an annual cost of \$220 million.

**COMMENTS:** *Urgency clause.* This measure contains an urgency clause.

*Background.* Since the late 1980s, the Legislature has placed on the ballot and voters have approved bonds for public higher education every two to four years. The last statewide general obligation bond, Proposition 1D (AB 127, Núñez and Perata, Chapter 35, Statutes of 2006), was approved by voters in November 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 CCC facilities, \$890 million was provided for UC, and \$690 million was provided for CSU. All Proposition 1D higher education facilities funds have been depleted and K-12 funds have almost been exhausted.

Since 2006, as the state's fiscal condition continued to deteriorate, legislation needed to authorize education bonds was not enacted. Instead, since 2008 the higher education segments have received capital funding from lease-revenue bonds through the annual budget acts; however, these funds have met less than half of the segments' capital needs. Bond funds, whether lease-revenue or general obligation, are allocated through the budget process in accordance with the segments' five-year capital facility plans.

Additionally, in November 2012, California voters approved Proposition 39 to close a corporate tax loophole and increase the state's annual corporate tax revenues by as much as \$1.1 billion. Proposition 39 specified that half of the revenue generated from 2013-2018, up to \$550 million, should support energy efficiency and alternative energy projects at public schools, colleges, universities and other public buildings, as well as related public-private partnerships and workforce training.

*Need for this measure.* According to the author, "Higher education facilities are in dire need of improvement, and it is difficult to draw general fund dollars away from other competing needs". The author contends, "A bond is a more economical way to address infrastructure needs, as it spreads the fiscal cost over decades".

#### *Summary of Capital Needs.*

- UC's inventory of capital assets totals approximately 137 million gross square feet in 6,000 buildings. More than half of UC's space is at least 30 years old. UC's capital plan estimates capital needs totaling \$27.6 billion through 2022-23. Of this total, UC indicates that \$10.9 billion constitute projects eligible for state funding. (Excluded from this amount are capital outlays for UC's medical centers and for auxiliary enterprises, such student housing and parking facilities, which are historically funded with revenue bonds repaid through user fees.) UC indicates that it lacks a fund source for \$5.1 billion in state-supportable projects identified in its plan.

While indicating that it is fulfilling a portion of its funding needs, even for state supportable projects, with private donations and the implementation of public-private partnerships (P3s), as well as through its support budget, UC maintains that it cannot sustain its capital program solely with this approach. UC notes that, while state support for capital outlay, through

specific capital appropriations, averaged almost \$500 million between 1996 and 2012, state support since that time has been only \$190 million annually, all of which is a reallocation of operating funds for debt service.

According to UC, "Without an infusion of additional funding, the ability to fully implement the capital program is uncertain and in many cases, unlikely. This funding gap highlights the urgency for new State funding. A new State General Obligation Bond would provide much needed resources to support the University's important mission."

- CSU's inventory of capital assets totals approximately 86 million gross square feet in 2,100 buildings. More than half of CSU's space is over 40 years old, and its deferred maintenance backlog exceeds \$2 billion. CSU's most recent five-year plan identifies a funding need \$14.1 billion, consisting of \$8.2 billion for academic facilities and \$5.9 billion for self-supporting facilities (dormitories, parking, etc.).

CSU indicates that the need for campus academic projects and infrastructure is much greater than the available funds. A request to increase the permanent base operating budget by \$15 million was included in the CSU's 2018-19 budget request to the state as a means to finance additional capital outlays. CSU estimates that over \$400 million per year is needed to renew existing academic facilities, provide improvements needed to support the academic program, and address life, safety, and seismic deficiencies.

*Related legislation.* AB 2771 (Eggman, et al.), which is pending action in the Senate, enacts a \$7 billion general obligation bond for higher education facilities, to be considered by the voters at the November 2018 ballot.

*Prior legislation.* Several bond measures have been proposed since 2009 to fund higher education facilities. The most recent of these are:

SB 483 (Glazer and Allen) of 2017, which was held on Suspense in the Senate Appropriations Committee, proposed a \$2 billion bond for the November 2018 ballot facilities at UC, CSU, and Hastings.

AB 1433 (Gray) of 2016, which was held on Suspense in the Assembly Appropriations Committee, authorized an unspecified amount of bonds for the UC, CSU, CCC and Hastings.

AB 1088 (O'Donnell) of 2015, which was held on Suspense in the Assembly Appropriations Committee, authorized an unspecified amount of bonds for school districts, county superintendents of schools, county boards of education, charter schools, the CCC, CSU, Hastings, and UC.

## **REGISTERED SUPPORT / OPPOSITION:**

### **Support**

California State University  
California Teamsters  
East Bay Leadership Council  
State Building and Construction Trades Council, AFL-CIO

University of California  
University of California Student Association

**Opposition**

None on file.

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