

Date of Hearing: June 11, 2019

**ASSEMBLY COMMITTEE ON HIGHER EDUCATION**

Jose Medina, Chair

SB 14 (Glazer and Allen) – As Amended April 22, 2019

**SENATE VOTE:** 34-4

**SUBJECT:** Education finance: Higher Education Facilities Bond Act of 2020.

**SUMMARY:** Places an \$8 billion general obligation bond on the March 2020 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. Specifically, **this bill:**

- 1) Enacts the Higher Education Facilities Bond Act of 2020, which, upon approval by the voters, authorizes no more than \$8 billion of state general obligation bonds for the construction, reconstruction, and remodeling of existing or new facilities at the UC, the 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 (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 (CCC), to create debt or debts, liability or liabilities, of the State of California pursuant to this bill.
- 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) Requires the CCC Chancellor's Office to prepare a five-year capital outlay plan identifying the CCC's statewide needs and priorities (Education Code (EC) Section 67501).
- 4) Authorizes CSU to use up to 12% 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 89770, et seq.).
- 5) Authorizes UC to use up to 15% 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.).
- 6) 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.).
- 7) 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.).
- 8) 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.).
- 9) 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 Section 101110, et seq.).

**FISCAL EFFECT:** According to the Senate Appropriations Committee, the authorization of \$8 billion in general obligation bonds is expected to result in General Fund costs of approximately \$15.6 billion to repay, including \$7.6 billion in interest, at an annual cost of \$440 million.

**COMMENTS:** *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, many CSU and UC buildings are over 30 years old, with "critical safety, infrastructure, and modernization needs." The author contends that there is no current funding system from the state to address the deferred maintenance costs at the CSU and UC.

*Summary of Capital Needs.*

- *The 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. The UC's *Capital Financial Plan 2018-2028* – which provides the systemwide blueprint for developing and maintaining appropriate and necessary facilities – identifies more than \$11.8 billion in unfunded capital need over the next five fiscal years (through 2023-24). The majority of which (\$8.8 billion) is in state supportable education and general facilities.

According to the UC, "As the UC continues to expand student programs and services, additional infrastructure will be necessary to meet our strategic goals and support the University's core mission of education, research, and public service. It is critical that we maintain and renovate our existing facilities, grounds, and infrastructure to ensure current and future generations of UC students enjoy the same high quality of education and experience as prior generations".

- *The CSU's* inventory of capital assets totals approximately 86 million gross square feet in 2,100 buildings. More than half of CSU's facility space is over 40 years or older and a third being over 50 years old. The CSU's five-year capital outlay plan reflects more than \$10 billion in academic infrastructure and \$3.7 billion in deferred maintenance needs.

According to the CSU, “SB 14 provides essential funding for our campuses to expand student capacity in classrooms and labs; address fire, safety, and seismic deficiencies, and to modernize and construct facilities to keep pace with current technology and workforce needs”. The CSU contends that, “Absent this bill, financing our facilities and deferred maintenance needs will continue to come from our operating funds, in direct competition with the resources we need to educate and serve our students”.

*Committee comments.* According to the December 2018 Public Policy Institute of California (PPIC) report, *Financing Higher Education Capital Projects*, there is an increased demand for a CSU education, and the parallel need to invest in critical safety, infrastructures, and modernization of facilities to serve California’s students.

According to the PPIC report, of the three public higher education segments, the CSU faces the greatest challenge in financing capital projects as it receives less funding on a per student basis; has less access to private, philanthropic or other financing sources; and has no ability to issue general obligation bonds on its own.

Additionally, the California Faculty Association (CFA), in their “support if amended” position on this measure, notes that, “While the facilities funding would be welcomed, the distribution between the two systems contained in the bill is questionable. The two systems are not the same and have different needs and structures that have fiscal and policy implications”.

CFA notes that the CSU has 23 campuses while the UC has 10 campuses and the CSU serves almost 485,000 students while the UC serves 238,000 students.

*Keeping the aforementioned in mind, moving forward, the author and the Legislature may wish to determine if the current 50 – 50 split as presently called for in SB 14 is equitable.*

*Related legislation.* AB 13 (Eggman, et al.), which, pursuant to Assembly Rule 56.1, did not have a hearing in this Committee, would have placed the Higher Education Facilities Bond Act of 2020 on the November 3, 2020, statewide general election. AB 13 proposed \$2 billion for UC facilities, \$2 billion for CSU facilities, and \$3 billion for new CSU campuses.

AB 48 (O’Donnell), which is pending action in the Senate Education Committee, places the Kindergarten-Community Colleges Public Education Facilities Bond Acts on the March 3, 2020 primary and November 8, 2022 general elections, to be operative only if approved by voters at the statewide elections.

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

AB 2771 (Eggman, et al.) of 2018, which died on the Senate Floor, in part, enacted a \$7 billion general obligation bond for higher education facilities, to be considered by the voters at the November 2018 ballot.

SB 1225 (Glazer and Allen) of 2018, which died on the Assembly Floor, proposed a \$4 billion general obligation bond measure for UC, CSU and Hastings to be placed on the November 2018 statewide ballot.

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 (Co-Sponsor)  
University of California (Co-Sponsor)

**Opposition**

None on file.

**Analysis Prepared by:** Jeanice Warden / HIGHER ED. / (916) 319-3960