FACTS ABOUT THE UNIVERSITY OF CALIFORNIA

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The Budget Crunch and UC Building Projects

Because of the State of California's fiscal crisis, funding for facilities and infrastructure projects on UC campuses has diminished and construction plans have stalled. Even in this environment, however, the University has continued to look for ways to press forward with certain projects that already were nearing completion, are essential to the institutional mission or address seismic and life safety concerns.

Employees, students, parents, and the public may seek a better understanding of why any construction activity would take place at a time when the University must cope with a major reduction in general-fund budget support from the state. This document is intended to provide a set of quick answers to basic questions.

Q. How much of a reduction has there been in funding for new UC facilities projects?

State bond funding for UC facilities projects has been reduced dramatically. In 2007-08, the last year in which State funding from a voter-approved general-obligation bond was available, UC had a $520 million State-funded facilities program. That fell to $261 million in 2008-09, consisting partly of lease-revenue bonds not requiring voter approval where the principal and interest costs are paid for by the State.

However, many of these funds have been suspended because of the State budget crisis. More than $400 million of the $781 million in approved bond projects over those two fiscal years have been put on hold because they are dependent upon the State's ability to obtain financing or sell bonds. Once the State can access the market again, many previously approved campus facilities will resume construction.

For 2009-10, the University only expects $98 million in funds remaining from prior bonds. In addition, the University is evaluating the financial feasibility of all capital projects funded from non-State sources.

Q. So why are UC campuses still constructing and renovating some buildings during this budget crisis?

UC campuses have a responsibility to provide safe and modern facilities that fill essential needs. Many projects continue to move forward because they are considered essential and are funded by sources not tied to the State budget situation – but that cannot generally be used to replace State funding lost in the University's general fund budget.

There are three main drivers of the University's facilities needs:

- **Seismic and life safety:** Earthquake risks are significant in many of the regions where UC campuses are located. For many years, UC has been pursuing a comprehensive program of seismic improvements to provide safe facilities for students, faculty, staff, and visitors. This program is now approximately 67% complete, but work continues in many places. In addition, a 1994 state law (SB 1953) requires California hospitals – including UC hospitals – at risk of earthquake damage to make seismic improvements on a firm timetable.

- **Catching up with growth:** The University's student enrollment increased 40% over the last decade, driven mostly by the dramatic increase in California's college-age population. UC campus facilities have not kept up with that growth and are still catching up in providing academic buildings, student housing, parking, and other facilities to meet the demands of the University's higher enrollment levels.

- **Infrastructure renewal:** About 60% of UC's buildings are more than 30 years old, with many having been constructed in the 1950s and 1960s. That means many buildings, and/or the systems within them, are reaching the point of obsolescence and need to be replaced. Heating systems, ventilation systems, electrical equipment, plumbing infrastructure, and laboratory equipment all have limited lives, and UC campuses also must keep up with current code requirements, health and safety needs, and needs stemming from academic program changes.

Q. How are facilities projects funded at UC?

It varies by project. About half of UC's facilities – for academic programs, academic support, core student services and administration, and campus operation support – are eligible for State bond funding. But that funding has never covered all of the University's needs, and available State funds have dropped precipitously in recent years (see below) – so the University often must look for other sources of revenue. The rest of UC's facilities are associated with self-supporting activities (such as housing, parking, or athletics) and are not eligible for State funding.

The funding mix for a particular project varies substantially. Private gifts (typically designated for the purpose of constructing or renovating a specific facility), hospital reserves, revenues from housing and parking operations, external financing, and student fees (such as for recreational facilities or student health services) are among the sources of non-State support used to construct various UC facilities, with the specific sources dependent on the function of the facility.

The key point is that, whatever their source, most facilities funds typically cannot be mingled with the general funds that support the day-to-day operations of the University. State funds come in the form of general-obligation bonds or lease-revenue bonds, which, legally cannot be used for operating expenses. Proceeds from bonds are specifically for facilities projects, not for operations (as required by the Internal Revenue Service). All but 2% of private giving at the University is dedicated to specific purposes. Many other fund sources have similar restrictions. So facilities funds, to the extent they are available, can't backfill other cuts to the University.

The University is currently planning a long-term revenue bond issuance to capture favorable interest rates and fund non-State funded projects that have bid and awarded construction contracts for the aforementioned needs: seismic and life safety, prior enrollment growth, and infrastructure renewal. The University expects to issue the bonds in mid-August.

The University also has used commercial paper – short-term notes – to raise cash to cover certain expenses to be repaid by the state. For example, to facilitate completion of voter-approved building projects, UC raised approximately $200 million through the sale of short-term commercial paper to purchase a state general obligation bond, enabling the state to resume funding that had stopped at eight campuses. The state is obligated to repay the money to UC within three years, with interest.

Commercial paper, however, would not be used to cover costs without a repayment source, or to replace money eliminated from the state's core funding to UC because that would create indebtedness to pay operating expenses without a means to repay it.