1986

Higher Education Facilities Bond Act Of 1986

56 Higher Education Facilities Bond Act of 1986

Official Title and Summary Prepared by the Attorney General

HIGHER EDUCATION FACILITIES BOND ACT OF 1986. This act provides for a bond issue of four hundred million dollars ($400,000,000) to provide capital for construction or improvement of facilities at California's public higher education institutions, including the University of California's nine campuses, the California State University's 19 campuses, the California Community College's 106 campuses, and the California Maritime Academy, to be sold at a rate not to exceed two hundred fifty million dollars ($250,000,000) per year.

Final Vote Cast by the Legislature on SB 2366 (Proposition 56)

Assembly:	Ayes 55	Senate:	Ayes 27
	Noes 3		Noes 2

Analysis by the Legislative Analyst

Background

California's system of public higher education consists of 135 campuses serving approximately 1.6 million students. This system includes the University of California, the California State University, the California Community Colleges and the California Maritime Academy.

The University of California has nine campuses with a total enrollment of about 138,000 students. This system offers bachelor, master and doctoral degrees. The university is also the primary state-supported agency for research.

The California State University system has 19 campuses with an enrollment of about 320,000 students. The system grants bachelor and master degrees.

The California Community Colleges provide instruction to approximately 1.2 million students at 106 campuses operated by 70 locally governed districts throughout the state. The community colleges give associate degrees and also offer a variety of basic skill courses.

The California Maritime Academy provides instruction for students who seek to become licensed officers in the U.S. Merchant Marine. One of six such schools in the country, the academy has an enrollment of about 400 students.

The state funds planning, construction and alterations for buildings in the state's system of public higher education. In recent years, these funds have come from the state's tidelands oil revenue and from lease-purchase agreements.

Proposal

This measure authorizes the state to sell $400 million in general obligation bonds to fund facilities for California's public higher education system. General obligation bonds are backed by the state, meaning that the state will use its taxing power to assure that enough money is available to pay off the bonds. Revenues deposited in the state's General Fund would be used to pay the principal and interest costs on the bonds. General Fund revenues are derived primarily from state corporate and personal income taxes and the state sales tax.

The state could spend the bond money to purchase building sites and certain equipment, construct new buildings and alter existing buildings. The state also could use the money for short-term loans to the community colleges for the purchase of instructional equipment. These loans would be repaid from the state's tidelands oil revenue.

The Governor and the Legislature would decide how to spend the bond money. No more than $150 million could be authorized per year, except in the first year $250 m[illegible]lion could be authorized. Loans to the community coll[illegible] would not require legislative approval.

The state's 1986 budget would spend $242 million from this bond measure (if approved) for projects at various campuses. About $260 million in additional money will be needed to complete these projects.

Fiscal Effect

Paying Off the Bonds. For these types of bonds the state typically would make principal and interest payments over a period of up to 20 years from the state's General Fund. The average payment would be about $35 million each year if the bonds were sold at an interest rate of 7 percent.

Borrowing Costs for Other Bonds. By increasing the amount which the state borrows, this measure may cause the state and local governments to pay more under other bond programs. These costs cannot be estimated.

State Revenues. The people who buy these bonds are not required to pay state income tax on the interest they earn. Therefore, if California taxpayers buy these bonds instead of making taxable investments, the state would collect less taxes. This loss of revenue cannot be estimated.

Paying Off Loans to Community Colleges. This measure appropriates future revenue from the state's tidelands oil to replace any bond money lent to the community colleges. The amount required for this purpose would [illegible]pend on the amount of money lent to the commu[illegible] colleges.

This law proposed by Senate Bill 2366 (Statutes of 1986, Chapter 424) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law expressly adds sections to the Education Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SEC. 2. Chapter 14.5 (commencing with Section 67350) is added to Part 40 of the Education Code, to read:

CHAPTER 14.5. HIGHER EDUCATION FACILITIES BOND ACT OF 1986

67350. This chapter shall be known and may be cited as the Higher Education Facilities Bond Act of 1986.

67351. 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) is adopted for the purpose of the issuance, sale, and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this chapter, and the provisions of that law are hereby incorporated in this chapter as though set out in full in this chapter. All references in this chapter to "herein" shall be deemed to refer both to this chapter and that law.

67352. As used in this chapter, and for the purposes of this chapter as used in the State General Obligation Bond Law, the following words shall have the following meanings:

(a) "Board" means the State Public Works Board.

(b) "Committee" means the Higher Education Facilities Finance Committee, created pursuant to Section 67353.

(c) "Fund" means the Higher Education Capital Outlay Bond Fund, created pursuant to subdivision (e) of Section 67354.

67353. The Higher Education Facilities Finance Committee is hereby created, consisting of the Governor, the Controller, the Treasurer, the Director of Finance, the President of the University of California, the Chancellor of the California State University, and the Chancellor of the California Community Colleges, or their designees. The Treasurer shall serve as chairperson of the committee.

67354. (a) For the purpose of funding aid to the University of California, the California State University, the California Community Colleges, and the California Maritime Academy for the construction, including the construction of buildings and the acquisition of related fixtures, renovation, and reconstruction of facilities, for the acquisition of sites upon which these facilities are to be constructed, for the equipping of new, renovated, or reconstructed facilities, which equipment shall have a useful life of at least 10 years, to provide funds for payment of preconstruction costs, including, but not limited to, preliminary plans and working drawings, and to provide funds to reimburse the General Obligation Bond Expense Revolving Fund pursuant to Section 16724.5 of the Government Code, the committee shall be and is hereby authorized and empowered to create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of four hundred million dollars ($400,000,000) in the manner provided in this chapter, but not in excess thereof.

(b) The committee shall authorize the issuance of bonds under this chapter only to the extent necessary to fund the apportionments that are expressly authorized by the Legislature in the annual Budget Act. Pursuant to that legislative direction, the committee shall determine when the bonds authorized under this chapter shall be issued in order to fund the authorized apportionments, and the amount of the bonds to be issued and sold.

(c) Up to two hundred fifty million dollars ($250,000,000) shall be available for apportionment in the 1986–87 fiscal year, and up to one hundred fifty million dollars ($150,000,000) shall be available for apportionment for the 1987–88 fiscal year, and in each subsequent fiscal year, except that the maximum aggregate debt or liability amount set forth in subdivision (a) shall not be exceeded.

(d) Pursuant to this section, the Treasurer shall sell the bonds authorized by the committee at such different times as necessary to service expenditures required by the apportionments.

(e) The proceeds of bonds issued and sold pursuant to this chapter shall be deposited in the Higher Education Capital Outlay Bond Fund, which is hereby created in the State Treasury.

67354.5. The proceeds of the bonds may also be used to provide short-term loans to community colleges for the purchase of instructional equipment. Those loans shall be repaid from the first moneys available in the Capital Outlay Fund for Public Higher Education beginning in the 1987–88 fiscal year.

67355. All bonds herein authorized, which shall have been duly sold and delivered as herein provided, shall constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.

There shall be collected annually in the same manner and at the same time as other state revenue is collected a sum, in addition to the ordinary revenues of the state, as is required to pay the principal and interest on the bonds as herein provided, and it is hereby made the duty of all officers charged by law with any duty in regard to the collection of the revenue, to do and perform each and every act which is necessary to collect the additional sum.

67356. There is hereby appropriated from the General Fund in the State Treasury for the purpose of this chapter, an amount that will equal the following:

(a) The sum annually as will be necessary to pay the principal of and the interest on the bonds issued and sold pursuant to the provisions of this chapter, as the principal and interest become due and payable.

(b) The sum as is necessary to carry out Section 67357, which sum is appropriated without regard to fiscal years.

67357. For the purposes of carrying out the provisions of this chapter, the Director of Finance may, by executive order, authorize the withdrawal from the General Fund of an amount or amounts not to exceed the amount of the unsold bonds which the committee has by resolution authorized to be sold for the purpose of carrying out this chapter. Any amounts withdrawn shall be deposited in the fund to be allocated by the board in accordance with this chapter. Any moneys made available under this section to the board shall be returned by the board to the General Fund, together with interest in the amount that those moneys would have earned in the Pooled Money Investment Account, which repayment shall be made from moneys received from the sale of bonds sold for the purpose of carrying out this chapter.

56 Higher Education Facilities Bond Act of 1986

Argument in Favor of Proposition 56

California has established one of the most respected systems of higher education in the world. The University of California, the California State University, and the California Community Colleges have combined to produce a system that guarantees every high school graduate an opportunity to pursue a college education. These colleges and universities, with 135 campuses that enroll over 1.5 million students, prepare individuals for leadership positions in a wide variety of careers that contribute to California's growth and prosperity, including teachers, doctors, business leaders, research scientists, industrialists and agricultural specialists.

The construction of facilities at our colleges and universities has not kept pace with the demands of recent times. Until recently, the state's total funding for higher education construction steadily declined, leaving our campuses with an enormous backlog of projects urgently needed to maintain the quality of California's higher education programs.

Proposition 56 would provide $400 million, over two years, to construct projects urgently needed to:

Accommodate increases in student enrollments. New and renovated classrooms, libraries, and laboratories are needed on our campuses in order to keep pace with population growth. Without a carefully planned and cost-effective expansion, our colleges and universities will be hopelessly overcrowded.

Upgrade for earthquake, health and safety requirements. Older buildings on our campuses were constructed before new methods for making buildings safer in the event of earthquakes or fires were available. Renovation and replacement projects are needed to bring these facilities into compliance with new earthquake, fire, and other safety regulations.

Adapt to new technology. Rapid technological development, a direct result of our successful higher education system, has increased the need for new and renovated facilities. State-of-the-art instructional and research laboratories are essential to adequately train the teachers, scientists, doctors, and engineers who will attract industry and jobs to the state as well as improve the quality of life for every Californian.

All of the construction projects which will be funded from this bond measure in the coming year have already been reviewed and approved by the Governor and the State Legislature. In past years, public higher education institutions have depended on income from state-owned oil fields to pay for needed construction projects. The decline in oil prices, which has benefited consumers, has at the same time sharply reduced the amount of money available for higher education facility needs. Recognizing this problem, the Governor and the Legislature authorized this bond issue as an alternative way of financing needed improvements at the state's colleges and universities.

Proposition 56 will maintain and enhance the quality of California's public colleges and universities by providing funds needed to modernize teaching and research facilities, improve health and safety and help ensure adequate space for increasing numbers of future students. Funding these needed projects depends on the passage of the Higher Education Facilities Bond Act of 1986 now before you.

WE URGE YOU TO VOTE YES ON PROPOSITION 56.

GARY K. HART
State Senator, 18th District
Chairman, Senate Education Committee

GEORGE DEUKMEJIAN
Governor, State of California

DAVID P. GARDNER
President, University of California

Rebuttal to Argument in Favor of Proposition 56

- Proponents of Proposition 56 claim that their facilities have not kept pace with demands of recent times. Yet they also claim that California has established one of the most respected systems of higher education in the world. WHICH IS TRUE?
- Unlike K–12, college education is VOLUNTARY and NOT required by the state . . . thus demanding different criteria for funding.
- Funding has increased substantially in our recent budgets for higher education, yet the institutions did not spend their funds on building these "needed facilities."
- Freshmen enrollments in California's higher education have DROPPED generally since 1974 according to the most recent data published by the State College Board in 1984.
- *Educational facilities* have always been built according to state-of-the-art methods and have withstood California's earthquakes.
- *New technology,* research laboratories and classroom renovations are *always* needed but should be obtained at a pace payable WITHOUT GOING INTO DEBT.
- Even with a welcomed decrease in oil prices, State General Fund budgets have grown from $26 billion three years ago to $37 billion this year. The highest ever.
- If this $400-million item, WHICH WILL COST TAXPAYERS OVER $1 billion TO REPAY, is so urgent right now, then the Legislature and the Governor should provide for it out of the regular budget.
- These bonds are a BAD BUSINESS DEAL for all taxpayers—and for 20 years of repayment!
- Vote NO on Proposition 56.

NOLAN FRIZZELLE, O.D.
Member of the Assembly, 69th District

DON SEBASTIANI
Member of the Assembly, 8th District

Argument Against Proposition 56

- ASK YOURSELF: Would studies run by those who want your money ever come back with an answer showing that they didn't need it?
- WHO MADE THE STUDIES THAT CAUSED THE DEMAND FOR THESE BONDS? The University of California, the State University and Colleges and the Community College Systems.

They created the "wish list" that became this "desperate" demand for $400 million, and the amount is considered by them to be only the *down payment* for construction and equipment for 2 years.

- However, this bond proposal costs $1 billion ($1,000 million) to you the taxpayers over the 20-year payback period in principal and interest.

$400 million to the universities — $1 billion debt payback.

Does that make good sense?

Consider also that the bond payments each year have to be added to what has to be paid in order to solve each year's new "desperate needs."

- THIS bond issue addresses *only* costs of construction and equipment or reconstruction and it commits 400 million tax dollars above those already generous increases furnished by the Legislature in the budget.

Solutions and funding for other higher education problems are *not* a part.

Do new buildings guarantee a better education? Is t :he best way to improve the performance of students or teachers?

Be advised that *dollars* used for bond repayment of principal and interest out of each yearly budget WILL NOT BE AVAILABLE FOR SALARY INCREASES.

This measure requires that equipment purchased with the bond money has to last for *10 years,* but you will be paying for it for *20 years.*

- When the state's universities and colleges can come to the taxpayers whenever they want to expand or create a more grandiose image they have very little reason to think they must manage their regular budgets and personnel efficiently.
- Private universities must compete for students with the state universities. When the state system gets regular infusions of public tax dollars such as from these bonds, the private universities must increase their fees to their students by similar amounts to provide competitive facilities.
- Of all the levels of education the higher levels should feel most obligated to teach their students what we all have to learn—namely to live within our means. In every case any debt ought to be payable out of predictable revenues. Just as we can't *spend* our way out of a debt as individuals, we can't do it as a state. We can't avoid serious debt by spending this $400 million above our state income.
- Summarizing: We say that truly needed costs for construction should be budgeted each year out of the available revenues on a priority basis decided by the Legislature. This is what we call the budgeting process, and the Legislature has spent far more this year than ever before on higher education. It is enough, without the debt of these bonds, until next year.
- Vote NO on this miserable bond proposition.

NOLAN FRIZZELLE, O.D.
Member of the Assembly, 69th District

DON SEBASTIANI
Member of the Assembly, 8th District

Rebuttal to Argument Against Proposition 56

The opponents' argument against Proposition 56 ignores the critical construction needs of California's colleges and universities, and the benefits they provide to our economy and all Californians. Proposition 56 will help our colleges and universities:

- Keep pace with increasing student enrollments.
- Renovate existing buildings, build new classrooms and libraries.
- Modernize laboratories to keep up to date with scientific development.
- Make critical earthquake, health and safety improvements.

The projects to be financed by Proposition 56 were developed after careful planning and study by not just the universities, but also the Governor and the Legislature. Bond funds will be used to construct buildings which will last well into the 21st century, long after the bonds are repaid.

Bond funds are commonly used by government and private industry to finance long-term construction needs. B ' financing is particularly sensible given the low interest rates currently available. California voters have repeatedly approved bond issues over the years for high-priority long-term state needs. At the same time, California's level of indebtedness is *well below average* when compared to other states. To argue that the state should not use bonds to finance long-term construction projects is like saying that individuals should not use mortgages to finance their homes.

Proposition 56 will not diminish California's financial stability. It will fund urgently needed improvements to our college campuses and maintain the quality of California's higher education programs.

VOTE *YES* ON PROPOSITION 56.

GARY K. HART
State Senator, 18th District
Chairman, Senate Education Committee

DAVID P. GARDNER
President, University of California

W. ANN REYNOLDS
Chancellor, California State University