



# Overview of Higher Education Capital Outlay

*Presented To*

**Senate Budget and Fiscal Review  
Subcommittee No. 1**

**Senator Nicholas Petris, Chair**

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**LEGISLATIVE ANALYST'S OFFICE**



# Projected Five-Year Capital Outlay Needs For the State and K-12 Education 1995-96 Through 1999-00

(In Millions)

|                             | Five-Year<br>Total  |
|-----------------------------|---------------------|
| Executive                   | \$50                |
| State and Consumer Services | 1,050               |
| Transportation              | 14,721 <sup>a</sup> |
| Resources                   | 719                 |
| Health and Welfare          | 403                 |
| Youth and Adult Corrections | 5,536 <sup>b</sup>  |
| K-12 Education              | 11,000 <sup>c</sup> |
| Higher Education            | 6,563               |
| General Government          | 273                 |
| <b>Total</b>                | <b>\$40,315</b>     |

<sup>a</sup> Includes \$14.5 billion to be funded from state and federal gasoline tax revenues, state truck weight fees, and state toll bridge revenues for the Department of Transportation (1992 STIP and seismic retrofit).

<sup>b</sup> Based on spring 1995 inmate population projections.

<sup>c</sup> Estimate only. No statewide five-year plan.

- \$40 billion in project-specific needs have been identified over the next five years.
- Amounts listed above do not include programs for the state land conservancies and local governments for projects (such as jails and parks).

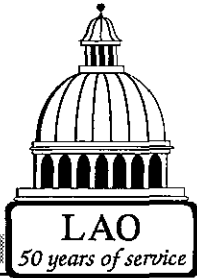


# Higher Education Capital Outlay Five-Year Capital Outlay Plans 1995-96 Through 1999-00

(In Millions)

| Segment                     | 1995-96        | 1996-97        | 1997-96        | 1998-99        | 1999-00      | Totals         |
|-----------------------------|----------------|----------------|----------------|----------------|--------------|----------------|
| University of California    | \$169          | \$140          | \$149          | \$159          | \$110        | \$727          |
| California State University | 512            | 357            | 414            | 700            | 533          | 2,516          |
| Community Colleges          | 380            | 1,120          | 1,100          | 480            | 240          | 3,320          |
| <b>Totals<sup>a</sup></b>   | <b>\$1,061</b> | <b>\$1,617</b> | <b>\$1,663</b> | <b>\$1,339</b> | <b>\$883</b> | <b>\$6,563</b> |

<sup>a</sup> All amounts adjusted to ENR 5595, the construction cost index in use for the budget.



## Higher Education Capital Outlay 1995-96 Capital Outlay Programs

(In Millions)

|                               | General<br>Obligation<br>Bonds | Lease-<br>Payment<br>Bonds | Totals         |
|-------------------------------|--------------------------------|----------------------------|----------------|
| University of California      | \$10.9                         | \$150.0                    | \$160.9        |
| California State University   | 12.9                           | 132.2                      | 145.1          |
| California Community Colleges | —                              | 44.8                       | 44.8           |
| <b>Totals</b>                 | <b>\$23.8</b>                  | <b>\$327.0</b>             | <b>\$350.8</b> |

- About \$46 million of General Obligation bonds for higher education are available for appropriation by the Legislature.



## Higher Education Capital Outlay Costs to Complete Projects

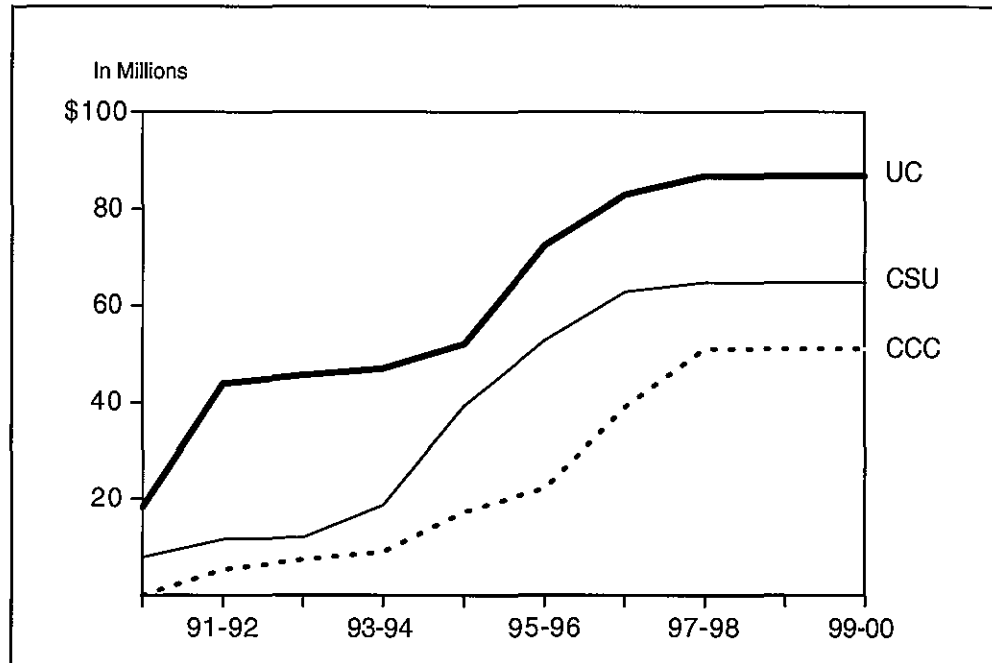
(In Millions)

| Segment                       | Costs to Complete Projects |                   |                  |
|-------------------------------|----------------------------|-------------------|------------------|
|                               | Governor's Budget          | Previously Funded | Totals           |
| University of California      | \$81.7                     | \$90.2            | \$171.9          |
| California State University   | 29.5                       | 647.0             | 676.5            |
| California Community Colleges | —                          | 192.5             | 192.5            |
| <b>Totals</b>                 | <b>\$111.2</b>             | <b>\$929.7</b>    | <b>\$1,040.9</b> |

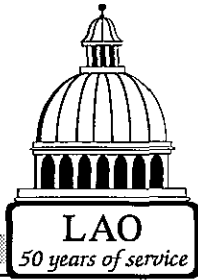
- These are the costs that will have to be appropriated in the future to complete projects already started or proposed in the budget. Segment estimates have been adjusted to ENR 5595, the cost index in use for the budget.



## Lease-Payment Bond Debt Service 1990-91 Through 1999-00



- ✓ The figure shows General Fund debt service based on sale of all previously authorized bonds.
- ✓ Approval of additional lease-payment bonds proposed in the Governor's Budget will increase annual debt service by: \$14 million for UC, \$12 million for CSU, and \$4 million for CCC.



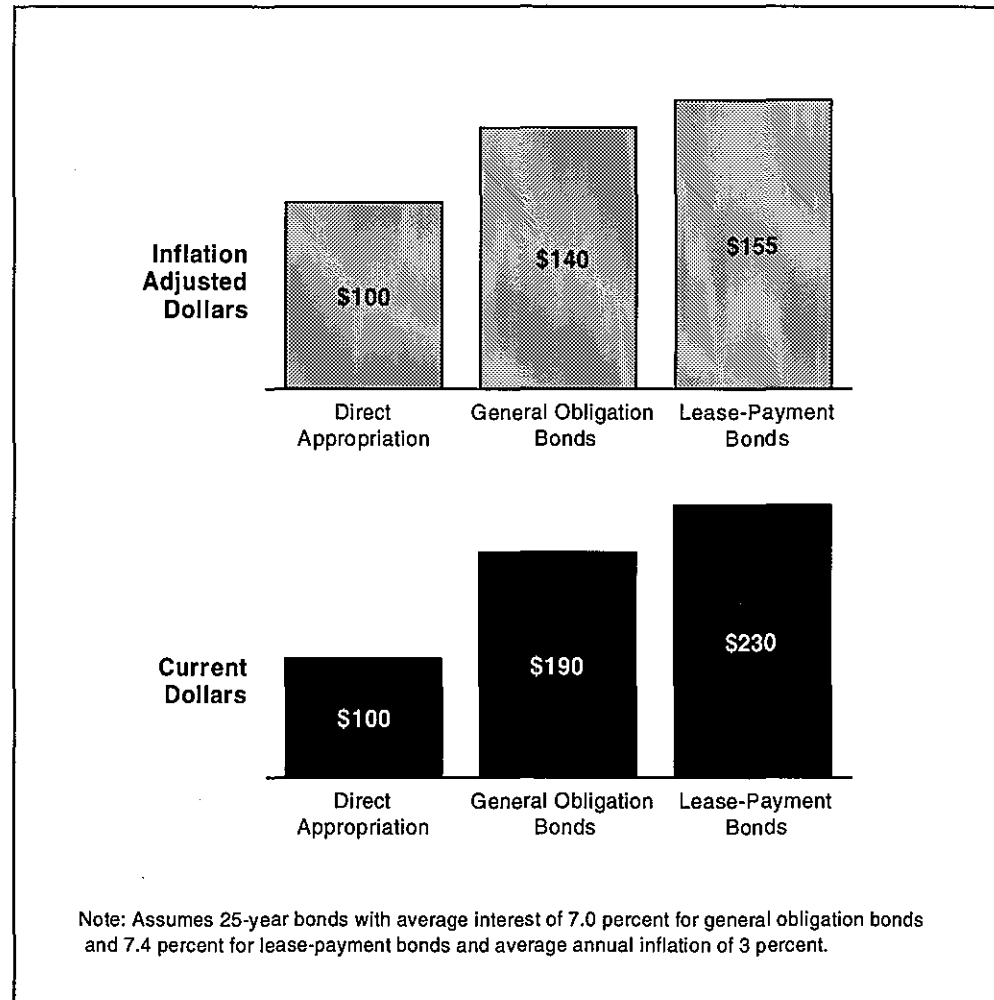
# Lease-Payment Bonds Are Costlier to Issue

|   | General Obligation Bond   | Lease-Payment Bond   |
|---|---|--|
| <b>Approval needed</b>                                    | Two-thirds of Legislature and Governor (except initiatives) <i>and</i> majority voter approval      | Majority vote of Legislature and Governor  |
| <b>Amount authorized 1990-94</b>                          | \$10 billion  | \$4.1 billion  |
| <b>Limits on spending</b>                                 | Amount approved by voters (administrative augmentations and other costs must be within this amount) | Amount authorized by Legislature (plus any administrative augmentations and bond upsizing)   |
| <b>Pledged security to bondholders</b>                    | Full faith and credit of the state (entire taxing power)  | Annual debt-service appropriations required for "lease" payments   |
| <b>Interest rate on bonds</b>                             | Lowest possible (actual sales at 4.8 percent to 7 percent between 1990-94)                          | Up to 0.5 percentage points above general obligation bond rate; average about 0.4 percent (actual sales at 5.1 percent to 7.3 percent between 1990-94)                       |
| <b>Underwriting process</b>                               | Competitive bidding required  | Competitive bidding not required; sales to date have been negotiated   |
| <b>Need for reserve fund to effectively market bonds?</b> | No  | Yes  |
| <b>Need to purchase property and liability insurance?</b> | No  | Yes  |
| <b>Amount of bonds required</b>                           | Based on project costs, plus less than 1 percent for issuance costs                                 | Bond volume upsized to cover project costs <i>plus</i> such costs as underwriting fees, debt-service during construction period, issuance costs, insurance, and reserve fund |
| <b>Additional debt service costs</b>                      | —   | 15 to 20 percent higher than general obligation bonds over life of the bonds   |



## Relative Costs of Financing A Capital Outlay Project

(In Millions)



- ✓ Lease-payment bonds are more costly, mainly because they must be upsized (more bonds must be sold for a given project) and they sell for somewhat higher interest rates (about 0.4 percent on average).