

**AGENDA – PART II****ASSEMBLY BUDGET SUBCOMMITTEE NO. 2  
ON EDUCATION FINANCE****Assembly Member Susan Bonilla, Chair****WEDNESDAY, MAY 25, 2011****STATE CAPITOL, ROOM 126  
3:30 PM****VOTE ONLY**

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**PUBLIC COMMENT**

**VOTE ONLY CALENDAR**

- 6440 UNIVERSITY OF CALIFORNIA**
- 6610 CALIFORNIA STATE UNIVERSITY**
- 6870 CALIFORNIA COMMUNITY COLLEGES**
- 7980 CALIFORNIA STUDENT AID COMMISSION**

**DOF APRIL AND MAY LETTERS – VARIOUS STATE OPERATIONS AND LOCAL ASSISTANCE ADJUSTMENTS**

The issues for the Subcommittee to consider are various technical amendments proposed by the Department of Finance (DOF) to the 2011-12 Budget Act.

As part of the annual budget process, Department of Finance submits a letter to the Legislature on April 1 and May 1 that includes proposed changes to the Governor's January budget. The proposed revisions are largely technical and include adjustments to state operations and local assistance funding.

**MAY 1<sup>ST</sup> FINANCE LETTER**

In previous years, the state had experienced a deteriorating cash position in the Pooled Money Investment Account (PMIA), thereby prompting the Administration to suspend any capital projects that required cash disbursements from PMIA loans. This stoppage and resulting changes in how the state provides cash to delayed projects. Hence, it is necessary to reappropriate the unspent balances of the requested funds or extend the liquidation period to allow both the California State University and the University of California to fulfill its obligation for the bond funded projects. Consequently, the following reappropriations and extensions of liquidation periods are requested:

<b>VOTE ONLY</b>	
<b>TECHNICAL ADJUSTMENTS TO CAPITAL PROJECTS</b>	
1)	<p><b>University of California</b></p> <p><b>Various Reappropriations</b></p> <p>Amend Item 6440-492 to reappropriate funds for the following 11 project phases appropriated from the 2006, 2007, 2008, 2009, and 2010 Budget Acts:</p> <ol style="list-style-type: none"> <li>1. Davis Campus, King Hall Renovation and Expansion—Construction.</li> <li>2. Davis Campus, Telemedicine Resource Center and Rural PRIME Facility—Equipment.</li> <li>3. Irvine Campus, Primary and Electrical Improvements, Step 3—Construction.</li> <li>4. Irvine Campus, Social and Behavioral Sciences—Equipment.</li> <li>5. Los Angeles Campus, Telemedicine and PRIME Facilities, Phase 2—Construction.</li> <li>6. Merced Campus, Site Development and Infrastructure, Phase 6—Construction.</li> <li>7. Riverside Campus, Materials Science and Engineering Building—Equipment.</li> <li>8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Construction.</li> <li>9. San Diego Campus, Music Building—Equipment.</li> </ol>

	<p>10. San Francisco Campus, Telemedicine and PRIME UC Education Facilities—Equipment.                  11. Statewide, Telemedicine Services Expansion—Equipment.</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
<p>2)</p>	<p><b>University of California</b></p> <p><b>Various Extension of Liquidation Periods</b></p> <p>Add Item 6440-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following eight projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:</p> <ol style="list-style-type: none"> <li>1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Working drawings.</li> <li>2. Davis Campus, King Hall Renovation and Expansion—Working drawings.</li> <li>3. Davis Campus, Veterinary Medicine 3B—Working drawings.</li> <li>4. Irvine Campus, Biological Sciences Unit 3—Equipment.</li> <li>5. Irvine Campus, Telemedicine/PRIME Latino Community Facilities—Construction.</li> <li>6. Irvine Campus, Arts Building—Construction.</li> <li>7. Riverside Campus, Geology Building Renovations, Phase 2—Construction.</li> <li>8. Riverside Campus, Boyce Hall and Webber Hall Renovations—Working drawings.</li> </ol> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
<p>3)</p>	<p><b>University of California San Diego – SIO Research Support Facilities</b></p> <p><b><u>Summary of Proposal:</u></b> This project will provide approximately 21,300 square feet of replacement research space for the Scripps Institution of Oceanography (SIO). This project will replace currently deficient space by constructing new interior research space and new exterior research support areas. The project also includes improvements to the existing access road. State funding for preliminary plans and working drawings were appropriated in 2010-11. State funding for construction is requested in 2011-12.</p> <p>The SIO is a part of the UC San Diego campus. The SIO is one of the world's leading centers for ocean and earth science research, education, and public services. Research at SIO encompasses physical, chemical, biological, geological, and geophysical studies of the oceans and earth. The SIO operates a fleet of four ships for oceanographic research.</p> <p><b><u>Funding Request:</u></b> The request is for \$5,735,000 in lease-revenue bond funds for the construction phase of the project. The preliminary plans and working drawings have already been funded. The total project cost is \$6,348,000.</p> <p><b><u>Issue Heard:</u></b> May 4, 2011</p> <p><b><u>Recommended Action:</u> Approve as Budgeted.</b></p>
<p>4)</p>	<p><b>University of California Irvine – Business Unit 2</b></p> <p><b><u>Summary of Proposal:</u></b> This project will provide approximately 31,950 square feet in a new approximately 47,000 square feet building to address existing space deficiencies in the Paul Merage School of Business. The building will include instruction, research, and office space. State funding for preliminary plans, working drawings, and construction is requested in 2011-12.</p> <p>The total funding need for the completion of the three phases is \$48,371,000, of which \$39,595,000 consists of State lease revenue bond support.</p> <p>Even with enrollment growth for the campus as a whole curtailed, growth in the School of Business is expected to continue, due in large part to the addition of the undergraduate majors.</p>

	<p>The Business Administration has been among the most requested majors on campus, consistently attracting approximately 10 percent of the freshman applicant pool and 15 percent of the transfer student application pool.</p> <p>At the graduate level, State-funded enrollments tend to fluctuate from year to year, but the goal is to achieve a steady state of approximately 330 students.</p> <p>In order to accommodate the increased enrollment, additional faculty will be required. A total of 17 additional faculties are projected, 16 of which would be State-funded. The campus would provide these additional faculties largely through reallocation of positions as existing faculty retire or leave the campus.</p> <p>The campus is proposing that the Business Unit 2 building be provided through a combination of State and non-State funding.</p> <p><b>Funding Request:</b> The request is for \$39,595,000 in lease-revenue bond funds for the preliminary plans, working drawings, and construction phases of the project. The total project cost is anticipated to be \$48,371,000.</p> <p><b>Issue Heard:</b> May 4, 2011</p> <p><b>Recommended Action:</b> <i>Hold Open.</i></p>
<p>5)</p>	<p><b>University of California (May Revise Letter)</b></p> <p><b>Item 6440-001-8054, Increase Expenditure Authority from the California Cancer Research Fund (Issue 404)</b>—It is requested that expenditure authority from the California Cancer Research Fund be increased by \$175,000 based on personal income tax contributions made to the fund through 2010-11. The University of California (UC) administers this fund to provide grants to conduct cancer research, education, and prevention and awareness activities. It is also requested that Provision 2, which prevents the UC from spending from the fund until the Franchise Tax Board (FTB) verifies the revenues collected from voluntary contributions, be deleted. This provision is unnecessary, as current law allows the UC to spend only those amounts from voluntary contributions that the FTB has notified the State Controller to transfer into the fund.</p> <p><b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>6)</p>	<p><b>University of California (May Revise Letter)</b></p> <p><b>Item 6440-001-0234, Increase Funding for Tobacco Research (Issue 409)</b>—It is requested that expenditure authority from the Proposition 99 (Tobacco Tax and Health Protection Act of 1988) Research Account be increased by \$137,000, due to an increase in funds available in this fund. The UC administers the account for its Tobacco-Related Disease Research Program.</p> <p><b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>7)</p>	<p><b>University of California (May Revise Letter)</b></p> <p><b>Various Reappropriations</b></p> <p>Amend Item 6440-492 to reappropriate funds for the following two project phases appropriated from the 2010 Budget Act from general obligation bonds:</p> <ol style="list-style-type: none"> <li>1. Merced Campus, Site Development and Infrastructure, Phase 4—Preliminary plans, working drawings, construction, and equipment.</li> <li>2. San Diego Campus, Scripps Institution of Oceanography Research and Support Facilities—Preliminary plans, and working drawings.</li> </ol>

	<p>Add Item 6440-494 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from lease revenue bonds:</p> <ol style="list-style-type: none"> <li>1. Berkeley Campus, Campbell Hall Seismic Replacement Building—Construction.</li> <li>2. Los Angeles Campus, Center for Health Sciences South Tower Seismic Renovation—Construction.</li> <li>3. Santa Barbara Campus, Davidson Library Addition and Renewal—Working drawings and construction.</li> <li>4. Merced Campus, Science and Engineering Building 2—Construction.</li> </ol> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
<p>8)</p>	<p><b>California State University</b></p> <p><b>Various Extension of Liquidation Periods</b></p> <p>Add Item 6610-493 to extend the liquidation period by one additional year (until June 30, 2012) for the following five projects phases appropriated and/or reappropriated in either 2006, 2007, or 2009:</p> <ol style="list-style-type: none"> <li>1. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2006).</li> <li>2. Long Beach Campus, Peterson Hall 3 Replacement—Construction.</li> <li>3. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 2002).</li> <li>4. Systemwide: Minor Capital Outlay—Preliminary plans, working drawings, and construction (funded with the Higher Education Capital Outlay Bond Fund of 1998).</li> <li>5. Fresno Campus, Library Addition and Renovation—Construction and Equipment.</li> <li>6. Monterey Bay, Library Group II – Equipment</li> </ol> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
<p>9)</p>	<p><b>California State University San Jose – Spartan Complex Renovation</b></p> <p><b><u>Summary of Proposal:</u></b> This project will retrofit the Spartan Complex, including the Uchida Hall/Natorium (#45), Uchida Hall Annex (#45A), Spartan Complex East (#46), and Spartan Complex Central (#47) which is classified with a seismic Level 5 rating. This project will meet the current seismic, ADA and life safety code requirements, as well as replacing the building systems. Conversion of the dysfunctional natatorium into a two-level facility will provide a judo activity laboratory and the lower level for lecture, locker rooms and graduate research space for a net increase of 62 Full-Time Equivalent (20 FTE in lecture space, 59 FTE in LD laboratory space, -17 FTE in UD laboratory space), and a gain of 8 faculty offices. An addition of 6,195 ASF/8,850 GFT was added to accommodate the elevator and the bridge to faculty offices to address ADA.</p> <p><b><u>Funding Request:</u></b> The request is for \$51,479,000 in lease-revenue bond funds for the construction phase of the San Jose Spartan Complex Renovation. The total project cost is \$55.99 million, which includes future equipment cost of \$1.27 million.</p> <p><b><u>Issue Heard:</u></b> May 4, 2011</p> <p><b><u>Recommended Action:</u> Approve as Budgeted.</b></p>
<p>10)</p>	<p><b>California State University East Bay – Warren Hall Replacement Building</b></p> <p><b><u>Summary of Proposal:</u></b> This project proposes to demolish the 42-year old Alva P. Taylor Hall, a 33,10 GSF building (#101) and construct the new 62,000 ASF/91,000 GSF Taylor II Replacement Building (31010) to accommodate the College of Humanities and Fine Arts. The new facility will</p>

	<p>be a three and four-story structure that will effectively use the land mass available for this building and meet the current and future instructional and public event needs of the University. Taylor II will accommodate 1,223 FTE in lecture space, 103 FTE in LD laboratory space, 30 FTE in UC laboratory space, and 100 faculty offices including two replacement department suites (Faculty Administration), and 1 replacement Dean's suite (Academic Administration). The plan for this new facility includes a new recital hall/dance/recording arts facility, replacement art galleries, and graduate research studios and offices. The future cost for equipment is \$2,581,000.</p> <p><b>Funding Request:</b> The request is for \$52,891,000 in lease-revenue bond funds for the construction phase of the Taylor II Replacement Building project. The total project cost is \$58,272,000, which includes future equipment cost of \$2.58 million.</p> <p><b>Issue Heard:</b> May 4, 2011</p> <p><b>Recommended Action:</b> <i>Approve as Budgeted.</i></p>
11)	<p><b>California State University Channel Island – West Hall</b></p> <p><b>Summary of Proposal:</b> This project will renovate a portion of West Hall (#8) and add 28,800 ASF/48,000 GSF of new construction to provide 555 FTE (373 FTE in lecture space, 42 FTE in LD laboratory space, 140 FTE in UD laboratory space), and 38 faculty offices. The facility will be occupied by several disciplines, including anthropology, computer science, environmental science and natural resources, geography, physics, and psychology. The future cost for equipment is \$1,733,000.</p> <p><b>Funding Request:</b> The request is for \$38,021,000 in lease-revenue bond funds for the construction phase of the West Hall project. The total project cost is \$42,184,000, which includes future equipment cost of \$1.7 million.</p> <p><b>Issue Heard:</b> May 4, 2011</p> <p><b>Recommended Action:</b> <i>Approve as Budgeted.</i></p>
12)	<p><b>California State University Fresno – Faculty Office/Lab Building</b></p> <p><b>Summary of Proposal:</b> This project will construct a new 13,400 ASF/ 21,800 GSF two story facility to house graduate research laboratories, classroom space and faculty offices for the Colleges of Health and Human Services and Physical Education. It includes four research laboratories for Kinesiology, Nursing and Physical Therapy departments, a 75 FTE classroom, a self instruction computer lab, locker rooms, and 23 academic/athletic faculty offices. This will provide gender equitable space and logical adjacencies to accommodate men's and women's sports programs in compliances with Title IX. The future cost for equipment is \$356,000.</p> <p><b>Funding Request:</b> The request is for \$9,819,000 in lease-revenue bond funds for the construction phase of the Faculty Office/Lab Building project. The total project cost is \$10,737,000, which includes future equipment cost of \$356,000.</p> <p><b>Issue Heard:</b> May 4, 2011</p> <p><b>Recommended Action:</b> <i>Approve as Budgeted.</i></p>
13)	<p><b>April 1<sup>st</sup> Finance Letter – California State University Los Angeles Campus, Corporation Yard and Public Safety</b></p> <p><b>Summary of Proposal:</b> This project will provide appropriately sized and equipped permanent space for operations and administrative functions necessary to support the departments of Facilities Services, Management and Maintenance, Facilities Planning and Construction,</p>

	<p>Environmental Health and Safety, Shipping and Receiving, Public Safety, and Parking Administration. The latter two functions will be accommodated separately in a new building (#46) located in parking lot A. This 12,654 ASF/ 20,410 GSF building will be proportionately funded by state and non-state parking funds. The new Corporation Yard will provide 39,430 ASF/ 46,604 GSF to serve a campus enrollment of 20,000 FTE. An alternative fund source is requested to complete the equipment appropriation for this project, which was initially funded for \$765,000 in the 2009-10 Budget Act, and is proposed to be reverted as part of this funding shift.</p> <p><b>Funding Request:</b> The April 1<sup>st</sup> Finance Letter requests \$648,000 from the 2002 Higher Education Capital Outlay Bond Fund for the equipment phase of the Corporation Yard and Public Safety project.</p> <p><b>Issue Heard:</b> May 4, 2011  <b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>14)</p>	<p><b>California State University (May Revise)</b></p> <p><b>Various Reappropriations</b></p> <p>Add Item 6610-492 to reappropriate funds for the following four project phases appropriated from the 2010 Budget Act from general obligation bonds.</p> <ol style="list-style-type: none"> <li>1. Chico, Taylor II Replacement Building—Preliminary plans and working drawings.</li> <li>2. Fresno, Faculty Offices/Lab Building—Preliminary plans and working drawings.</li> <li>3. Channel Islands, West Hall—Preliminary plans and working drawings.</li> <li>4. San Jose, Spartan Complex Seismic Renovation—Preliminary plans and working drawings.</li> </ol> <p><b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>15)</p>	<p><b>California State University (May Revise)</b></p> <p><b>Add Trailer Bill Language, Support, California State University</b></p> <p><b>Eliminate Duplicative Audits to Achieve Efficiencies (Issue 462)</b>—It is requested that trailer bill language be adopted to eliminate duplicative audits required biennially at each of the 23 campuses of the California State University (CSU), which the CSU estimates will save \$1.6 million annually. The financial information provided in the individual campus audits will be included in the annual systemwide financial statement, which is publicly available on the CSU’s website (see attachment for proposed trailer bill language).</p> <p><b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>16)</p>	<p><b>California State University</b></p> <p>6610-401—Identified savings in funds encumbered from the Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, and 2004, and from the 2006 University Capital Outlay Bond Fund, for capital outlay projects, remaining after completion of a capital outlay project and upon resolution of all change orders and claims, may be used: (a) to begin working drawings for a project for which preliminary plan funds have been appropriated and the plans have been approved by the State Public Works Board consistent with the scope and cost approved by the Legislature as adjusted for inflation only, (b) to proceed further with the underground tank corrections program, (c) to perform engineering evaluations on buildings that have been identified as potentially in need of seismic retrofitting, <del>or</del> (d) to proceed with design and construction of projects to meet requirements under the federal Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12101 et seq.), <b>or (e) for identified savings in funds encumbered from the</b></p>

	<p><b><u>Higher Education Capital Outlay Bond Funds of 1996, 1998, 2002, 2004, and from the 2006 University Capital Outlay Bond Fund, to fund minor capital outlay projects.</u></b></p> <p>No later than November 1 of each year, the California State University shall prepare a report showing (a) the identified savings by project and (b) the purpose for which the identified savings were used. This report shall be submitted to the Chairperson of the Joint Legislative Budget Committee and to the chairpersons of the fiscal committees of each house of the Legislature.</p> <p><b><u>Issue Heard:</u></b> Issue was not discussed in a hearing. Issue was brought forth by Department of Finance as a requested change that would allow the use of any realized capital outlay project savings (funded with specified general obligation bonds) to be used for minor capital outlay on CSU campuses. The requested budget bill language revision would conform to existing language authorized for UC in Item 6440-401.</p> <p><b><u>Recommended Action:</u></b> <i>Approve technical change request.</i></p>
17)	<p><b>Coast Community College District, Orange Coast College – Music Buildings Modernization</b></p> <p><b><u>Summary of Proposal:</u></b> The project consists of the modernization of two Music Program buildings. Music Building #3, 4,250 assignable square feet (ASF), was constructed in 1975, and Music Building #4, 7,583 ASF was constructed in 1954. The total renovation of space will create 11,886 ASF. The old buildings have physical limitations, seismic deficiencies; have inadequate electrical and telecommunications systems; do not meet ADA or Field Act standards. They are also not configured to effectively meet the instructional delivery needs of a contemporary Music Program.</p> <p>The modernization of the two buildings will provide 8,700 ASF of Music Lab space, 752 ASF of Office space, 726 ASF of Tutorial space, and 1,708 ASF of Other Music Demonstration space.</p> <p><b><u>Funding Request:</u></b> The request is for \$3,489,000 from the 2006 California Community College Capital Outlay Bond Fund for the construction phase of the Orange Coast College Music Buildings modernization. The total project cost is \$8 million, including future equipment cost of \$345,000.</p> <p><b><u>Issue Heard:</u></b> May 4, 2011</p> <p><b><u>Recommended Action:</u></b> <i>Approve as Budgeted.</i></p>
18)	<p><b>Santa Clarita Community College District, College of the Canyons – Administration/Student Services Building</b></p> <p><b><u>Summary of Proposal:</u></b> The project provides for the construction and equipment funds for a 20,544 assignable square feet (ASF) administration/student services building. Space types in the facility include 1,130 ASF laboratory space, 13,825 ASF office and administrative support space, and 5,589 ASF other space. The project also includes the demolition of the existing Colleges Services Building, which is under-sized and outmoded. The project will consolidate student services and administrative functions that are now scattered throughout the campus.</p> <p><b><u>Funding Request:</u></b> The request is for \$6,855,000 from the 2006 California Community College Capital Outlay Bond Fund for construction and equipment phases of the college of the Canyons Administrative/Student Services Building.</p> <p><b><u>Issue Heard:</u></b> May 4, 2011</p> <p><b><u>Recommended Action:</u></b> <i>Approve as Budgeted.</i></p>
19)	<p><b>San Francisco Community College District, City College of San Francisco – Performing Arts Complex</b></p>

	<p><b>Summary of Proposal:</b> This project provides for the construction and equipment funds for a 59,354 assignable square feet (ASF) performing arts instructional facility consisting of 2,058 ASF lecture; 21,382 ASF laboratory; 3,204 AFS office; 2,212 ASF library; and 30,498 other space. City College's performing arts and music programs are currently housed in areas that are sub-standard and overcrowded. This facility will contain state of the art technology and other specialty rooms to enhance delivery of the theater arts and music programs.</p> <p><b>Funding Request:</b> The request is for \$38,274,000 from the 2006 California Community College Capital Outlay Bond Fund for construction and equipment phases of the City College of San Francisco Performing Arts Complex. The total project cost is \$151.2 million, of which \$101.9 million is from private funding.</p> <p><b>Issue Heard:</b> May 4, 2011</p> <p><b>Recommended Action:</b> <i>Approve as Budgeted.</i></p>
<p>20)</p>	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Addition of Budget Bill Items 6870-491 and 6870-492, Capital Outlay, California Community Colleges</b></p> <p><b>Various Reappropriations</b></p> <p>The California Community Colleges (CCC) requests the reappropriation of ten various projects throughout the Community College Districts (CCD) totaling \$89,671,000 in various General Obligation bond funds. These reappropriations are necessary because of delays attributed to project redesigns to remain within the approved budget, unexpected site conditions, and construction delays.</p> <p>Therefore, it is requested that Item 6870-491 be added to reappropriate the following ten project phases appropriated in the 2005, 2008, 2009, and 2010 Budget Acts. (See Attachment 1.)</p> <ol style="list-style-type: none"> <li>1. Los Angeles CCD, Los Angeles Harbor College, Library Learning Resource Center—Equipment</li> <li>2. San Joaquin Delta CCD, San Joaquin Delta College, Cunningham Math Science Replacement—Equipment</li> <li>3. San Luis Obispo CCD, North County Center, Technology and Trades Complex—Construction and equipment</li> <li>4. San Mateo CCD, Canada College, Electrical Infrastructure Replacement—Construction</li> <li>5. San Mateo CCD, Skyline College, Electrical Infrastructure Replacement—Construction</li> <li>6. El Camino CCD, El Camino College Compton Center, Infrastructure Replacement Phase 2—Construction</li> <li>7. El Camino CCD, El Camino College Compton Center, Allied Health Building—Working drawings and construction</li> <li>8. Kern CCD, Bakersfield College, Performing Arts Modernization—Construction</li> <li>9. Riverside CCD, Moreno Valley College, Phase III Student Academic Services Building—Construction</li> <li>10. Redwoods CCD, College of the Redwoods, New Science Humanities Building Seismic Replacement—Working drawings and construction</li> </ol> <p><b>Recommended Action:</b> <i>Approve as Proposed.</i></p>
<p>21)</p>	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Extension of Liquidation</b></p> <p>Further, CCC requests a two-year extension of the liquidation period on the construction phase of</p>

	<p>the Los Angeles CCD, Los Angeles Trade Technical College, Renovate and Modernize Building A project. The project is expected to be completed in September 2011. The extension is necessary because of delays attributed to project redesigns to remain within the approved budget, unexpected site conditions, and the cleanup of undocumented hazardous materials.</p> <p><b>Therefore, it is requested that Item 6870-492 be added to extend the liquidation period for this project until June 30, 2013.</b></p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
22)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Item 6870-001-0001, State Operations, Restore Position Removed in Error (Issue 109)</b>—It is requested that 1.0 position be restored to the California Community Colleges Chancellor's Office because it was removed twice from the Governor's Budget. The position was dedicated to administrating funds received through an interagency agreement with the Department of Corrections and Rehabilitation that supported training and instruction services; however, the agreement was cancelled and the position is no longer necessary. The appropriate funding was removed from the Governor's Budget.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
23)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Item 6870-101-0001, Local Assistance, Increase Apportionment Funding (Issue 127)</b>—It is requested that Schedule (1) of Item 6870-101-0001 be increased by \$350.0 million Proposition 98 General Fund to restore apportionment funding that has been deferred. This augmentation would reduce the amount deferred from \$961.0 million to \$611.0 million.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
24)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Items 6870-101-0001 and 6870-601-0986, Local Assistance, Decrease Apportionments and Increase Property Tax Revenues (Issues 117 and 116)</b>—It is requested that Schedule (1) of Item 6870-101-0001 be decreased by \$75,060,000 Proposition 98 General Fund to reflect an estimated increase in local property tax revenues for community colleges. It is further requested that property tax expenditures be increased to conform to this action.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
25)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Items 6870-101-0001 and 6870-612-0342, Local Assistance, Decrease Apportionments and Increase Oil and Mineral Revenues (Issues 120 and 119)</b>—It is requested that Schedule (1) of Item 6870-101-0001 be decreased by \$731,000 Proposition 98 General Fund to reflect an estimated increase in oil and mineral revenues for community colleges. It is further requested that oil and mineral expenditures be increased to conform to this action.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
26)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Item 6870-111-0001, Local Assistance, Reduce Vocational Education Reimbursements (Issue 108)</b>—It is requested that Schedule (3) of this item be decreased by \$5,542,000 Reimbursements to reflect a \$7,764,000 decrease in funding due to the elimination of the federal Tech Prep component of the Vocational Education Program and to reflect a \$2,222,000 increase</p>

	<p>due to one-time carryover funds. The Tech Prep program is an articulated, planned sequence of study in vocational education beginning in high school and extending through at least two years of postsecondary education or an apprenticeship program; however, federal budget reductions eliminated the program. The Chancellor's Office receives federal Vocational Education funding through an interagency agreement with the Department of Education.</p> <p>It is further requested that provisional language be added as follows to conform to this action:</p> <p>X. Of the funds appropriated in Schedule (3), \$2,222,000 is provided in one-time carryover funds.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
27)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Non Budget Act Items—Budget Year</b></p> <p><b>Item 6870-601-0986, Local Assistance, Increase Property Tax Revenues (Issue 116)</b>—Based on revised estimates, local property tax revenues increased by \$75,060,000. This funding is not subject to an appropriation in the annual Budget Act.</p> <p><b>Item 6870-612-0342, Local Assistance, Increase Oil and Mineral Revenues (Issue 119)</b>—Based on revised estimates, oil and mineral revenues increased \$731,000. This funding is not subject to an appropriation in the annual Budget Act.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
28)	<p><b>California Community Colleges (May Revise)</b></p> <p><b>Non Budget Act Items—Current Year</b></p> <p><b>Item 6870-601-0986, Local Assistance, Increase Property Tax Revenues (Issue 116)</b>—Based on revised estimates, local property tax revenues increased by \$57,065,000. This funding is not subject to an appropriation in the annual Budget Act.</p> <p><b>Item 6870-612-0342, Local Assistance, Increase Oil and Mineral Revenues (Issue 119)</b>—Based on revised estimates, oil and mineral revenues increased \$731,000. This funding is not subject to an appropriation in the annual Budget Act.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
29)	<p><b>California Student Aid Commission (May Revise)</b></p> <p><b>Item 7980-001-0001, State Operations, Restore Positions Erroneously Eliminated from the Governor's Budget (Issue 009)</b>—It is requested that authority for 3.0 positions erroneously eliminated from the Governor's Proposed Budget be restored. 6.0 positions represented the California Student Aid Commission's (Commission) Federal Policy and Programs Division (FPPD), which previously oversaw the Commission's auxiliary, EdFund. With EdFund responsibilities shifted outside the state, the FPPD was eliminated; however, the Department of Finance (Finance) erroneously removed 9.0 positions from the Budget—three too many.</p> <p><b><u>Recommended Action:</u> <i>Approve as Proposed.</i></b></p>
30)	<p><b>California Student Aid Commission (May Revise)</b></p> <p><b>Items 7980-101-0001 and 7980-101-0784, Local Assistance, Offset Cal Grant Program Costs with Excess Student Loan Operating Fund (Issue 010)</b>—It is requested that Schedule (2.5) of Item 7980-101-0001 be decreased by \$12,250,000 and Item 7980-101-0784 be</p>

	<p>increased by \$12,250,000 to reflect the use of additional Student Loan Operating Fund in lieu of General Fund to support Cal Grant program costs.</p> <p><b>Item 7980-101-0001, Local Assistance, Revise Cal Grant Program Caseload (Issue 011)</b>—It is requested that Schedule (1) of Item 7980-101-0001 be increased by \$16,358,000 General Fund for fiscal year 2011-12 to reflect revised base caseload estimates for the Cal Grant program.</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
31)	<p><b>California Student Aid Commission (May Revise)</b></p> <p><b>Items 7980-101-0001 and 7980-101-0890, Local Assistance, Eliminate Offset of Cal Grant Program Costs with Federal Leveraging Educational Assistance Partnership Program Funds (Issue 013)</b>—It is requested that Schedules (1) and (3) of Item 7980-101-0001 be increased by \$5,011,000 and Item 7980-101-0890 be decreased by \$5,011,000 to reflect the federal government's elimination of the Leveraging Educational Assistance Partnership (LEAP) program. The LEAP program provided grants to states to assist them in providing need-based grants to postsecondary students. In California, LEAP funds were used to support Cal Grant program costs. It is requested that a like amount of General Fund be appropriated to backfill this loss of federal funds.</p> <p>It is further requested that Provision 1 of Item 7980-101-0890 be deleted to conform to this action.</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
32)	<p><b>California Student Aid Commission (May Revise)</b></p> <p><b>Item 7980-101-0001 and Reimbursements, Local Assistance, Eliminate Federal Robert C. Byrd Honors Scholarship Program Funds (Issue 014)</b>—It is requested that Schedules (1) and (2) of Item 7980-101-0001 be amended by decreasing Reimbursements by \$5,671,000 to reflect the federal government's elimination of the Robert C. Byrd Honors Scholarship program. The program provided scholarships to exceptional high school seniors who showed promise of continued excellence in postsecondary education.</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
33)	<p><b>California Student Aid Commission (May Revise)</b></p> <p><b>Item 7980-101-0001 and Reimbursements, Local Assistance, Revise the Temporary Assistance for Needy Families Reimbursement Available for Cal Grant Program Costs (Issues 015, 016, and 603)</b>—It is requested that Schedules (1) and (2) of Item 7980-101-0001 be increased by \$113,344,000 and Reimbursements be decreased \$113,344,000 to reflect the amount of federal Temporary Assistance for Needy Families (TANF) Block Grant resources available to offset General Fund Cal Grant program costs. Budget actions through the March Conference Committee would have provided \$285,279,000 TANF to offset General Fund Cal Grant program costs. This was a result of funding adjustments to the California Work Opportunities and Responsibility to Kids (CalWORKs) program.</p> <p>Based on updated CalWORKs caseload projections, the amount of TANF available for Cal Grant program costs decreased by \$60,669,000. Additionally, delays in the implementation of various CalWORKs solutions included in the March Conference Committee Budget resulted in an erosion of \$67,346,000 of available TANF. Finally, due to a May Revision proposal to suspend certain automation projects funded within the Department of Social Services' (DSS) budget, the amount available from TANF will increase by \$14,671,000. Therefore, the total amount of federal TANF resources available for Cal Grant program costs is \$171,935,000. For more detail regarding CalWORKs adjustments, see the May Revision letter for the DSS.</p>

	<p>It is further requested that Provision 9 of this item be amended to conform to this action:  “9. Of the funds appropriated in Schedules (1) and (2), \$285,279,000\$171,935,000 reflects reimbursements from the State Department of Social Services from the Temporary Assistance for Needy Families Block Grant for the purposes of offsetting General Fund costs of the Cal Grant Program.”</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
34)	<p><b>California Student Aid Commission (May Revise)</b>  <b>Item 7980-101-0001, Local Assistance, Erosion of Savings from Conference Student Loan Cohort Default Rate Requirement for Institutional Cal Grant Program Eligibility Solution (Issue 017)</b>—It is requested that Schedule (1) of Item 7980-101-0001 be increased by \$13,258,000 General Fund to reflect an erosion of the March Conference Committee Budget solution that created a student loan default rate requirement for institutional Cal Grant program eligibility. Specifically, Chapter 7 of the Statutes of 2011 (SB 70) requires all higher education institutions that elect to participate in the Cal Grant program to have three-year student loan cohort default rates that do not exceed 24.6 percent in 2011-12 and 30 percent in 2012-13 and beyond as annually reported by the U.S. Department of Education (USDOE). The solution was estimated to achieve savings of \$19.0 million General Fund.</p> <p>Recently, the USDOE reported that its three-year default rates were incorrectly calculated. Because the error resulted in all institutions being reported as having higher default rates than they actually have, the Commission reports that the General Fund savings eroded by \$13,258,000. This adjustment is necessary to accurately portray the amount of savings this solution is estimated to generate.</p> <p><b><u>Recommended Action:</u> Approve as Proposed.</b></p>
35)	<p><b>California Student Aid Commission (Clean-up Trailer Bill Language)</b></p> <p>69432.7(l)(3)(C) For purposes of the 2012-13 academic year, and every academic year hereafter, an otherwise qualifying institution with a three-year cohort default rate that is equal to or greater than 30 percent, as certified by the commission on October 1, 2011, and every year thereafter, shall be ineligible for initial <del>or</del> <b><u>and</u></b> renewal Cal Grant awards at the institution, except as provided in subparagraph (F).</p> <p><b><u>Recommended Action:</u> The Commission brought to staff's attention after the passage of the education trailer bill, SB 70, that there was a technical error. In order to clarify and stay consistent with the proposal, it is requested that this correction be made to avoid any uncertainty. Approve as Proposed.</b></p>

<b>QUESTIONS:</b>
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- 1) Does the Department of Finance have any technical revisions to these proposals?

**ITEMS TO BE HEARD****6420 CALIFORNIA POSTSECONDARY EDUCATION COMMISSION****ISSUE 1: ELIMINATION OF CPEC PROPOSAL**

As part of the May Revision process, the Governor proposes to eliminate 43 commissions and generate \$82.7 million (\$41.5 million in General Fund) in savings, based on a January 1, 2012 effective date.

The elimination of the state's higher education coordinating board would generate \$927,000 in General Fund savings in 2011-12, and requires that one federal grant program be moved to the Department of Education through trailer bill.

The Administration expects that the public higher education segments would carry out coordinating functions, such as planning, program and campus review, and data analysis.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Postsecondary Education Commission

**BACKGROUND ON CPEC**

The California Postsecondary Education Commission's role in program review is to coordinate the long-range planning of the state's higher education systems – University of California, California State University, and California Community Colleges – and review specific proposals that require extensive evaluation. The review of individual programs, determined by Commission staff, is intended to determine whether the costs of a program are justified by societal needs and student demand for that program. The Commission also serves as the State's primary clearinghouse for postsecondary education.

AB 770 (1973) created the Commission as an integral part of the planning and facilities growth for all new campuses and off-campus centers of the public systems of higher education. New facilities may not qualify to receive state capital funding without Commission approval, which ensures that campuses and centers are developed in accordance with statewide needs and that state capital funds are wisely allocated to regions with the most pressing capacity needs.

**Administration of a Federal Grant.** CPEC has been administering the Improving Teacher Quality State Grants Program (part of the No Child Left Behind of 2001, Title II-A), formerly known as the Eisenhower Grants, for more than 25 years. California receives \$8.4 million, of which five percent is used for administrative costs, for competitive grants to qualified partnerships of postsecondary and K-12 agencies to provide intensive, evidence-based,

high quality teacher professional development that is grounded in the needs of teachers, students, and schools.

### LAO ALTERNATIVE OPTIONS

There are several options for addressing performance issues while maintaining important coordination functions.

**Reform CPEC.** In the LAO's 2010 report on higher education coordination we recommended as one option reforming CPEC. Specific reforms include:

- **Increase independence.** Maintain independence from executive and legislative branch control to avoid partisan or ideological bias. Increase independence from higher education institutions by removing segment representation from the commission, replacing it with a high-level advisory board of segment representatives, and requiring the commission to consult with the advisory group. The California Education Round Table could potentially serve as the advisory body.
- **Revise commissioner appointment process.** The diffuse nature of the current appointment process, while providing broad representation, has several drawbacks. A more concentrated appointment process and clearly established qualifications for commissioners could improve the balance, cohesiveness and ultimately the effectiveness of the commission.
- **Focus responsibilities and resources on shepherding public agenda.** Current efforts in the Legislature to identify goals and priorities for higher education could provide needed focus to CPEC's efforts. The Legislature may wish to modify CPEC's statutory mission and authority to concentrate exclusively on advancing the state's goals and facilitating statewide accountability efforts related to those goals. This could include an expanded role in advising policymakers on finance policies and other mechanisms to bring the segments' performance in line with state priorities.
- **Develop comprehensive statewide data resource.** Create a comprehensive statewide student data resource with enhanced research and analysis capabilities and linkages to other state systems. (Current legislative activity regarding formation of a JPA for intersegmental data acknowledges CPEC's lack of effectiveness in this area.)

**Replace CPEC.** If the Legislature determines that needed reforms are not workable with the existing structure and leadership, it could eliminate CPEC and create a new coordinating body that meets the state's needs for coordination.

**Relocate CPEC Functions.** Alternatively, the Legislature could relocate CPEC's functions to an existing board or department. One candidate is the Department of Education, where the Governor has proposed to move CPEC's federal grant management function. Although the Department concerns itself primarily with K-12 education, it has provided leadership in

intersegmental K-16 efforts and could provide valuable coordination across educational levels.

A portion of CPEC's funding and position authority could be transferred to the Department to perform the highest priority coordinating functions such as data collection and analysis and academic program review. The Department already manages extensive longitudinal data from school districts, and conducts compliance review and program evaluation. Co-locating K-12 and higher education data at the Department could provide the opportunity to link these data for state policy purposes.

A relocation of duties could be a temporary measure. In the future the state could establish a new coordinating body for higher education, or one with broader purview including the linkages among K-12 and the higher education segments, both public and private.

**Enact Sunset for CPEC.** Another alternative is to maintain CPEC for the time being and enact legislation to repeal its authority on a specified future date. This would create pressure to identify alternatives by that date. In our view, however, this action would serve only to postpone a decision and would not make resolution of an ongoing concern any more likely. Instead, we believe the current proposal provides an opportunity to address a problem that has been an ongoing concern for quite some time and has defied past executive and legislative attempts to resolve it. — an opportunity to improve the state's capacity for higher education coordination.

## COMMENTS

Understanding the severity of our fiscal situation, and taking into account the Administration's approach to generate efficiencies throughout the state, it would be unwise to discount the functions of each commission for the sake of generating savings. Although there have been concerns raised over CPEC's ability to effectively coordinate the higher education segments, the Legislature should use this as an opportunity to consider the LAO's alternative reform proposals to refocus and modify CPEC's mission.

To allow the segments to self-regulate and review campus and program expansion proposals, without an independent entity to oversee, is problematic. Although the segments do not have the funds that would encourage the expansion of programs and campuses during this time, to fully eliminate the only higher education coordinating body without a replacement or preservation of duties, is irresponsible.

However, the compressed timeframe of the May Revision process makes it impossible to generate an alternative proposal to ameliorate issues identified by the LAO. Therefore, staff recommends that the Subcommittee refer this proposal to the policy committee.

**6870 CALIFORNIA COMMUNITY COLLEGES****ISSUE 1: APPORTIONMENT FUNDING AUGMENTATION**

The May Revision reflects the positive economic data of the early months of 2011. The Administration proposes to provide \$350 million to restore apportionment funding that has been deferred. This proposal reduces the amount deferred from \$961 million to \$611 million.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

**BACKGROUND**

For 2011-12, the Governor's January budget, adopted by the Legislature in March, includes increased deferrals to the K-14 systems, in order to achieve state cash relief in critical cash-poor months. Currently, \$961 million of the community colleges' apportionment payments are deferred from one year to the next.

The May Revision includes a new focus on reducing the state's budgetary debt obligations, beginning with eliminated adopted deferrals to both school and college districts.

By not creating new programs and instead paying down deferrals, the May Revision provides benefits to both the state and school districts. From the state's perspective, outstanding state obligations as well as out-year state budget shortfalls are reduced. From districts' perspective, less borrowing is needed, thereby reducing associated transaction and interest costs and potentially allowing districts to build back some programmatic support and/ or replenish their reserves.

From both perspectives, using additional funds for deferrals is fiscally responsible. The decrease of a deferral allows the community college districts relief from borrowing obligations.

**COMMENTS**

As part of the 2011-12 Budget Act, the community colleges, like the child care programs, were reduced by \$400 million, with \$110 million in student fee revenue being expected to alleviate some of that burden, for a total reduction of \$290 million. The Legislature has instructed the Chancellor's Office to mitigate cuts away from priority programs. However, this magnitude of cuts will lead to many students being unable to access courses and services. These reductions are not addressed in the Governor's May Revision proposal.

**ISSUE 2: CCC STUDENT FEE REVENUE SHORTFALL**

The issue before the Subcommittee has been brought by the Chancellor's Office and the Legislative Analyst's Office, as the budget year student fee revenue is estimated to be overly optimistic, which may cause an additional financial burden for the college districts.

**PANELISTS**

- Legislative Analyst's Office
- California Community Colleges
- Department of Finance

**BACKGROUND**

Each year the Legislature and the Governor decide on the total amount of funding that is provided to the community colleges. The colleges' apportionments are funded primarily by a combination of enrollment fee revenue, local property tax, and state General Fund monies. Each enacted budget assumes a specified amount of fee and property tax revenues that will be collected by the community college districts that year. These assumptions are generally based on estimates provided by the Department of Finance at the May Revision. Based on these estimates, the enacted budget provides the necessary General Fund support to meet the system's apportionment amount.

The Governor's May Revise assumes that the community colleges will collect a total of \$456 million in fees in 2011-12. After studying the assumptions behind this number, the LAO concluded that this estimate is probably too optimistic. This is for two reasons. First, the \$456 million is predicated on the CCC system serving 70,000 credit full-time equivalent students (FTES) more than its funded amount in the 2011-12 budget. Based on the latest data for the current year, community colleges are serving about 37,000 unfunded credit FTES. The LAO believes that that it is unlikely that districts will increase their unfunded numbers in 2011-12. Secondly, the waiver rate could be even higher than what's assumed in May Revise, which is just under 52 percent.

Although its difficult to project the 2011-12 fee revenue due to uncertainties about enrollment levels and waiver rates, LAO estimates that, at best, about \$445 million in fee revenue will materialize, which would result in \$11 million deficiency in the community colleges' budget. At the low end, fee revenues could end up at about \$415 million, for a shortfall of \$41 million.

**COMMENTS**

In the past two fiscal years, the state has been unable to backfill fee revenue shortfalls. This places an unjust burden on the college districts that leads to additional strains on programmatic funding and students' ability to access courses.

The Legislature could account for this shortfall by increasing the colleges' reduction of \$290 million or find additional resources to mitigate the impact of fee revenue loss. The

Chancellor's Office identified \$2 million from SB 70/CTE funds from prior year, as available, which the Legislature can reappropriate for this purpose.

**ISSUE 3: MAY REVISE – MANDATE REFORM PROPOSAL (ISSUE 106 AND 107)**

The Governor's May Revise proposes several changes in order to suspend 8 community college districts and reduce the budget appropriation to pay down mandate costs from \$9,545,000 to \$607,000.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office
- California Community Colleges

**BACKGROUND**

The Governor's January budget, adopted by the Legislature, provided funding for the community colleges' 21 mandated programs. Since then, the Administration has changed course and intends to use the Legislative Analyst's Office coordinated mandate workgroup's research to justify suspension of 8 mandates to score Proposition 98 savings of \$8.9 million until 2013-14.

**1. Suspend Enrollment Fee and Tuition Fee Waivers & Fund with Financial Aid Funding.** The Administration's first proposal is to suspend and reduce the Enrollment Fee Waiver (\$3 million) and Tuition Fee Waiver (\$13,000) and offset the mandated costs by first using the funds allocated to community colleges' financial aid assistance pursuant to Provision 10(a) and 10(b), 10(c) and 10(d)3 of Item 6870-101-0001. The changes to the budget bill are detailed below:

It is further requested that Provisions 10(c) and 10(d)(3) of Item 6870-101-0001 be amended as follows to conform this action:

“(c) Funding provided to community college districts in subdivisions (a) and (b) is provided to directly offset any mandated costs claimed by community college districts pursuant to Commission on State Mandates Test Claims 99-TC-13 (Enrollment Fee Collection) and 00-TC-15 (Enrollment Fee Waivers). Reimbursable costs for the Enrollment Fee Collections mandate shall be offset first and any remaining funding shall be used to offset reimbursable mandate costs for the Enrollment Fee Waivers mandate.”

“(3) Funding provided to community college districts in paragraph (2) is provided to directly offset any mandated costs claimed by community college districts pursuant to the Commission on State Mandates Test Claims 02-TC-28 (Cal Grants), ~~and~~ 02-TC-21 (Tuition Fee Waivers), and 00-TC-15 (Enrollment Fee Waivers).”

**2. Reduce Funding for Community College Mandates.** The Administration proposes to decrease Proposition 98 by \$5,925,000 to reflect the suspension of the Health Fees, Sexual Assault Response Procedures, Reporting Improper Governmental Activities, Student Records, Agency Fees, and Prevailing Wage Rate mandates until statutory

revisions can be made to eliminate all these activities or render them optional. Trailer bill language will be introduced to add these five mandates to the five currently suspended mandates in Government Code section 17581.5.

#### **MANDATES WORKING GROUP**

As noted in the May 10<sup>th</sup> agenda for this Subcommittee, the mandates working group met throughout 2010-11 to discuss possible consensus on the elimination of mandates. The group did not reach consensus on an approach, with the Assembly staff participants favoring a policy process to resolve the mandate issues.

Three bills, AB 202 (Brownley), SB 64 (Liu), and SB 887 (Emmerson) are currently moving through the policy process to address mandate reform issues.

#### **STAFF COMMENT**

While the concept of reviewing and eliminating obsolete mandates is appealing, the compressed timeframe of the May Revision process makes it impossible to thoroughly vet the proposal. Therefore, staff recommends that the Subcommittee refer this proposal to the policy committee.

**6440 UNIVERSITY OF CALIFORNIA****ISSUE 1: CAPITAL OUTLAY PROJECT FINANCING**

The issue before the subcommittee is a request from the University of California (UC) to consider three additional capital outlay projects and an alternative financing agreement.

Campus	Project	Project Phase	Full Project Cost (000)	Funding Type
Davis	Walker Hall	PWC	\$ 26,414	Lease-revenue
Merced	Classroom & Academic Office Building	PWC	\$ 37,018	Lease-revenue
Santa Cruz	Costal Biology Building	PWC	\$ 49,739	Lease-revenue
<b>TOTAL COST ASSOCIATED WITH APPROVE 3 ADDITIONAL PROJECTS</b>			<b>\$ 113,171</b>	

**PANELISTS**

- University of California

**BACKGROUND**

The University of California is requesting approval of three projects that were proposed for the Governor's May Revise including UC Davis, Walker Hall Seismic Retrofit (\$26.4 million) UC Merced, Classroom Academic Building (\$37.1 million) and UC Santa Cruz, Coastal Biology Building (\$49.7 million) that are essential projects for the University.

UC believes the issue associated with these projects is not based on the merits of any given project, but based on the concern regarding the state's growing debt service. UC is recommending to the Legislature a compromise that would fund these projects in what is still considered a "favorable bid climate", stimulate jobs and economic growth with 1,500 jobs in the construction industry, and save the state millions in future debt service.

The University has discussed with the Administration the pursuit of an MOU agreement where UC would use its low cost commercial paper to initially finance \$380.8 million in previously approved capital facilities projects with an understanding that the state would repay the university at some point in the future. UC understands the state's concern with its ability of the state to sell bonds at cost-effective rates in the near future. But the university is equally concerned that delays in construction could result in the loss of non-state support (federal and donor support totaling \$151 million associated with these projects). UC financing could save the state as much as \$20 to \$25 million in interest costs, given their credit rating and ability to use an interim financing mechanism that's not available to the Public Works Board during the construction period.

Additionally, there are savings from moving these projects along while we're still in a favorable construction bid climate. UC believes this is a reasonable and creative recommendation that would fund projects already committed to by the state that will create nearly 3,500 sustainable jobs over the next 3 to 4 years in a construction industry that is faced with 20 percent unemployment.

This MOU agreement would not require legislative approval and could be implemented in 30 days if all parties agreed that this is a thoughtful and strategic approach to addressing UC's capital facility needs and consistent with the desire of the Governor and the legislature to create more job opportunities.

UC recognizes the concern of the growing debt service to the state, however they are seeking some room for compromise based on the financing mechanism to get previously approved capital facility projects built and the need to get these projects authorized in the 2011-12 state budget and constructed for the benefit of students. All 5 projects would total \$157.5 million which is significantly below the average \$350 million UC generally requests in the annual state budget, demonstrating that they are asking only for the essential projects to be authorized in the 2011-12 state budget. While the matching funds for these projects are significantly lower (\$7 million) at this point, they would create an additional 1,500 sustainable construction jobs across the state. If approved, UC is willing to amend their MOU agreement to include these projects, again providing overall savings to the state, sustainable construction jobs and recognize the current favorable construction bid climate.

**UC Davis, Walker Hall – Renewal and Seismic Corrections** – UC is requesting approval of \$26,414,000 for preliminary plans, working drawings, and construction for renewal and seismic renovation of UC Davis, Walker Hall to be funded out of lease revenue bonds. Walker Hall is a 36,475 gross square foot “E shaped” facility built in 1927 that currently has two seismically weak wings and an overall seismic rating of “poor”. This project would demolish and replace the two outer wings, seismically correct and modernize the main building to include code upgrades and create a large classroom of 450 stations to meet campus academic space needs. ***Note: The project was not included as part of the Governor's January capital outlay proposal.***

**UC Merced, Classroom and Academic Office Building** – UC is requesting approval of \$37,018,000 for preliminary plans, working drawings, and construction of a 68,095 gross square foot classroom, research and office space facility. UC Merced is a growing campus with nearly 4,300 full-time equivalent students (FTES) as of the fall of 2010 representing an increase of 28 percent over the fall of 2009. Currently, UC Merced has one classroom and office building, a science and engineering building, and a library with a fourth academic building, Social Sciences and Management, scheduled to open in the fall of 2011. A fifth building, Science and Engineering II is waiting the sale of lease revenue bonds to proceed with preliminary plans, working drawings, and construction.

This project will provide 5 instructional classrooms that will accommodate between 90 and 120 seats for students meeting their general education requirements. In addition, the project will address the shortage of office space for faculty and graduate students serving as teaching assistants by providing 20,000 assignable square feet for this purpose. The Merced campus is targeted to grow by 650 FTES annually until they reach a targeted and

sustainable enrollment level of 7,500 FTES by the year 2014-15. This project is critical to the campus to address future growth and student demand for access, research facilities, and the shortage of graduate student and faculty office space. **Note: The project was not included as part of the Governor's January capital outlay proposal.**

**UC Santa Cruz, Coastal Biology Building** – UC is requesting approval of \$49,739,000 for preliminary plans, working drawings, and construction of a 33,235 gross square foot instructional space, research and office facility. This facility would serve as the center for marine-dependent and coastal-related biological sciences and research for Ecology and Evolutionary Biology (EEB). Since 1990, 11.8 percent of all bachelor degrees have been in the biological sciences and undergraduate declared majors in EEB have risen from 78 to 246 or 315 percent over a seven year span. Currently, 60 percent of the EEB department is sharing space on the main campus while the rest of the faculty and graduate students are located off campus at the Marine Science Campus. **Note: The project was not included as part of the Governor's January capital outlay proposal.**