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Financing Higher Education Capital Projects



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Technical appendices to this report are available on the PPIC website.

California faces an increasing demand for affordable higher education and a need for adequate facilities suited to a rapidly evolving economy. PPIC estimates that by 2030 the supply of college graduates will fall 1.1 million short of workforce demand. All three public systems—UC, CSU, and CCC—are working to bridge that gap. Alongside the three systems’ efforts, the state must consider the following cross-cutting capital finance challenges:

- **A growing need for more capacity.** California’s K–12 and higher education systems are making progress toward closing the workforce skills gap. This will eventually produce an unprecedented influx of college-ready Californians, but the state of current facilities remains a central challenge.
- **Historical underinvestment.** Data suggest that economic pressures and policy decisions have led California to underinvest in higher education infrastructure over the past decade, ballooning deferred maintenance backlogs across all three systems. Estimates reported by UC, CSU, and community colleges reflect that facility modernization and maintenance could cost more than \$50 billion through 2022–23.
- **Decentralized decision making.** Recent policy changes created a more streamlined process, but with distributed accountability and reduced transparency. Consequently, the state is now less able to align capital spending with its broader higher education priorities.

These conditions create unique challenges for each system, especially CSU. If California is to fulfill its need for an expanded college-educated workforce by 2030, several guidelines apply across the board with respect to capital financing. State policymakers, systems, and other stakeholders must seek to increase transparency and accountability, explore non-traditional alternatives to leverage resources, and consider establishing system capital reserves. According to a recent PPIC survey, two-thirds of adult Californians favor a potential state bond measure for higher education construction projects (Baldassare, Bonner, Dykman, and Lopes 2018). As such, any new state bonds should be used to prioritize projects that both align with state priorities and would be difficult to fund at the system or campus level.

Introduction

PPIC reports that to keep pace with future economic growth, California will need many more college graduates than are currently being produced. Increasing the number of students who complete degrees will help. But closing that skills gap will also require increasing the public universities' capacity. And that necessitates investment in capital projects—the facilities, buildings, and equipment of the physical institutions.¹

The good news is that a growing wave of qualified high school students are seeking admission to UCs and CSUs. Reforms in developmental education should increase transfer applications from community college students. And the California Community College Chancellor's Office (CCCCO) has set ambitious goals in its new strategic plan (CCCCO 2017), which aims to increase transfer rates by 35 percent within five years and eliminate achievement gaps within ten years. The plan, if successful, would significantly increase the number of students who are transfer eligible. Unfortunately, many of the state's four-year universities are already near or at physical capacity. To address shortages and keep pace with technological advances, they will soon need more classrooms, dormitories, online capacity, and other facilities.

Given the scale and scope of the task, planning for and financing these future needs is a challenge, complicated by the past decade's higher education capital investment financing decisions. Because of past budget decisions and how the systems have allocated their funding, the community colleges, CSUs, and UCs have systematically deferred maintenance on their existing infrastructure. The backlog estimate totals billions of dollars (Lenz 2017). Moreover, UC and CSU have been removed from the State Public Works Board's capital planning process, which decentralizes the process of making capital finance decisions and makes it more difficult to ensure spending aligns with the state's higher education priorities.

This report is an overview of California's higher education capital finance challenge. After providing context for the conditions that led up to this point, it outlines the specific circumstances each system faces. It concludes with broad recommendations for enabling the state to align its higher education capital investments to its future economy needs.

¹ There is variation across state government as to what constitutes a capital expenditure. In some cases, the distinction between a maintenance expense and a capital one is determined by the cost of the outlay.

Capital Finance Challenge Drivers

California's higher education capital finance challenge involves three key drivers. First, colleges and universities face an increasing demand for access to education beyond high school. Second, for the past several years the three state systems have underinvested in maintenance of their infrastructure. And third, capital finance decision making has become more decentralized, making it more difficult to align investment with state priorities.

What we do and do not include in the capital finance discussion

The goal of this overview is to provide a concise discussion of the capital finance challenge facing public higher education in California, motivated by a desire to enable more Californians to complete college degrees. PPIC research suggests producing enough degrees for the state's future economy will require the systems' capacity to be expanded.

Our notion of capital improvements includes the major projects undertaken to extend the useful life of a building, such as a seismic retrofit or the wholesale replacement of water- and energy-efficient fixtures. Ideally, we would limit our focus to the type of capital investment that includes the construction of new facilities and the major projects undertaken to upgrade or improve existing structures.

We would prefer to exclude regular maintenance designed to keep a facility in its original condition, such as replacing light bulbs, painting, or repairing a leaky pipe. But we cannot do that for two reasons. First, when a campus defers regular maintenance for its buildings (as many California schools have done) the facilities fall below their original condition, reducing their usefulness. Catching up on the accumulated deferred maintenance can quickly resemble a capital improvement. Second, the data simply do not always let us make the distinction. As a result, our discussion of capital investment necessarily spills over and at times includes the issue of maintenance.

On the other hand, there are important ways to expand capacity other than the construction of new buildings. Although we do not go into them in any depth here, we want to highlight them for the reader. These improvements include:

- Increasing throughput and decreasing the time it takes for a student to complete a degree
- Improving the use of existing facilities (e.g., more efficient course scheduling or a reconfigured academic year)
- Online or distance learning
- Reassignment of functions (i.e., administrative functions could be in leased buildings off campus, freeing up square footage on campus)
- Cross-segment sharing of facilities within a region

A Growing Need for More Capacity

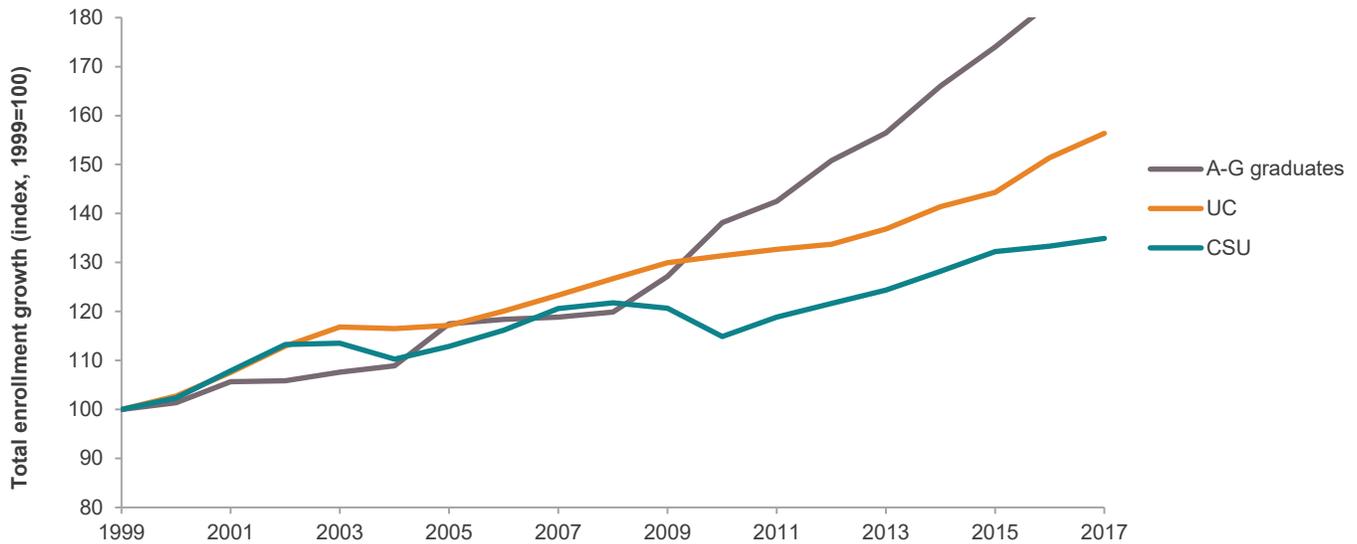
PPIC projects that between now and 2030 California will fall 1.1 million bachelor's degrees short of workforce demand (Johnson, Bohn, and Cuellar Mejia 2017). Closing this gap will require substantial improvements across

the board: access to four-year colleges, transfer rates from community colleges, and degree completion rates, especially among underrepresented groups. These groups include low-income, first-generation, Latino, and African American students. California’s historical underinvestment in the maintenance of four-year public universities will likely impede its efforts to close the impending workforce skills gap (Johnson 2018).

Efforts to increase the supply of college graduates have already yielded major successes. These include record-breaking high school graduation rates, with largest gains among English Learners, African American, and Latino students, and significant increases in a–g college preparatory course completion required for admission to UC and CSU (Figure 1).

FIGURE 1

A–G completions are growing faster than enrollment at UC/CSU



SOURCES: California State University, University of California, California Postsecondary Education Commission, and California Department of Education.

NOTE: A–G completion and UC/CSU enrollment numbers represent headcounts.

Committed to closing the skills gap, community colleges have begun to implement reforms to increase transfers to four-year institutions. They are revising assessment and placement procedures so students ready for college are not placed in developmental education. For example, reforms in developmental math enable more students across all student groups to complete transfer-level math courses. Older reforms also help: the Associate Degree for Transfer (ADT) provides more certainty regarding courses eligible for transfer and eventually a bachelor’s degree. Combined, these changes should enable more underrepresented students to complete college-level coursework and transfer to the UC and CSU systems.

As we show in the next section, these successful efforts to funnel more students into the public higher education system are coming on the heels of several years of declining resources creating significant challenges.

Declining State Investment

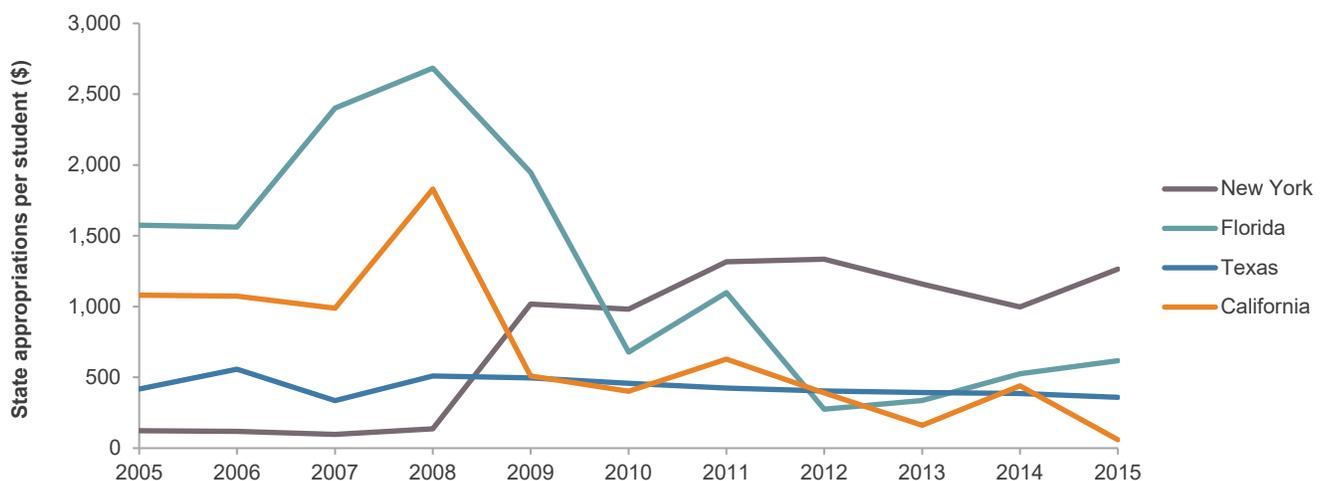
To successfully increase its supply of college graduates, the state must consider whether its higher education systems are physically ready to accommodate the expected influx of students. Many buildings are typically at least 30 years old, with critical safety, infrastructure, and modernization needs. Investment in capital and maintenance to rectify this must align with the systems' and state's priorities.

The total cost to improve infrastructure is high and encompasses more than new classrooms or dormitories. According to their recent capital planning documents, UC, CSU, and CCC will need an estimated \$54.8 billion to modernize and maintain facilities through 2022–23 (California State University 2018; CCCCO 2017; University of California 2017).² This figure reflects planning for technologically advanced facilities, ensuring the safety and accessibility of aging buildings, and investing in the less visible systems that enable a campus to function— heating, cooling, electrical, and water.

Given that policy decisions must account for financial limitations, legislators are often confronted with challenges of prioritizing students over building maintenance and construction. These tough choices become especially visible during an economic downturn. Figure 2 suggests that economic pressures and policy decisions over the past decade have led California to underinvest in higher education infrastructure. It highlights that state support for capital investment in both California and Florida dropped sharply during the Great Recession starting in 2008. Interestingly, New York increased support, while Texas stayed the same (State University of New York 2004).³

FIGURE 2

Direct state support for capital expenditures has declined



SOURCE: Integrated Postsecondary Education Data Systems.

NOTE: Inflation-adjusted 2015 dollars.

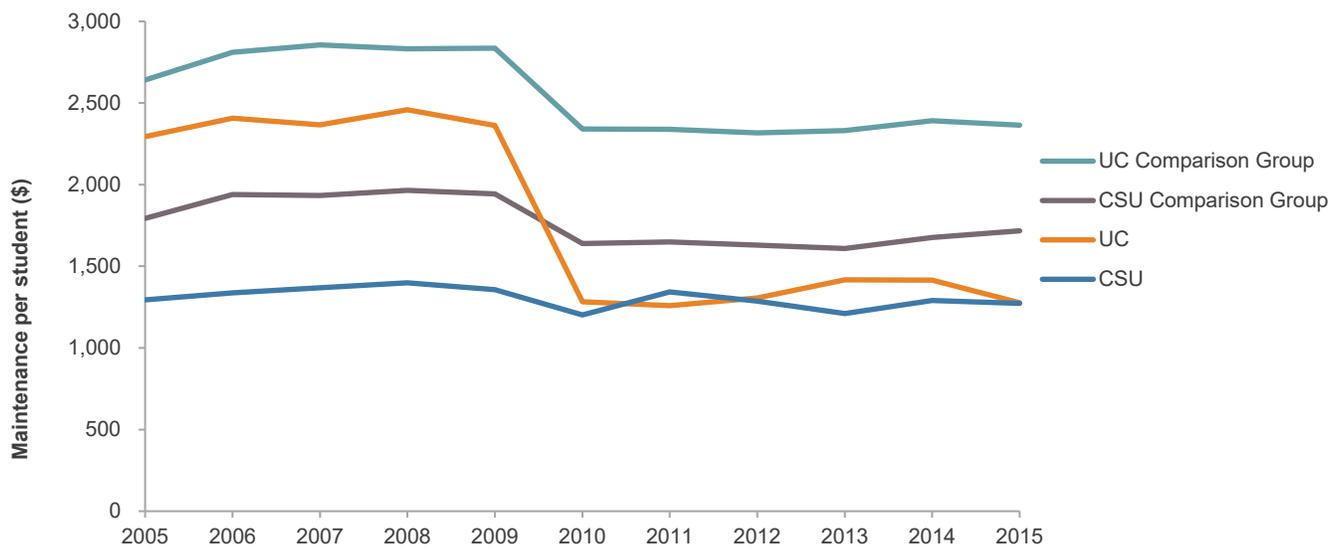
To illustrate trends in per student spending on campus maintenance and operation from 2005 to 2015 on a more granular level, Figures 3 and 4 separate the three systems and compare them to a nationwide group of similar

² Estimated needs for each system include: \$14.1 billion for CSU, \$21.5 billion for CCC, and \$19.2 billion for UC. In 2017, the College Futures Foundation released a report by Patrick Lenz in which he estimated the projected five-year need for the California Community Colleges (CCC), the University of California (UC), and the California State University (CSU) to be \$47.2 billion to modernize and maintain their facilities (Lenz 2017).

³ New York State had committed to a multi-year plan to reduce its higher education deferred maintenance backlog just before the start of the recession.

institutions.⁴ When California cut its investment in higher education infrastructure during the Great Recession—decreasing that source of revenue for the systems—UC cut maintenance spending dramatically. CSU’s spending trend demonstrates a near-constant underinvestment between 2005 and 2010, irrespective of economic fluctuations. California’s community colleges also report their maintenance spending has been significantly below that of their peers over the same time period. Since 2000, however, they have had greater access to bond financing for their capital projects (discussed below). More infrastructure investment overall may affect the amount needed for maintenance. In other words, as the community college system continues to expand its infrastructure to meet growing student needs, its operating and maintenance costs will rise accordingly.

FIGURE 3
California’s public four-year universities persistently underinvest in maintenance



SOURCE: Delta Cost Project 2014–15 data update.

NOTE: Inflation-adjusted 2015 dollars. The chart includes only institutions (UC, CSU, and comparison groups) that have existed every year between AY 1986–87 and 2014–15. See [Technical Appendix C](#) for details.

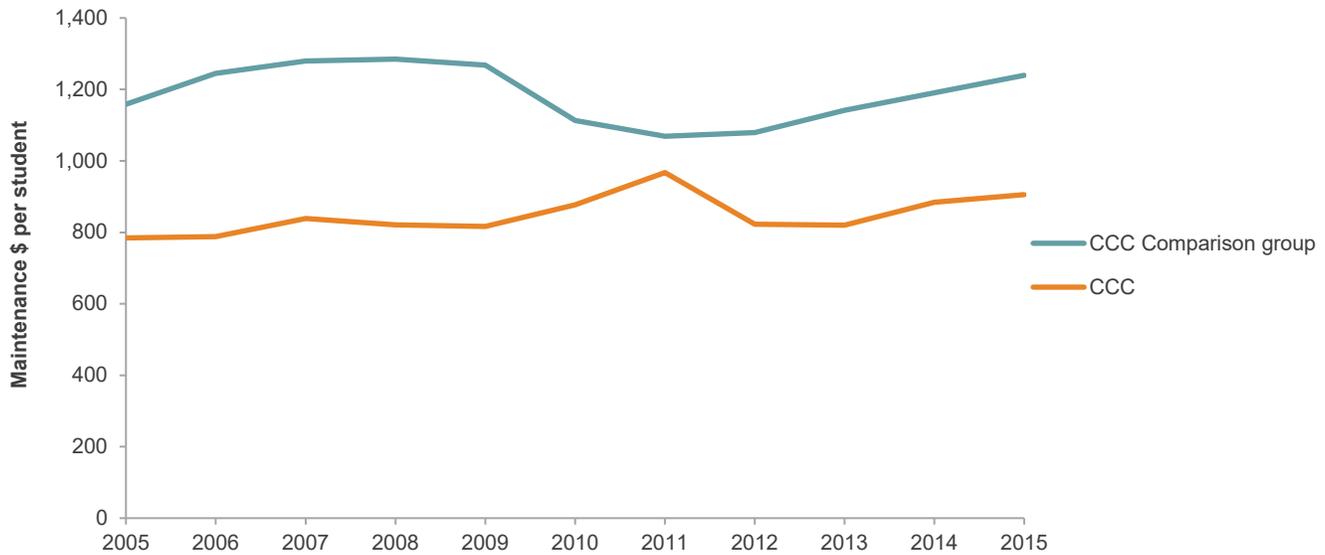
During the period when state General Fund dollars were declining, there was no new influx of state bond funds. The last general obligation bond support for UC and CSU capital expenditure (\$10.4 billion) was passed in 2006. By 2012 these funds were essentially exhausted. In 2016, voters did pass a new school facilities bond, but solely for K–12 facilities and community colleges. To keep up with infrastructure and maintenance costs without state investment, UC and CSU have had to look for ways to reallocate existing funds or seek new revenue streams.

Deferring capital investments is not the only recent development in California’s higher education financing. As the next section will show, decision making has become a relatively ad hoc, bottom-up process, making it difficult to ensure system spending aligns with the state’s priorities.

⁴Delta Cost Project database. Operation and maintenance of plant is defined as a functional expense category that includes expenses for operations established to provide service and maintenance related to campus grounds and facilities used for educational and general purposes. Specific expenses include utilities, fire protection, property insurance, and similar items. This function does not include amounts charged to auxiliary enterprises, hospitals, and independent operations. Also includes information technology expenses related to operation and maintenance of plant activities if the institution separately budgets and expenses information technology resources (otherwise these expenses are included in institutional support). Institutions may, as an option, distribute depreciation expense to this function.

FIGURE 4

California's community colleges also spend less on maintenance than other states



SOURCE: Delta Cost Project 2014–15 data update.

NOTE: Inflation-adjusted 2015 dollars. The chart includes only institutions (CCC and comparison group) that have existed every year between AY 1986–87 and 2014–15. See [Technical Appendix C](#) for details.

Decentralized Decision Making

Higher education capital finance in California has changed significantly since the 1860s, when the state leveraged the federal Morrill Land-Grant Act to build its first campus in Berkeley. As California has expanded and modernized its universities and colleges to meet demand, finding stable revenue streams and efficient capital-planning processes has been an ongoing challenge. Over time it has shifted from a pay-as-you-go process—allocating general and special fund dollars to pay for capital costs—to using a complex blend of debt instruments and revenue sources. These include general obligation and lease revenue bonds, investment income, private investment, student fees, and philanthropy.

From a management perspective, choosing a decentralized decision-making model comes with inherent tradeoffs. The state's recent change toward such a model raises a key question: just how much should policy and implementation be controlled centrally and how much discretion should be afforded to those on the ground? In a state the size of California, striking the right balance is a continuous challenge.

A top-down, tightly controlled approach can ensure that processes are standardized and the state's overall objectives are prioritized. And when objectives are not realized, accountability is clear. A decentralized system affords local actors (in this case system and campus administrators) to make plans and decisions that best suit their needs. Decentralization also enables individual institutions to be more flexible, adjusting their strategies to their unique circumstances. But increasing individual autonomy disperses accountability. And there is no guarantee that encouraging local entities to chart their own paths will expand higher education capacity.

Recent changes have reduced state controls. The capital finance process has become bottom-up and exists largely outside the public purview. Except for budget negotiations that determine overall appropriations levels, legislative oversight has been reduced. Thus policymakers have fewer ways to ensure that new capital investments are aligned with the goal of increasing the number of students who graduate with bachelor's degrees (Lenz 2017). For example, removing UC and CSU from the state public works capital-planning process has impeded the ability to

track their decisions. On a positive note, this change removed a time-consuming step, resulting in a more streamlined process. It also afforded more control at the system and campus levels—although they need system approval to borrow money, individual campuses can budget for and raise funds for capital projects.

Unlike the public four-year universities, the state’s community colleges have always functioned in a decentralized manner. And like the K–12 system, local districts make most of the capital finance decisions. In 2000, voters approved Proposition 39, which makes it easier for community colleges to pass bond measures (LAO 2000). Since then, local community college districts have been relatively successful in funding their capital needs.

It is not possible to declare either a decentralized or centralized system more efficient in absolute terms. Efficiency must be measured relative to some objective. A centralized system could be more efficient at pursuing a statewide goal, but with a more bureaucratic and time-consuming process. Nevertheless, the current level of decentralization does not appear to encourage expanding the overall capacity of California’s public higher education system.

Decision making at the local level requires administrators to implement capital plans that meet campus needs *and* can be financed. This challenge involves difficult trade-offs. For example, adding academic space may be important, but additional classrooms are less likely to attract philanthropic giving and they won’t generate the type of future revenue necessary to secure bonds. Wealthy donors often find the construction of athletic facilities or arts centers to be more appealing. Auxiliary projects in which public-private partnerships play an increasingly visible role (self-supporting ventures like dorms, parking garages, and student wellness centers) may be more feasible than a project dedicated solely to academic use. Critical but uninspiring projects such as refurbishing campus heating and cooling systems present an even bigger financing challenge.

Given the relatively recent shift to more decentralized capital financing, it remains to be seen whether capacity expansion proves problematic. If the state prioritizes increasing the number of students who complete four-year degrees, how the process unfolds bears watching.

All three of the drivers we have laid out above have different implications for each of the systems, which we will elaborate in the sections that follow.

UC: Decentralization and Privatization

The University of California is the state’s flagship research institution. In 2017–18 it enrolled over 265,000 undergraduate and graduate students and produced over 49,000 bachelor’s degrees. In recent years, enrollment has outpaced state funding. During this period, policymakers and the system agreed to shift greater responsibility for capital financing to the system level. This combination of resource constraints and increased autonomy has contributed to a more decentralized capital financing approach, with greater private interest participation.

Over the past five years a series of budget agreements between policymakers and UC has led to enrollment of an additional 27,000 undergraduates and a system commitment to increase the number of transfer students. Modest increases in General Fund allocations have helped pay for this growth (about 3%–4% per year on average). But without general obligation bond funds, officials are reluctant to allocate state general revenue to capital projects, which has in turn exacerbated deferred maintenance backlogs and restricted investment in modern physical spaces.

Even a cursory glance at UC financial data shows how statutory changes and the recent lack of state bonds have begun to modify its funding model, with uncertain consequences. In 2005 UC spent \$2,295 per student on operation and maintenance (OMP). But after recessionary budget cuts and a sluggish recovery, in 2015 it spent merely \$1,277. More than half of UC’s buildings are already over 30 years old. Reducing maintenance spending by half is unlikely to extend the useful life of these buildings and could add to future capital costs.⁵

While UC’s need for capital investment was growing, the Brown administration gave the system more freedom to seek alternative funding. In 2013–14 the state passed AB 94. In exchange for incorporating into its base budget all state-funded debt service payments for capital outlay—including payments for both general obligation and lease revenue bonds—the UCs could now refinance their state-held debt of about \$2.5 billion (University of California 2013; Lenz 2017).⁶ The state provided initial funding to pay the debt and removed UC from its Public Works Board bond funding process.⁷ It also gave campuses the authority to issue university bonds backed either by auxiliary revenue (e.g., parking structures or dormitories) or general revenue (including state General Fund revenue and tuition).

This autonomy enables the system and campuses to enjoy considerable freedom in setting priorities. UC has turned increasingly to private investment and self-supporting enterprises to fill its capital budget gaps. Today, it uses a mix of state and non-state funds. As a result, responsibility for core academic projects like classrooms and labs is shifting. Those that rely on state funding have a different approval process from those able to secure funding from other sources, including philanthropic donations. Unfortunately, incentives for funding from such sources may run counter to state and system goals of increasing bachelor’s degrees, thus hampering progress.

Since 2008, external financing from non-state sources accounted for 86 percent of UC’s capital funding (University of California 2018). Recent trends in university expenditures illustrate the shift to private funding for capital projects. Between 2005 and 2015, UC increased per student spending on auxiliary enterprises by almost 70 percent, nearly three times the increase of comparable institutions across the country.⁸

An example of such funding is UC Merced’s plan—approved in 2016 by the Regents of the University of California—to add 1.2 million gross square feet to its campus. This expansion includes academic, research, student residence, and student life facilities, as well as infrastructure, roadways, and parking. All are to be designed, constructed, operated, and maintained by a single private entity—Plenary Properties Merced. The plan allows Merced to nearly double the size of its campus and create space to grow to 10,000 students by 2020. Plenary Properties incurs the initial capital costs and operates the facilities in exchange for payments from UC Merced. Plenary Properties is then obligated to meet contractual performance measures throughout the life of the facilities. The UC Merced-Plenary Properties partnership is a possible model for financing large scale capacity expansion at a university, particularly where access to land is less of a barrier. Its implementation should be monitored closely, with that in mind.

In the next section, we will show how, even though CSU shares UC’s new autonomy and possibilities for innovative solutions, its deferred maintenance and comparatively sparse access to private and philanthropic money make funding for capital projects far more difficult to attain.

⁵ In an effort to address the vast deferred-maintenance backlog across the system and at individual campuses, UC is launching a new program—the Integrated Capital Asset Management Program (ICAMP). The program offers a new standardized real property asset management platform and a standardized facility condition assessment model that will allow for a systematic and consistent information gathering process. Once adopted, it will enable the system to identify its total deferred maintenance backlog and prioritize according to its needs (University of California 2017).

⁶ After passing AB 94, two years later the legislature passed SB 81, clarifying some of the provisions of the arrangement and specifying the types of payments that could be supported by General Fund revenue.

⁷ California Budget Act of 2015 (AB 93).

⁸ Delta Cost Project Database’s auxiliary expenditures indicator is a total of all operating expenses associated with residence halls, food services, student health services, intercollegiate athletics, college unions, college stores, faculty and staff parking, and faculty housing. Therefore, it is difficult to understand what percentage of each of the cost categories contributes to total expenses. The increase in auxiliary spending may reflect the system’s need to provide housing.

CSU: Students versus Buildings

The California State University system is the largest four-year public university in the United States (more than 480,000 students enrolled in fall 2017) and awards nearly half of the state’s bachelor’s degrees annually (105,431 in 2017–18).⁹ It is one of the most diverse systems in the country. CSU campuses enroll some of the largest numbers of historically underrepresented students, including African American, Latino, low-income, and first-generation college students. Even so, the system’s infrastructure needs present a critical challenge as student throughput increases.

CSU’s infrastructure is extensive and old. Its more than 2,000 facilities are on average 37 years old—well past the benchmarked standard life of 30 years (California State University 2017).¹⁰ But only about 10 percent have been renovated, mostly over a decade ago. The state owns the vast majority (74%), but even privately funded buildings are near the end of standard useful life (Table 1).

TABLE 1

California State University’s infrastructure is extensive and old

	Total number of facilities	Average completion age	Total number of renovated facilities	Average renovation age
State owned	1,545	41	168	15
Non-state owned	532	27	44	11
All	2,077	37	212	14

SOURCE: CSU Campus Facility Report received July 10, 2018.

NOTES: The analysis includes only non-leased facilities. Ownership code (state owned and non-state owned) indicates source of funding and availability of use by university. This category includes facilities deemed non-state owned, non-state funded, donor/private funded, and other. Examples include: residence halls, recreation centers, parking structures, etc. In addition, the average completion and renovation age calculations do not include facilities for which both dates were missing. See [Technical Appendix A](#) for details.

Old buildings can be functional if they are properly maintained. Unfortunately, CSU has long reported a growing deferred maintenance backlog—\$325 million in 1996–97 (described then by the Legislative Analyst’s Office as “huge”) to a current estimate of \$2.6 billion (LAO 1996; Lenz 2017). The backlog’s persistence through periods of large budget surpluses and deep deficits is symptomatic of capital planning challenges. Officials reason that serving students is a higher priority than maintaining or constructing buildings. Consequently, during recessions, campuses prioritize paying for instruction and student services and defer investment in capital projects.

Although this sort of crisis thinking is understandable and even laudatory, it creates a false dichotomy. Maintaining capital assets and infrastructure, modernizing buildings, and ensuring adequate capacity are all essential to increasing access and improving student outcomes. Moreover, this argument implies that during budget surplus years funding for deferred maintenance and capital renewal would be backfilled. That has not happened.

CSU now enjoys capital finance autonomy similar to UC. The 2014–15 state budget shifted appropriations for general obligation and lease revenue debt service for CSU’s capital improvement projects into the system’s main appropriation, to require incorporation of such costs into CSU’s overall fiscal planning strategy (California State Budget 2014). In exchange the system got greater autonomy over capital finance decisions, and its base funding

⁹ For total enrollment by campus, see California State University (2018) and California State University (2017–2018).

¹⁰ The standard life varies by class of asset. Since the CSU Space and Facilities database includes a variety of facilities, 30 years represents the outer limit of the standard life guideline.

grew by \$7.8 million. The intention was to enable CSU to refinance its existing debt at a lower rate as UC had done, remove some debt from the state’s general balance sheet, and encourage the system to address its full cost of operation including its long-term debt. CSU was also allowed to issue system revenue bonds, giving it the option to issue future debt by pledging a portion of future General Fund allocations and tuition collections as collateral.

CSU’s autonomy is a mixed blessing. Compared to UC, its campuses have less access to private, philanthropic, and other financing sources to augment capital and maintenance budgets. For example, CSU’s access to endowment-generated revenue is considerably less even though it serves nearly twice as many students as UC. In 2017, CSU reported endowment balances of \$1.6 billion, UC nearly \$17 billion (NACUBO 2017).

Of the three systems, the community colleges stand out: their governance involves local autonomy so decision making is already decentralized and they have authority to tax and borrow. As the final section will show, these dynamics have served them well, although challenges remain.

CCC: Making Decisions at the Local Level

California’s community colleges are home to more than 2.1 million students—the largest share of the state’s postsecondary student population. Thus, the system plays an integral role in closing the projected skills gap by increasing access and transfer rates to four-year universities. It comprises 114 colleges organized into 72 districts, overseen by a state chancellor and board. Locally elected trustees run individual districts—governance akin to K–12 school districts—and they have authority to independently tax and borrow. Not surprisingly then, capital finance among the CCCs is highly decentralized, with each individual district driving most decisions about needs, sources, and process.

Historically, the community colleges have leveraged this capacity to borrow, and over the past twenty years have had considerable resources to invest in facilities. Since 1996, the number of general obligation bonds proposed and passed has increased considerably, as has the median value of passed measures (Table 2).

TABLE 2

The number and median value of community college general obligation bonds has increased significantly

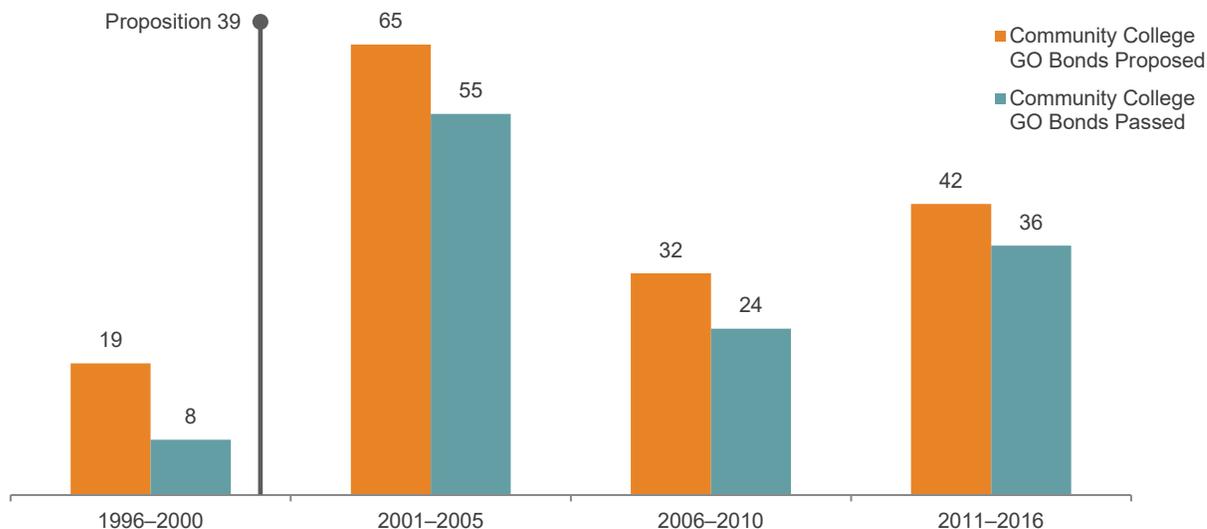
Years	Number of elections	Number of measures proposed	Percentage of measures passed	Median bond value
1996–2000	8	19	42%	\$ 87,177,000
2001–2005	7	65	85%	\$ 161,000,000
2006–2010	6	32	75%	\$ 296,250,000
2011–2016	7	42	86%	\$ 350,000,000

SOURCE: California Elections Data Archive.

NOTE: See [Technical Appendix B](#) for details.

Proposition 39 (2000) was a key development for community colleges. It reduced the threshold required to pass local school and community college bond issues from a two-thirds (66.67%) to a 55 percent supermajority vote. Between 1996 and 2000, 451 K–12 and 19 community college measures required the two-thirds threshold to pass. After Proposition 39, between 2001 and 2005, only 80 K–12 and eight community college measures required it. During the same period, 272 K–12 and 54 community college measures requiring the 55 percent threshold were placed on ballots (Figure 5).

FIGURE 5
 Passage of bond measures more than doubled after Proposition 39 in 2000



SOURCE: California Elections Data Archive.
 NOTE: See [Technical Appendix B](#) for details.

Not surprisingly, the lowered threshold increased the number of measures passed, and therefore the total amount of approved bond authority—from 2001 to 2016, more than \$35 billion (see [technical appendix Table B1](#)). In the 2016 fall election cycle alone, 13 districts passed bonds totaling \$7.5 billion. California’s community college districts’ ability to levy taxes and borrow offers the system considerable resources for capital projects. Less clear is how well the colleges’ investments support the state’s overall higher education priorities, and whether they all have the same access to funding.

The Path Ahead

California’s public four-year universities and community colleges face significant challenges finding the resources to efficiently fund capital projects. They must reconcile competing demands: capacity expansion and an already significant maintenance backlog. In the current decentralized process, stakeholders at various project stages may make decisions that do not align with state and system priorities. This plays out differently for each system, creating unique concerns for the UCs, CSUs, and CCCs. The task of efficiently financing capital projects is an uphill battle for all three systems, but the CSUs are confronting the steepest slope.

As an initial foray into capital financing, this overview makes the following recommendations:

- Increase transparency and accountability for state policymakers and the public. The decentralized process makes aligning capital investment with state priorities more difficult. A state-level body overseeing higher education capital spending could facilitate project alignment with priorities. At minimum, more systematic reporting is needed.
- Encourage the systems to maintain protected capital reserves. Spending on capital projects can be uneven from one year to the next. It can also be unpredictable. Currently, the systems choose between two options: allocating dollars out of their annual operating budget or borrowing via some bond instrument. A third option is to set aside a portion of the operating budget for future anticipated or unanticipated capital spending. This “rainy day” fund could remove some of the volatility and help ensure that maintenance is performed during economic downturns.
- Explore non-traditional alternatives. The UC Merced public-private partnership experiment may indicate a promising path forward. Campuses from different systems in relatively close proximity could consider cross-segmental projects where partners combine different assets or revenue sources.¹¹ The resulting joint facility might accomplish more than either party could separately.
- Target any new state funds strategically. Given that two-thirds of adult Californians favor a potential state bond measure for higher education construction projects, combined with the legislative interest in authorizing new higher education bonds, any new funds must target priority areas (Baldassare, Bonner, Dykman, and Lopes 2018).¹² The influx of state capital could increase UC’s and CSU’s physical capacity. Such bonds should support projects that a campus or system would be less likely to attempt, such as expanding academic facilities or upgrading antiquated physical plants. Schools receiving funds should demonstrate how the investment would help expand their capacity and facilitate a commitment to serving additional students.

In the final analysis, it appears that the CSU campuses face the greatest challenge. On a per student basis, the support they receive from the state General Fund is less than that of the UCs and about the same as that of the community colleges. When compared to the UCs, the CSUs also have a smaller philanthropic foundation, as well as a smaller research base that might be used to subsidize capital projects. The community college’s taxing authority is an advantage that the CSU does not enjoy. Therefore, while the task of efficiently financing capital projects presents something of an uphill battle for all three systems, the CSUs are confronting a greater challenge.

Closing the 1.1 million workforce skills gap by 2030 is an ambitious task for all three of California’s higher education systems. As efforts to close that gap gain momentum, consideration for physical infrastructure and capacity must be prioritized. Increasing the number of college graduates will require in part, a steady increase in enrollment—as well as prioritizing the condition and capacity of facilities across the state’s higher education systems. A long-term plan that includes a robust discussion of the key role of capital finance is essential to the lasting success of California’s higher education systems—and the students they serve.

¹¹The collaboration between UC Davis and the Los Rios Community College District is one such example. UC Davis has provided land, and a combination of state and local college district bonds will pay for construction.

¹² For example, in 2018 Senators Glazer and Allen introduced SB 1225, which would have authorized \$4 billion in borrowing, split evenly between the UC and CSU systems. Initially written to be placed on the fall 2018 ballot, the bill was amended to be placed on the 2020 ballot. The proposal did not become law, however.

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