Say No to the Risky Restructuring of UC's Debt in the Governor's Budget.

A risky gamble with UC student's tuition dollars and UC workers' livelihoods.

At the University of California's request, the Governor's budget proposals would:

1. Shift $2.5 billion of existing state-supported debt onto the University of California's books for capital projects paid for through State Lease Revenue Bonds.
2. Let UC take on more debt with little to no legislative oversight in the future for state-supported capital projects.

UC's proposal would kill essential state oversight of borrowing and take unnecessary risks that could leave taxpayers and students on the hook. By rolling $2.5 billion of existing state-supported debt into UC's budget, executives claim they could use the University's superior credit rating to refinance the debt and save money this year. In fact, UC's credit rating is only a notch higher than the State of California's and it could suffer under the weight of $2.5 billion in new debt obligations. ***So what is really going on?***

Debt Restructuring Likely Increases the Cost of Borrowing

UC executives claim they could save money in fiscal year 2012-2013 by refinancing the $2.5 billion with UC's superior credit rating. In fact, UC will likely increase the cost of borrowing two-fold:

1. UC executives admitted in a 2011 report that $2.5 billion in new debt obligations could hurt its credit rating – wiping out any advantage it has for refinancing.[1]
2. Extending repayment of its debt from 10 years to 30 years would spread payments over a longer period of time. The longer you pay, the more you pay. By increasing the cost of borrowing, how does UC expect to pay for this if not with tuition hikes or cuts to services?

Even if UC could "save" money upfront, UC executives could redirect such funds to legacy building projects and pay increases for themselves when the legislature loosens oversight.

Higher Debt Service Costs Will Lead to Tuition Increases and Benefit Cuts

UC's debt has on average increased by 12% over the last 4 years to $14.3 billion in outstanding debt, about 50% of UC's current total liabilities. And, there is no reason to believe UC won't take on even more debt, especially since it is likely it will not need Legislative approval for future capital projects.

Funds to pay off this rising debt load will come from UC's budget under this new policy, leading to higher tuition costs and cuts to workers' wages and benefits.

Please support new budget oversight and transparency for UC and continue current state management of debt service for UC's $2.5 billion in borrowing.

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[1] "Should the outstanding $2.5 billion in [state-supported] debt ever weigh directly on the University's credit that could significantly impact debt capacity – particularly on the University's core general revenue credit." Annual Report on Debt Capital and External Finance Approvals, Office of the CFO, December 31, 2011, p.
8. http://www.universityofcalifornia.edu/finreports/index.php?file=debtcapital/debtcapital_2011.pdf