Unprecedented Power Grab: UC's Debt Service Privatization Kills Legislative Oversight, Puts Students & Workers on the Hook

UC Executives Taking Away Legislative Oversight

UC Executive's proposals lets UC use general support funds from the state to pay off not just debt service for $2.5 billion now held by the state but also any capital expenditures- all without Legislative approval or notification.

If this proposal were to pass, what happens in future years if the State decreases UC's General Fund appropriations?

There are no safeguards in place to ensure that state general support funds aren't used to pay off rising debt service rather than for instructional or operational purposes.

UC would be able to pledge General Funds for restructuring bonds for an open-ended period of time.
As UC has began to issue 100 year bonds – also known as "Century Bonds"- and UC Executives could be using state dollars to pay off debt for decades, or even centuries, with no Legislative oversight, approval or notification.

Protections for Students & Workers in Section C are unenforceable and, therefore, no protection at all.
Adding $2.5 billion in debt to UC's books will increase pressure from Wall Street rating agencies for UC to reduce its liabilities to workers- such as pension & retiree health care obligations.

Debt Restructuring, Trailer Bill Language

6-12-12

UC TBL – APPROPRIATION LEGISLATION

Section XXX of the Education Code is added to read:

(a) As determined by the University of California, all, or any part, of the amounts appropriated in the annual Budget Act as support for the University that are authorized to be used for general operating expenses or are unrestricted may also be: (i) pledged by the University to secure the payment of any of the University's obligations, including, but not limited to, the University's general revenue bond program, provided that such obligations either (1) are issued before June 30, 2017, or (2) are issued at any time to refund, defease or otherwise retire such obligations referred to in subsection (a) (i) (1) ("refunded bonds"); provided, however, that for obligations referenced in subsection (a)(i)(1) that are issued to refund, defease, retire, or restructure State Public Works Board bonds ("SPWB restructuring bonds"), the maturity of obligations issued to refund, defease or otherwise retire SPWB restructuring bonds shall not exceed the maturity of the prior SPWB restructuring bonds, (ii) used for capital expenditures, and (iii) used to pay debt service on any of the University's obligations referred to in subsection (a) (i). The state hereby covenants with the holders of the University's obligations secured by the pledge of the University permitted by this section that, so long as any of these obligations referred to in subsection (a) (i) remain outstanding the state shall not alter, amend, restrict or otherwise impair the ability of the University to apply and pledge the amount appropriated as support for the University that are authorized to be used for general operating expenses or are unrestricted as described in this section. The University may include this covenant of the state in the agreements or other documents underlying the University's obligations to this effect.

(b) Section (a) is only operable if the three national rating agencies determine the issuance of University obligations to restructure the State Public Works Board bonds issued to fund University projects will not count as State of California debt, and that there will be no substantial impact to UC's ratings; provided, however, that an initial determination of such rating agencies shall be deemed to be final determination in full satisfaction of this subsection (b).

(c) The debt restructuring authorized in this statue as stated in Section (a) will not be used as a justification for future increases in student tuition, additional employee lay-offs, or reductions in employee compensation at the University of California.

UC Executives Claim that UC can save $80M in 2012 by privatizing debt service for its capital expenditures

FALSE: This is an accounting trick. Management has suggested they will extend debt service payments from 10 years to 30 years, possibly increasing total payments at taxpayer and student expense.

Questions Left Unanswered by UC Executives:

- *What are the costs (payments to Wall Street, such as underwriters, legal fees, etc.) of restructuring?*
- *When will debt service payments increase?*
- *Would this language make the state legally obligated for the debt UC privatizes?*

UC's Credit Rating Is No Guarantee for Better Lending Rates

UC Executives acknowledged last year in a fiscal report that taking on the responsibility of $2.5B state-supported debt would likely have a negative impact on their credit rating.

This language let's UC decide & interpret what "not having a substantial impact" to UC's credit ratings means instead of having a ratings agency responsible.

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