THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Recently Chairman Gould received a letter from Robert Meister, President of the Council of UC Faculty Associations (CUCFA), in which he expresses CUCFA's request for an "audit of the source of repayment for all projects funded by General Revenue bonds, specifically to address where any education fees are being used and what other components of the General Revenue have been diverted or increased to fund such projects if education fees are not being used to subsidize projects that don't pay for themselves."

Executive Vice President Peter Taylor has sent Mr. Meister a cogent and thorough response that I believe you will find of interest, and I enclose a copy for your information. If you have any questions or concerns, please do not hesitate to let me or Executive Vice President Taylor know.

With best wishes, I am,

Sincerely yours,

Mark G. Yudof
President

cc: Chancellors
Mr. Robert Meister  
Council of University of California Faculty Associations  
15 Shattuck Square, Suite #200  
Berkeley, CA 94704

Dear Mr. Meister:

I am responding to your letter of November 3, 2009 to Chair Gould requesting that the Regents Committee on Audit and Compliance perform an audit in response to your allegations regarding the supposed misuse of student educational fees for the payment of debt service on the University of California General Revenue Bonds and supposed diversion of other funds to pay for capital projects on our campuses and medical centers.

The educational fee – equivalent to tuition here at the University of California – provides funding for university operations, including instruction and support activities, and is counted as general revenue. Allow me to state unequivocally that, while general revenue is pledged as security for bonds, educational fees are not used to pay debt service.

Every campus construction project that comes before the Regents requires a clearly identified internal source of repayment. Of the 489 projects financed by the General Revenue Bond program since its creation in 2003, none have used the student educational fee as the identified internal source of repayment. The sources of debt repayment for general revenue bonds are as follows:

- Housing, parking and other auxiliaries, approximately 43 percent;
- Indirect cost recovery (grants and contracts), approximately 35 percent;
- Registration fees (for projects related to student life) and student-approved fees that are not educational fees (such as those for student union projects or student recreation centers), approximately 10 percent; and
- The remainder is derived from a diverse mix of funds, including extension fees and leasing income, approximately 12 percent.

My office carefully tracks the internally pledged revenues to ensure that each project’s identified fund sources are in fact sufficient to meet annual debt service requirements without having to tap other pledged monies. As I stated above, none of the internally pledged funds are student educational fees.

Revenues generated by debt financed projects, which are not educational fees, produce an overall coverage for FY 2008-2009 of 1.91x. The difference between campus locations, however, is quite substantial, ranging from 1.45x to 2.36x. As you might imagine, the lower coverage ratios are present mostly on our smaller campuses, which partially illustrates one of the strengths of our general revenue pledge: It greatly helps smaller campuses access the capital.
markets at higher credit ratings (and thus lower cost) than they could achieve on their own, while improving the ratings even for the larger campuses, who benefit from the overall strength of the system.

As I have said in my op-ed essay recently published in response to misinformation that you have circulated regarding our borrowing program, the truth is that pledging the university’s general revenue in no way necessitates student fee increases. Rather, it is a way of ensuring that the university can keep financing costs down. It has no relationship to student fee increases in the slightest. It is therefore misleading for you to infer that educational fee increases are being implemented to allow us to borrow more money for capital projects. Pledging the university’s general revenue is a way of ensuring that the university can keep financing costs down by means of a higher credit rating, a fact which saves everyone money.

But allow me to state very succinctly for you the following: if you or other CUCFA members have any evidence that our campuses are surreptitiously substituting Ed Fee monies in lieu of the source of funds included in the original Regental approval, we will investigate such allegation promptly. But if you have no evidence that such misuse of Ed Fees is actually happening, then I suggest that launching an expensive audit costing millions of dollars amounts to nothing more than a wild goose chase. And frankly, I’m sure we can all think of other ways to spend such funds.

Ultimately, Mr. Meister, I would hope that you’d agree that capital projects are essential to the health and safety of the entire UC community and to every aspect of the educational experience — from the buildings where students learn to the dorms where they sleep. Our broad general revenue pledge enables UC to maximize financing flexibility on these critical projects, a fact that is increasingly important as the state continues to downsize available capital resources for the university. We estimate that today our broad pledge saves about $29 million in debt service this year through general revenue bonds, compared to project revenue bonds. Additionally, as part of the general revenue bond structure, the university does not have to finance inefficient reserve funds or provide mortgages on our facilities, like many other governmental borrowers.

Finally, I would point out that our bond pledge structure gets high marks from the credit ratings agencies, enabling UC to issue bonds and short-term commercial paper notes, because of confidence that, in the words of a recent Moody’s report, “management and the board [of Regents] will remain prudent and focus on utilizing debt strategically in a challenging economic environment.”

We hope this information is useful to you Mr. Meister. Should you have any additional questions about this topic, I am available to respond.

Sincerely,

Peter J. Taylor
Executive Vice President and Chief Financial Officer

cc: Regent Gould
Regent Rulz
President Yudof
Provost Plits
Interim Executive Vice President Brostrom
Secretary and Chief of Staff Griffiths
Academic Senate Chair Powell
Vice President Lenz
Executive Director KIm