



June 2005
FS 05-05

California Postsecondary Education Commission

Deferred Maintenance Needs of California Public Higher Education

The California Postsecondary Education Commission estimated in the year 2000 that the State would need to spend approximately \$1.5 billion annually to maintain and expand public higher education facilities to meet student demand. This fact sheet updates information about the dollar amount of maintenance projects that are currently backlogged or deferred, as reported by the three public higher education systems. Early next year, the Commission intends to conduct a study that will examine more closely the various options for funding deferred maintenance.

DISPLAY 1 Dollar Amount of Deferred Facility Maintenance as of 2005

System	\$ Amount in millions
California Community College System	\$803.2
California State University	\$800.0
University of California	\$600.0
Total	\$2,203.2

Balancing the need for new facilities with the need for maintaining existing physical structures is a major challenge. New facilities are needed to accommodate student demand and increased program offerings; however, existing buildings must be kept functional, requiring funding for such things as roof repair, plumbing replacement, restoration of wiring and worn-out equipment, seismic retrofits, and health and safety projects. Deferred maintenance is funded through a combination of State General Fund appropriations and bond financing.

As shown in Display 1, the current backlog in needed deferred maintenance is estimated to be in excess of \$2.2 billion. Though staggering, this figure probably grossly underestimates the true dollar amount needed for facility maintenance because the figure is based primarily on top priority projects. If one were to consider all needs, the dollar amount would almost certainly exceed \$6.0 billion. For example, a separate on-site assessment conducted by the Community College Chancellor's Office determined that \$5.4 billion in repair costs is needed to correct all deficiencies in its system. If this figure were combined with estimates for the other systems shown in Display 1, then total public higher education funding needed for deferred maintenance would exceed \$6.0 billion. The costs associated with deferred maintenance are the result of not only insufficient support of operations and maintenance budgets of the systems, but also a result of limited capital renewal funding to support the systematic replacement of buildings and infrastructures.

That California is facing a huge deferred maintenance challenge should not come as a surprise. In its 1995 report, *A Capacity for Growth*, the Commission reported:

We can find no combination of practical possibilities that would produce savings or revenue sufficient to satisfy total facility needs. Under the best of circumstances, it may be possible to raise about half to two-thirds of needed funds.

Given the Governor's 2005 Higher Education Compact and an expanding California economy, the time is ideal for the Commission to explore various options for confronting the State's deferred maintenance challenge. Unfortunately, some options that were once promising are not likely to be viable now. For example, from the early 1960s through the late 1970s, the State relied less on bonds because some facility needs were met by revenues derived from State-granted leases for offshore oil exploration. In the 1980s, growing environmental concerns ended this revenue stream and forced the State to rely on various types of bonds to fund maintenance and capital construction costs. The primary bond types are general obligation bonds (approved in general elections), lease-payment bonds (approved by the legislature), and revenue bonds, which have been used to support special facilities, such as dormitories and parking lots.

However, bonds may not be the most cost-effective way to address deferred maintenance. The Commission will explore other options that have the potential to yield cost savings in the long-run. These include:

- Supporting and maintaining building configurations that have the possibility of expanding the average life span of buildings.
- Exploring alternative revenue streams for funding deferred maintenance.
- Enhancing the capital fundraising activities of the higher education systems.
- Relying to a greater extent on shared facility use among the systems.
- Supporting productive learning environments that enable students to complete their educational goals more rapidly.
- Expanding distance/distributed learning arrangements where appropriate.

Another issue to be addressed is the State's method of funding facilities maintenance. According to the Legislative Analyst's Office, "*The current system of funding ongoing maintenance and deferred maintenance creates counterproductive fiscal incentives that encourage the systems to defer needed maintenance.*"

The Commission intends to explore these and other funding options and issues in its next major study regarding the challenge of deferred maintenance in public higher education. It is anticipated that the report will be released in early spring 2006.