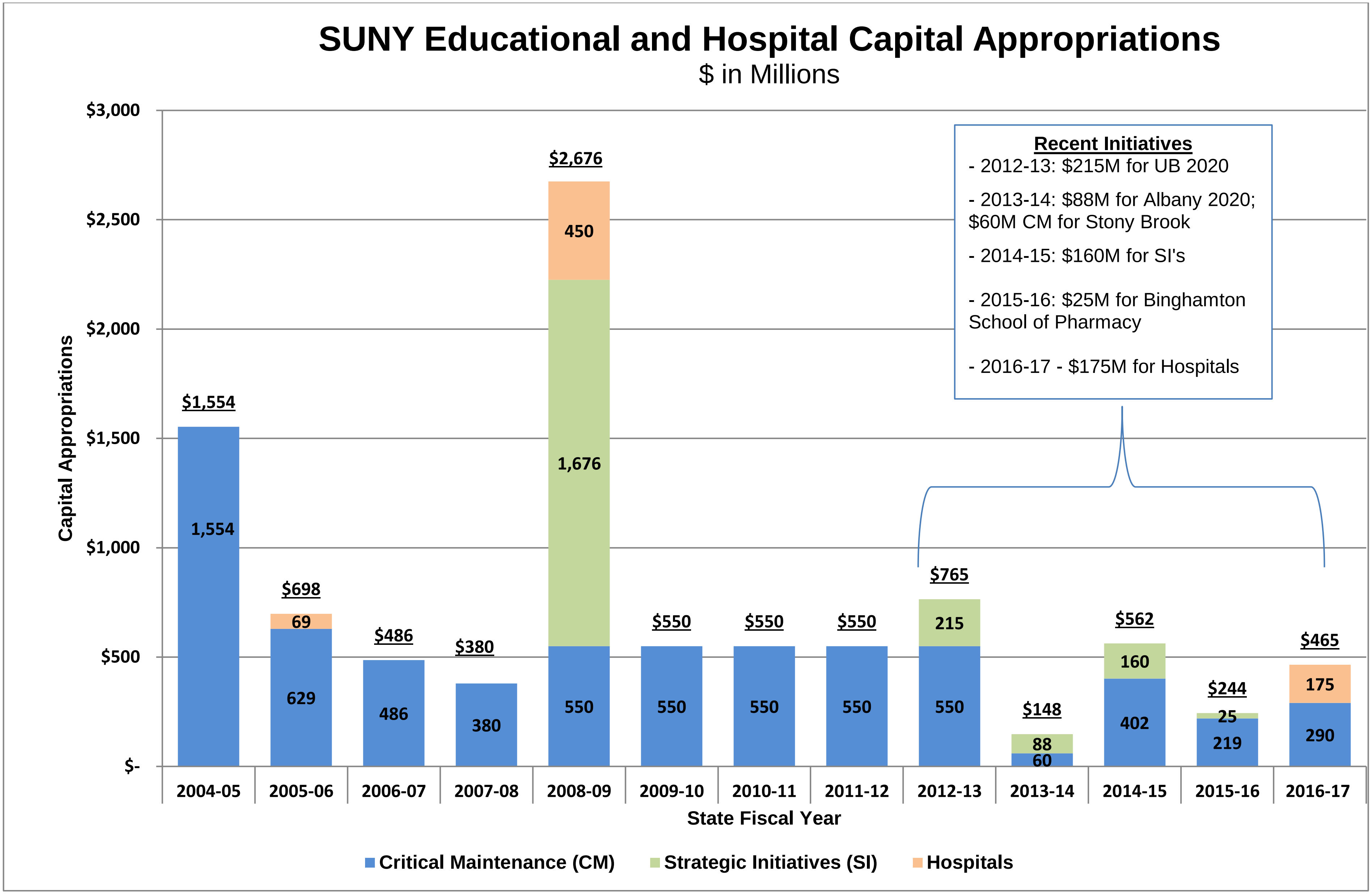
V. THE STATE'S AND SUNY'S INVESTMENT

Levels of Support

From 1998 to 2013, the State invested $10 billion in SUNY's aging academic and hospital facilities through three consecutive multi-year capital plans. The majority of this investment facilitated the full rehabilitation and modernization of aging buildings, rather than the more costly piecemeal approach that results from year-at-a-time funding. Since the end of the last plan in 2013, the State has provided funds for initiatives and critical maintenance projects at specific campuses, such as supplemental appropriations to NYSUNY 2020 Challenge Grants, and $892 million for system-wide critical maintenance needs ($402 million in 2014/15, $200 million in 2015/16, and $290 million in 16/17). Although not a fully enacted multi-year capital plan, the State has also indicated an intent to provide an annual amount of $200 million for critical maintenance projects through 2020/21.

The three SUNY teaching hospitals had not received any new State funding since 2008 to support their capital program until the 2016-17 budget cycle. Two of these hospitals, Stony Brook and Upstate Medical Center, had exhausted their available funding and received $50 million each to address high priority critical needs and advance projects essential to achieving their strategic business objectives. An additional $75 million appropriation was also provided in the 2016-17 budget to support construction of a new Ambulatory Care Facility at Upstate Medical.

The following chart shows annual funding levels since 2004/05:

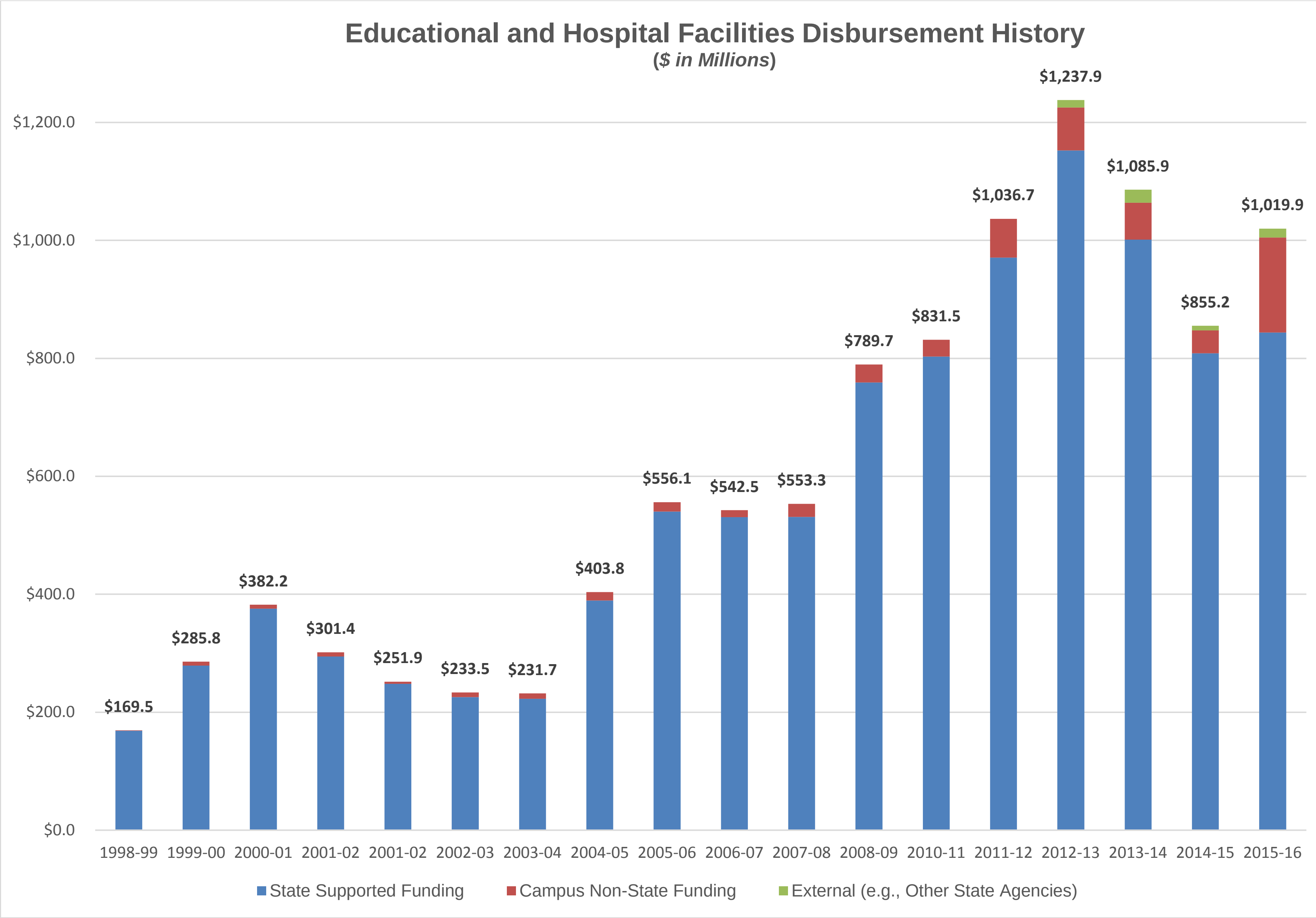


SUNY Educational and Hospital Capital Appropriations
$ in Millions
Capital Appropriations
$3,000
$2,500
$2,000
$1,500
$1,000
$500
$-
Recent Initiatives
- 2012-13: $215M for UB 2020
- 2013-14: $88M for Albany 2020; $60M CM for Stony Brook
- 2014-15: $160M for SI's
- 2015-16: $25M for Binghamton School of Pharmacy
- 2016-17 - $175M for Hospitals
$1,554
1,554
$698
69
629
$486
486
$380
380
$2,676
450
1,676
550
$550
550
$550
550
$550
550
$765
215
550
$148
88
60
$562
160
402
$244
25
219
$465
175
290
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17
State Fiscal Year
Critical Maintenance (CM)
Strategic Initiatives (SI)
Hospitals

An essential element in the successful management of the capital program is the ability to make long-range plans. A consistent approach to appropriating funds to SUNY allows campuses and hospitals to plan, design, and schedule projects many years in advance. In other words, a predictable financial plan provides the assurance that planning and design efforts will ultimately result in construction actually coming to fruition. The first multi-year $1.5 billion Capital Plan in 1998 provided financial certainty, with one set amount appropriated for several purposes at one time, which remained in place to allow for ongoing design and construction. Plans that followed, $3.5 billion in 2003-04 and $5.1 billion in 2008-09, saw a mixture of multi-year and year-at-a-time funding. While this upward level of valued support is essential given SUNY's capital needs, it is a reminder that year-at-a-time funding results in a less certain financial situation, thereby impacting the pace of ongoing capital projects in support of SUNY's mission. A detailed listing of support, by campus from 2003-04 to 2016-17, is provided on page 17 for reference.

In furtherance of the Capital Plan, SUNY is developing its next five-year plan for 2017-2022. This plan will balance strategic facility improvements developed by each campus in its Facility Master Plan with the critical maintenance and backlog needs of the campus. The SUNY Capital Plan will enable the SUNY system to operate with one concerted vision in mind, ensuring that each plan supports the academic mission of the University system, while providing a safe campus and maintaining critical State assets.

The State continues to be a valued partner in making proposed strategic initiative and critical maintenance projects a reality. The following chart shows disbursements related to SUNY's educational and hospital projects from both the State and other sources, over the preceding 15-year period. Please note the upward trend of spending following the funding provided in 1998, which is immediately followed by a steady decline (as the funding provided in the 1998 plan was fully utilized) until the enactment of the new plans in 2003 and 2008. In the years following these new plans, an influx of new authority has continued to keep disbursements at a relatively high level. This demonstrates why predictable funding is necessary to ensure steady capital investment levels.



Educational and Hospital Facilities Disbursement History
($ in Millions)
$1,200.0
$1,000.0
$800.0
$600.0
$400.0
$200.0
$0.0
$169.5
$285.8
$382.2
$301.4
$251.9
$233.5
$231.7
$403.8
$556.1
$542.5
$553.3
$789.7
$831.5
$1,036.7
$1,237.9
$1,085.9
$855.2
$1,019.9
1998-99
1999-00
2000-01
2001-02
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
State Supported Funding
Campus Non-State Funding
External (e.g., Other State Agencies)

Capital Program Financing Mechanisms

Appropriations for educational and hospital projects are paid using State funds in the first instance. The State is then reimbursed for these expenditures periodically from bonds issued by the Dormitory Authority of the State of New York under the Personal Income Tax and Sales Tax Revenue Bonding Programs. As noted above, educational and hospital project expenditures made by the State are repaid from bond proceeds. The State pays the debt service on these bonds.[4] Only a very small amount ($25.0 million) of State pay-as-you-go funding was made available to campuses during a multi-year period beginning in 2004, for smaller, less-bondable capital projects. Since then, no additional pay-as-you-go funding has been provided. In addition, in many cases, campuses provide grant funds or other campus-raised revenues to supplement and support priority capital projects.

Aside from the essential need to invest in public higher education, there are several reasons why bonding is the most appropriate method for financing capital investments in the University's physical plant and infrastructure. First and foremost, it provides a consistent source of ongoing funding to maintain the asset values of essential facilities, i.e., the availability of hard dollar appropriations sufficient to fund the capital projects is not always available.

Second, is the extended useful life benefit received from the investment. For SUNY educational and hospital capital projects, the average extension of useful (or economic) life of a facility, or facility component, exceeds 28 years for all projects undertaken. This compares favorably to the weighted average term of the bonds sold to finance these projects, which usually ranges between 15-20 years.

Last, with the advent of the enhanced revenue coverage available under the Personal Income Tax (PIT) State Bonding Program and the Sales Tax State Bonding Program implemented in recent years – which now support the bonding needs of both SUNY and CUNY capital programs, among others – the overall cost of bonding has been reduced, while bond ratings have remained high. (Most recent ratings for SUNY Educational Facility and Hospital PIT bonds were “AAA” from Standard & Poor’s and “AA+” from Fitch.) The State’s annual debt service cost on the bonds issued to fund the capital program is a small percentage of the amount of money made available through bonding.

[4] *Note: Pursuant to annual transfer language provisions, each of the University’s three teaching hospitals must reimburse the State, from their operating revenues, for the ongoing annual debt service costs of all bonds sold in support of hospital capital projects. Similar provisions for the University at Buffalo and the University at Albany were added in 2012-13 and 2013-14 to allow for the payment of debt service associated advance appropriations of $215.0 million and $88.0 million, respectively, in support of these campus NY-SUNY 2020 projects.*