California State Auditor

March 2016

The University of California and the California State University

Several Campuses Recently Acquired Property, but Those Acquisitions Have Not Significantly Reduced Property Tax Revenue for Local Governments

Report 2015-106

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

March 3, 2016 2015-106

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning property tax revenue losses to the local governments as a result of expansions of the California State University (CSU) and the University of California (UC) campuses.

This report concludes that the properties the campuses acquired between January 1, 2010, and June 30, 2015, have had a minimal impact on their local governments' property tax revenues. The minimal impact results largely from the state constitutional limit on property tax rates of generally 1 percent of the assessed value of the property. Further, because property tax from these properties is apportioned to multiple local governments within the counties, the impact of the lost property tax revenue to the local government that provides fire and emergency services to the campuses we reviewed is smaller than the total forgone property tax amount.

No formal policies require that CSU and UC campuses engage with local governments to discuss the local governments' financial concerns when campuses acquire or construct property. However, most of the campuses we reviewed stated that they informally engage with local governments. Further, three of the 23 CSU and four of the 10 UC campuses have reached agreements with local governments related to the provision of fire and emergency services. These agreements are the result of, at least in part, the campuses' specific circumstances. The city of Berkeley and Merced County, which provide fire and emergency services to UC Berkeley and UC Merced, respectively, have expressed concerns about increased costs posed by campus demand for services. However, neither local government provided recent information quantifying the increased costs. Finally, none of the local governments that provide fire and medical services to the campuses we reviewed have proposed specific tax measures since 2010 to fund fire and emergency services as a result of campus service demand.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The University of California (UC) and the California State University (CSU) are the two public university systems in California. The California State Constitution exempts state-owned property and property used exclusively for state colleges and universities from property taxation. Therefore, when a CSU or a UC campus acquires taxable property or leases it exclusively for educational purposes, that property generally no longer generates property tax revenue for the respective county and other local jurisdictions within the county, like cities and school districts. Because property tax revenue is an important source of income for these local governments, large reductions in the amount of property taxes each year could reduce funds available for various programs and services such as an allocation to fire departments for the provision of fire and emergency medical services.

Although all three UC campuses we reviewed acquired properties between January 1, 2010, and June 30, 2015, acquisitions were less common among the five CSU campuses we reviewed.[1] We also found that the properties that the campuses acquired had minimal impact on their local governments' property tax revenue. Specifically, two of the five CSU campuses acquired 10 properties with values totaling nearly $28 million, and the three UC campuses acquired seven properties with values totaling $45.8 million. Eleven of these 17 acquisitions did not affect property taxes because the campuses acquired them from owners that were already exempt from paying taxes or because the properties themselves were already exempt when the campuses purchased them. The relatively low value of another acquisition, along with the fact that the acquiring campus owned the property for just over a month before reselling it, made any tax impact so small that we did not attempt to calculate it. For the other five property acquisitions, the estimated loss of property tax revenue to the respective local governments was considerably less than 1 percent of the amount the local government would have otherwise collected during the time those properties were exempt from taxes.

This minimal financial impact of the campus acquisitions on local governments' property tax revenue results largely from the state constitutional limit placed on property tax rates and the way

[1] As the Scope and Methodology section explains, for the audit objectives, we reviewed seven campuses—four CSU campuses and three UC campuses. These seven were the CSU campuses at Dominguez Hills, San Diego, San José, and Stanislaus, and the UC campuses at Berkeley, Merced, and Santa Barbara. For one of the audit objectives, we reviewed the same seven campuses, but we also added CSU Chico to our audit.

Audit Highlights . . .

Our audit of the effects on local governments' property tax revenue related to expansions of selected California State University (CSU) and University of California (UC) campuses highlighted the following:

- *The properties that the campuses acquired had minimal impact on their local governments' property tax revenue because of the state constitutional limit on property tax rates and state laws that dictate how the taxes are allocated.*
  - *Two of the five CSU campuses we reviewed acquired 10 properties with values totaling nearly $28 million.*
  - *The three UC campuses we reviewed acquired seven properties with values of $45.8 million.*
  - *Eleven of these acquisitions were already tax-exempt, and thus the purchase had no impact on property tax revenue.*
  - *One of the acquisitions had a relatively low value and was resold in just over a month.*
  - *For the other five purchases, the estimated loss of property tax revenue to the respective local governments was less than 1 percent.*
- *Although there is a lack of formal policies requiring that CSU and UC campuses engage in discussions with local governments regarding financial concerns, several campuses have reached agreements with local governments as necessary for fire and emergency services.*
- *Although some local governments expressed concerns about increased costs posed by campuses' demands for services, five were not concerned about increases in the demand for services.*

that state law requires property taxes to be allocated. Specifically, although one of the CSU campuses and the three UC campuses acquired previously taxable property at acquisition values that ranged from $258,000 to $25.8 million, the loss of property tax revenue to local governments represented a very small portion of their overall property tax revenue. For example, CSU San Diego purchased one property during the period we reviewed at a cost of $25.8 million. Using information we obtained from San Diego County, we estimated that this acquisition resulted in a loss of property tax revenue to the county of at most $533,600 between the time of the acquisition in September 2013 and June 2015. Because the city of San Diego—where the campus is located—receives only part of this revenue, we estimated its specific revenue loss to be $96,900, which is 0.013 percent of the city's total property tax revenue over the same period. As local governments spend property tax revenue on a wide range of programs and services, the dollar impact on local governments' fire departments is generally even smaller than the impacts we estimated.

Properties that the reviewed campuses leased *from* private owners also caused small reductions to property tax revenue, while some campuses that leased their properties *to* private renters created a small amount of additional revenue for their local governments. Under state law, if a landlord leases otherwise taxable property to certain types of cultural or educational entities—such as a CSU or UC campus—whose use is exempt from property taxes, those entities are entitled to enjoy the benefit of the exemption. Although all three UC campuses and two of the five CSU campuses we reviewed leased between four and 28 properties that were exempt from property taxes during fiscal year 2014–15, the impact of these lease exemptions on property tax revenue was not significant. For example, for the 20 properties that UC Berkeley leased in Alameda County, we estimated a countywide tax loss of about $574,700, or 0.02 percent of property taxes collected for fiscal year 2014–15. Campuses that leased property they own to private entities created a small amount of property tax revenue for local governments because state law generally requires private entities that lease tax-exempt properties to pay *possessory interest property taxes* while leasing the property. We estimate that these types of leases generated from $98 to about $61,600 in revenue in fiscal year 2014–15 for each of the campuses' respective local governments.

No formal policies require that CSU and UC campuses engage with local governments to discuss the local governments' financial concerns when the campuses acquire or construct property. Although state law requires campuses to interact with local governments when campuses plan or undertake certain construction projects, these interactions focus primarily on potential environmental impacts. We reviewed a selection of campus construction projects and determined that the campuses complied with procedural requirements related to disclosing information about the project to the public, including local governments, and responding to concerns.

The lack of formal requirements for campuses to discuss with local governments potential financial impacts on property tax revenue or the provision of local fire and emergency services for the campuses' expansion activities has not prevented CSU and UC campuses from reaching agreements with local governments as necessary. Systemwide, three CSU campuses and four UC campuses have agreements with local governments related to the provision of fire and emergency services to those campuses. These agreements result, at least in part, from the campuses' specific circumstances, and most of the agreements provide for some financial support to the local governments providing these services. For example, given its geographic location, CSU Monterey Bay reached agreements with local fire districts and a federal fire department to ensure adequate and timely fire protection response. Further, UC Berkeley reached an agreement with the city of Berkeley to settle a lawsuit the city filed against the campus.

The officials from two local governments that provide fire and emergency services to the campuses we reviewed expressed concerns about increased costs posed by campuses' demands for services. However, neither local government provided recent information quantifying the increased costs. Officials for Merced County, including its assistant fire chief, expressed concerns about an increased demand for service calls to UC Merced in recent years. Statistics the county provided on fire and emergency medical service calls to the campus show a significant increase over the last five years. UC Merced staff acknowledged the increase and noted that the campus has had an increase in its student population and that the increase directly results in more calls. The assistant fire chief explained that the county only recently began to try to quantify the impact of the campus's share of services. Therefore, we did not receive any cost estimates. County officials also stated that although they are concerned about the increased demand for fire services and have discussed those concerns with the campus, the officials have thus far prioritized their discussions with the campus on addressing traffic impacts of campus expansion.

Additionally, the city of Berkeley also expressed concerns related to UC Berkeley's impact on the city. UC Berkeley fire and emergency medical service call data show that although the number of fire responses generally did not change between 2010 and 2014, the number of responses related to emergency medical services increased during this period. The campus staff acknowledged the increase in emergency medical services and speculated that the low number of incidents in earlier years and higher number of incidents in later years were a result of changes in alcohol consumption when the campus closed its football stadium for construction in 2011 and reopened in 2012. However, the city did not provide documentation demonstrating that it recently quantified the costs the campus poses.

The remaining five local governments told us that they are not concerned about any increases in the demand on services from the campuses we reviewed. Further, none of the local governments for areas in which the campuses we reviewed are located has proposed specific tax measures since 2010 to fund fire and emergency services because of any perceived increase in campus service demand.

Agency Comments

Because this report is informational in nature and does not contain recommendations, we did not request responses to the draft report. However, the California State University Office of the Chancellor submitted a response to the audit indicating that the CSU concurs with our finding that acquisitions of properties we reviewed had minimal impact on local government property tax revenue. The response also referred to a systemwide economic impact study from 2010. This is the same study we discuss in Appendix B.

Introduction

Background

The University of California (UC) and the California State University (CSU) are the two public university systems in California. UC was created by an 1868 statute as a public, state-supported, higher education institution, whereas the CSU system was established among individual existing colleges in 1982. UC has 10 campuses, and the CSU has 23 campuses throughout the State. The University of California Office of the President (UCOP) and the CSU Office of the Chancellor (Chancellor's Office) oversee and support their respective systems.

The California State Constitution exempts state-owned property and property used exclusively for state colleges and universities, which include the UC and CSU campuses, from property taxation.[2] Although individual campuses initiate property acquisitions, properties acquired by CSU campuses are owned by the CSU Board of Trustees, and properties acquired by UC campuses are owned by the UC Regents. However, for readability, throughout the report we refer to property acquisitions as properties having been acquired by an individual campus. When a CSU or a UC campus acquires taxable property or leases a property exclusively for educational purposes, generally that property no longer produces property tax revenue unless the campus subsequently leases or sells that property to a party whose property is not exempt from taxation. As a result of these tax exemptions, when universities expand their campuses by acquiring properties that formerly were taxable, the corresponding local governments may experience a decrease in revenue from property taxes.

Local governments, such as cities and counties, generally provide fire and emergency medical services to the campuses we reviewed. Funding for local fire departments comes primarily from the local governments' general funds. The local governments' general fund revenue can come from several sources, such as property taxes, sales taxes, hotel taxes, and the collection of fines related to parking and moving violations. For example, the city of San Diego's fiscal year 2015–16 budget identified nearly $1.3 billion in general fund revenue, with approximately $470 million coming from property taxes. Because the properties that the UC and CSU campuses own are tax-exempt, those properties generally do not contribute directly to the property tax revenue streams that fund their local governments' fire and emergency services. Because property tax revenue is an important source of income for cities and counties, large reductions in the amount of property taxes each year could reduce the funds available for allocation to fire departments for fire and emergency medical services.

2 According to UC's tax manager, when UC purchases property for investment purposes, generally through a limited liability corporation, it is not exempt from property taxation in California.

Counties Assess Property Taxes and Allocate Them to Local Governments

Real property in California is generally subject to property taxation, although state law exempts some types of property, such as property owned by the State or property used exclusively for religious worship. State law requires each county to impose a property tax rate of 1 percent. Property is taxed on its taxable value, which is determined according to provisions of Proposition 13, which voters approved in 1978, and subsequent state law. For example, if in a given fiscal year the tax rate is 1 percent and the value of a piece of property acquired in that fiscal year is $100, the property tax on that property would generally be $1 for that fiscal year. Except for certain property that the State Board of Equalization assesses, each county's assessor is responsible for establishing the taxable value of all property subject to property tax in that county, and that value can vary over time and is subject to limits established in state law. The county assessor calculates property value by increasing the initial assessed value at the time of purchase by 2 percent or the annual inflation rate, whichever is less. The taxable value is the lesser of this amount or the market value of the property. For example, if the market value of the property described above increased to $105 the next fiscal year, and if the inflation rate were 2.5 percent, state law would limit the taxable value increase to only 2 percent, resulting in a taxable value of $102.

Campus Reviewed and the Corresponding Local Government Entity Providing Fire and Emergency Services

California State University, Chico:
City of Chico

California State University, Dominguez Hills:
Los Angeles County

California State University, San Diego:
City of San Diego

California State University, San José:
City of San José

California State University, Stanislaus:
City of Turlock

University of California, Berkeley:
City of Berkeley

University of California, Merced:
Merced County

University of California, Santa Barbara:
Santa Barbara County

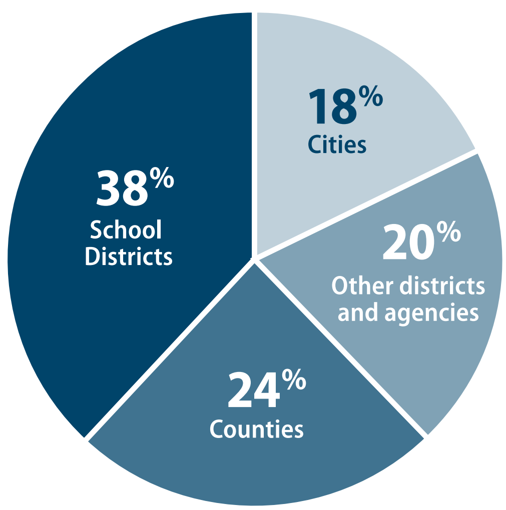
Sources: California State Auditor's interviews with campus staff and review of relevant documents.

Although state law requires each county to impose a 1 percent property tax rate, state law generally prohibits other local entities from imposing additional property taxes except in specified circumstances. One exception authorizes a county or other local entity in a county to impose an additional property tax so that the entity can make annual payments for certain voter-approved debt. For example, in Los Angeles County, properties are subject to taxation by a number of taxing agencies, such as cities, school districts, and special districts. As a result, the property tax rate can be a little more than the 1 percent specified in state law. For instance, the property tax rate for some tax rate areas in Los Angeles County was 1.12 percent for fiscal year 2014–15.

Each county collects all property taxes imposed in its jurisdiction and apportions the revenue collected to the different local entities within the county. State law generally requires that each local entity be apportioned property tax revenue equal to what it received in the prior fiscal year plus its proportional share of any change in this revenue. For example, a city receives only a portion of all the property taxes collected on properties within its boundaries because the county, school districts, and any relevant special districts also each receive a portion of that property tax revenue.

Because the property taxes that a county collects on properties located within a city are apportioned to multiple local entities, growth or reduction in these property taxes helps or hurts multiple local governments and districts but in varying dollar amounts. Figure 1 shows the proportion of property taxes each type of local government received in fiscal year 2014–15 as a result of this county-by-county process.

Figure 1
Proportion of Statewide Property Taxes That Each Type of Local Government Received



Source: Legislative Analyst's Office article titled "Local Governments' Services & Their Property Tax Revenue", December 16, 2015.

Note: A city, a county, or a special fire district may provide fire and emergency medical services depending on the location of the entity receiving the services.

Local Governments Provide Emergency Fire and Medical Services to the Campuses We Reviewed

Although the UC and CSU campuses do not pay property taxes, they generally receive certain services from their local governments. Specifically, each of the UC and CSU campuses we reviewed receives fire and emergency medical services from either the city or the county where they are located. For example, according to the associate vice president of real estate, planning and development at CSU San Diego, the city of San Diego provides fire and emergency services to the campus. On the other hand, UC Santa Barbara, which is located in an unincorporated area, receives fire and emergency medical services from Santa Barbara County. The text box on page 6 names the local government that provides fire and emergency medical services to the campuses we reviewed.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to perform an audit of selected UC and CSU campuses to identify property tax revenue losses to local governments because of expansions by the CSU and UC campuses. The audit committee also asked us to identify any related increases in funding for local fire departments that provide safety services to campuses and their surrounding communities to offset such tax revenue losses. Table 1 lists the audit's objectives and the methods we used to address them.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1.	Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed the relevant laws, regulations, and other background materials applicable to property taxes and the provision of fire and emergency medical services to California State University (CSU) and University of California (UC) campuses.
2.	Determine the CSU and UC policies, procedures, and practices for engaging with the local community or other regional association of governments before approving any property acquisition, construction, or expansion project for campus use.	• Interviewed key staff at the CSU Office of the Chancellor (Chancellor's Office), the UC Office of the President (UCOP), and the seven selected campuses recommended by the audit requestors—CSU Stanislaus, CSU Dominguez Hills, CSU San Diego, CSU San José, UC Berkeley, UC Merced, and UC Santa Barbara—to identify the policies and procedures related to engaging local governments. • Requested and reviewed the applicable policies and procedures at the Chancellor's Office, UCOP, and the seven selected campuses. • At each of the four selected CSU campuses and the three selected UC campuses, reviewed the latest campus development plans and related documentation to determine the extent to which campuses engaged local governments that provide fire and emergency medical services to the campuses and addressed the governments' concerns regarding the plans' potential impact on providing these services. Using campus accounting records, identified all acquisition and construction projects completed between January 1, 2010, and June 30, 2015, and performed the following at each campus: • Judgmentally selected two acquisitions, if applicable, and two to five construction projects, depending on the total number of construction projects completed. • Reviewed available project documentation for the selected acquisitions and construction projects to determine whether campuses engaged local governments and addressed any project-specific concerns related to the provision of fire and emergency medical services.

	AUDIT OBJECTIVE	METHOD
3.	For the past five fiscal years, determine the budgetary allocations made by the CSU and UC systems to a selection of four CSU and three UC campuses for the provision of fire protection and emergency medical services to the campuses and their surrounding communities.	• Interviewed key staff at the Chancellor's Office and UCOP to determine whether the CSU and UC systems make budgetary allocations to campuses for the provision of fire protection and emergency medical services. For the purposes of this audit, we defined fire protection as responding to fire incidents. • Interviewed key staff at the seven selected campuses to determine whether the campuses budget for the provision of fire protection and emergency medical services.
4.	To the extent possible, identify all properties that have been acquired or constructed by a selection of four CSU and three UC campuses since January 1, 2010. Using this information, determine the following:	Because the four selected CSU campuses had very few, if any, acquisitions, we reviewed acquisitions at one additional campus—CSU Chico—that the Chancellor's Office identified as having multiple property acquisitions since January 1, 2010. For these five CSU campuses and the three UC campuses, we performed the following: • As we performed at the other seven campuses under Objective 2, used accounting records at the CSU Chico campus to identify all property acquisitions and capital construction projects between January 1, 2010, and June 30, 2015.
	a. The current assessed value of all the property.	• Interviewed campus officials who told us that they do not obtain assessments of market value for buildings after construction projects. Staff at county assessors told us they do not appraise or otherwise measure the market value of property the campuses own. • We present the assessed value of property acquired between January 1, 2010, and June 30, 2015 in Table 3 on page 18. • The only value available for campus-owned properties for new constructions is the construction costs that the campuses capitalized for accounting purposes. We present this information in Appendix A beginning on page 37 for all construction projects the eight campuses completed and capitalized between January 1, 2010, and June 30, 2015.
	b. In cases where the CSU or UC campus has acquired property that was previously private, the estimated loss of property tax revenue associated with the property.	For each previously taxable property acquired between January 1, 2010, through June 30, 2015, we obtained the following property tax information from the relevant county assessor's, tax collector's, or auditor controller's office: • The assessed value at the time of acquisition. • Property tax rate information. • Information regarding how the tax revenue in each property's tax area is allocated to local governments and districts. Using the information obtained, we calculated the estimated property tax loss to the local government where the acquiring campus is located using both the assessed value of the property and the property's acquisition price. Compared the estimated property tax revenue loss since the time of acquisition to the total property revenue for the relevant local government over the same period. To estimate the property tax impacts of exemptions granted to campuses that leased otherwise taxable property, we did the following: • Obtained from the relevant county assessor's office the number and value of all such lease exemptions granted to each campus we reviewed. Using information obtained from the relevant county tax collector's or auditor-controller's offices, calculated the estimated total countywide property tax impact of each campus's lease exemptions in fiscal year 2014–15. To estimate the property tax impacts of campus-owned properties that are leased to private third parties and are therefore taxable we obtained the following property tax information from the relevant county assessor's, tax collector's, or auditor controller's office: • The number and location of all such properties at each campus we reviewed. • Property tax rate information for each property. • Information regarding how tax revenue in each property's tax area is allocated. Using the information obtained, calculated the estimated property taxes those properties generated in fiscal year 2014–15 for the local governments where the campuses we reviewed are located.

continued on next page . . .

	AUDIT OBJECTIVE	METHOD
5.	Determine whether any CSU or UC campus has an existing contract, agreement, or any other *in lieu* payment arrangement with its neighboring fire agency to offset the revenue loss to that agency due to campus property acquisitions, construction, or expansions.	• Requested that UCOP and the Chancellor's Office identify campuses with relevant agreements for fire and emergency medical services. • Contacted each campus to confirm whether or not it had agreements with the local governments to obtain fire and emergency medical services, and the reasons for the agreements. • Obtained copies of the agreements. • Reviewed the agreements to identify the reasons for and the financial terms of the agreements.
6.	For a selection of four CSU and three UC campuses, determine whether the local government that hosts the campus or its property has placed a local tax measure on the ballot since January 1, 2010, to pay for public safety services.	For each of the seven originally selected campuses, performed the following: • Determined whether between January 1, 2010, and June 30, 2015, any local tax measures to fund public safety services in part or in whole were on the ballots of the local government of the jurisdiction where the campus is located. • Interviewed officials at each local government about tax measures to determine the reasons for the proposed measures, and whether those reasons included financial or service demand impacts from the campus.
7.	Review and assess any other issues that are significant to the audit.	For the seven originally selected campuses, performed the following: • Interviewed officials at the local governments of the jurisdictions where the campuses are located to obtain their perspectives on the campuses' fiscal impacts to the local governments related to providing fire and emergency medical services. When officials expressed concerns about a campus's financial impact, we requested and reviewed documentation provided to support the financial impact related to their concerns. • For local governments that expressed concerns, we also requested and reviewed information related to the number of fire and emergency medical service incidents since January 1, 2010. We interviewed campus staff to obtain perspectives on the increases in demands for services. • Requested from each of the seven campuses and obtained, when available, the most recent economic impact studies conducted or commissioned by the campuses. To the extent possible, identified the types of economic benefits the studies estimated for the areas surrounding each campus as well as the reasonableness of the studies' methods.

Sources: California State Auditor's analysis of Joint Legislative Audit Committee audit request number 2015-106 and information and documentation identified in the table column titled *Method*.

Methods to Address Data Reliability

In performing this audit, we obtained electronic data files extracted from the information systems listed in Table 2. The U.S. Government Accountability Office, whose standards we are statutorily required to follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. Table 2 describes the analyses we conducted using data from these information systems, our methodology for testing them, and the conclusions we reached as to the reliability of the data. Although these determinations may affect the precision of the numbers we present, we found sufficient evidence in total to support our audit findings, conclusions, and recommendations.

Table 2
Methods Used to Assess Data Reliability

INFORMATION SYSTEM	PURPOSE	METHOD AND RESULT	CONCLUSION
Four California State University (CSU) Campuses—CSU Dominguez Hills, CSU Stanislaus, CSU Chico, and CSU San José PeopleSoft CSU campuses' accounting data for fiscal years 2009–10 through 2014–15	• To identify the universe of all construction and property acquisition projects completed between January 1, 2010, and June 30, 2015. • To make a selection of construction and acquisition projects to determine the extent to which campuses engaged with local governments before undertaking the projects.	• This purpose did not require data reliability assessment. Instead, we gained assurance the population was complete. • To test the completeness of the construction and acquisition data, we traced the total amounts capitalized to the audited financial statements.	Complete for the purpose of this audit.
California State University, San Diego (San Diego State) Oracle San Diego State's accounting data for fiscal years 2009–10 through 2014–15			
University of California, Berkeley (UC Berkeley) PeopleSoft UC Berkeley's accounting data for fiscal years 2009–10 through 2014–15			
University of California, Merced (UC Merced) University of California, Los Angeles (UCLA) Financial System UC Merced's accounting data for fiscal years 2009–10 through 2014–15 as maintained by UCLA's financial system			
University of California, Santa Barbara (UC Santa Barbara) UC Santa Barbara Mainframe Com-Plete Services UC Santa Barbara's accounting data for fiscal years 2009–10 through 2014–15			
County Assessors, Collectors, and Auditor-Controllers Property tax assessment, billing, and allocation systems Property tax assessments and collections for fiscal years 2009–10 through 2014–15	• To calculate the estimated property tax loss to local governments for properties acquired and leased by the campuses we reviewed. • To calculate the estimated tax revenue to local governments for properties that the campuses we reviewed owned and leased to private parties.	We did not perform accuracy and completeness testing on these data because testing the number and variety of data systems used in this audit would be cost-prohibitive.	Undetermined reliability for the purposes of this audit. Although these determinations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings and conclusions.
UC Berkeley Tri-Tech Records Management System Fire and emergency medical incidents involving the local fire department for fiscal years 2009–10 through 2014–15	To identify any trend in the number of fire and emergency medical incidents at UC Berkeley involving the local fire department.	We did not perform accuracy and completeness testing on these data because testing the number and variety of data systems used in this audit would be cost-prohibitive.	Undetermined reliability for the purposes of this audit. Although these determinations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings and conclusions.
County of Merced Fire Department Computer Aided Dispatch System Fire and emergency medical incidents involving the local fire department for fiscal years 2009–10 through 2014–15	To identify any trend in the number of fire and emergency medical incidents at UC Merced involving the local fire department.	We did not perform accuracy and completeness testing on these data because testing the number and variety of data systems used in this audit would be cost-prohibitive.	Undetermined reliability for the purposes of this audit. Although these determinations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings and conclusions.

Sources: California State Auditor's analysis of data obtained from selected California State University and University of California campuses, and the offices of county assessors, county collectors, and county auditor-controllers.

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Audit Results

Expansion at the University Campuses Did Not Significantly Affect Local Property Taxes

The University of California (UC) and California State University (CSU) campuses we reviewed that acquired property between January 1, 2010, and June 30, 2015—the period of our review—had a minimal impact on property tax revenue. Since January 1, 2010, two of the five CSU campuses acquired 10 properties with values totaling nearly $28 million, and the three UC campuses acquired seven properties with values totaling $45.8 million.[3] Because of both the statutory limit placed on the property tax rates and the apportionment methods prescribed by law, the estimated loss of property tax revenue to local governments where the campuses that acquired the properties are located has been well under 1 percent of the respective local governments' total property tax revenue during that time. In addition, local governments use their share of the property tax revenue to support a wide range of programs and services, including fire and emergency medical services. Therefore, the loss of property tax dollars to each of those programs and services within a local government would be even smaller than the impact to the local government as a whole.

Moreover, not all of these campus acquisitions affected property taxes. Some of the acquired properties were already exempt from taxes before the campuses purchased them. For example, one CSU campus acquired several properties from a campus auxiliary organization that had acquired the property years earlier on the campus's behalf. At the time the campus acquired these properties, it had been leasing the properties from the auxiliary organization, exempting the properties from property taxes. Nonetheless, the total tax impact of those properties since the time they became exempt has also been very small.

Similarly, the properties that the campuses leased from others were also exempt from property taxes, but the exemptions had very little effect in terms of property tax losses to local governments. Additionally, property that UC and CSU campuses lease to private third parties may be subject to *possessory interest property taxation*, which generates small amounts of revenue for the local governments where the campuses we reviewed are located.

[3] As the Scope and Methodology section explains, for most audit objectives, we reviewed seven campuses—four CSU campuses and three UC campuses. These seven were the CSU campuses at Dominguez Hills, San Diego, San José, and Stanislaus, and the UC campuses at Berkeley, Merced, and Santa Barbara. For one of the audit objectives, we reviewed the same seven campuses, but we also added CSU Chico to our audit.

Several Campuses With Recent Property Acquisitions Reduced Local Property Tax Revenue by a Fraction of a Percent

Our review at the eight campuses found five had recent property acquisitions and that those acquisitions resulted in very small reductions in local governments' property tax revenue. As discussed in the Introduction, the California State Constitution exempts certain properties, including those that UC and CSU campuses own, from paying property taxes.[4] As a result, when a campus acquires taxable property, that property ceases to generate property tax revenue for as long as the campus owns it and does not lease it to a taxable third party. Because property tax revenue is an important source of income for local governments, large reductions in the amounts of property taxes each year could reduce funds available for allocation to fire departments for the provision of fire and emergency medical services. Further, Santa Barbara County Fire Department, which serves the UC Santa Barbara campus, and the Merced County Fire Department, which serves the UC Merced campus, are funded primarily through special property tax allocations from taxes on properties within the departments' jurisdictions. However, our review did not find significant reductions in property tax revenue resulting from campus property acquisitions within the jurisdictions of any of the local governments providing fire and emergency services to campuses.

The California property tax system has features that make it difficult to trace a specific exempt property's impact on property tax revenue all the way to the final tax revenue that each local government or special district ultimately collects.

We worked with staff at the counties where the campuses we reviewed are located to request information that would allow us to estimate the size and distribution of the property tax impacts from each campus's property acquisitions and related real estate activities, which we discuss in the following report sections. However, the California property tax system has features that make it difficult to trace a specific exempt property's impact on property tax revenue all the way to the final tax revenue that each local government or special district ultimately collects. Specifically, under current state law, counties perform additional property tax apportionment steps *after* the steps we used to complete our estimates, and these steps include additional reapportionment of tax revenue from countywide collections to individual jurisdictions in the county. Further, some of the impacts we estimated might be partially offset by still other factors, such as the ways counties manage property taxes that go to repay local governments' or special districts' bond debt or the way a campus's leasing its property to a third party may then generate some property tax revenue even though the campus owns the property. Later in this section, we show our estimates of the property tax effects of

4 According to UC's tax manager, when UC purchases property for investment purposes, generally through a limited liability corporation, it is not exempt from property taxation in California.

campuses leasing their property to third parties, but these estimates apply only to fiscal year 2014–15. Throughout the report, we present estimates of the specific dollar amounts of campuses' tax impacts. The actual dollar amounts may have been higher or lower than those estimated amounts when all property taxes had been fully apportioned throughout the counties in question. However, the fact that our estimates are not exact does not affect our conclusion that the tax revenue impacts to the affected local governments are quite small.

The three UC campuses we reviewed—UC Berkeley, UC Merced, and UC Santa Barbara—collectively acquired seven properties at a total value of $45.8 million between January 1, 2010, and June 30, 2015, the five-year period we reviewed, with each campus making at least one acquisition. Campus staff at UC Merced and UC Santa Barbara stated that their campuses do not actively seek potential acquisitions and acquire property only when a special need or opportunity emerges. UC Berkeley's assistant vice chancellor for the Real Estate Development and Portfolio Section stated that the campus acquires property infrequently and that acquisitions are driven by space needs. For instance, one of UC Berkeley's acquisitions was a building in which the campus was already renting space. The manager for UC Berkeley's Real Estate and Portfolio Section stated that although the campus had no previous plans to purchase the building, the campus decided to acquire it because of campus needs and because the opportunity arose.

Property acquisitions were less common among the CSU campuses we were asked to review. Therefore, we added one campus—CSU Chico—for our review of property acquisitions. Of the five campuses, only two acquired properties during the period we reviewed: CSU San Diego (San Diego State) acquired one property valued at $25.8 million, and CSU Chico, acquired nine properties valued at a total of $1.9 million. The other three campuses offered different reasons why they made no acquisitions during that period. According to campus staff, the CSU Dominguez Hills and CSU Stanislaus campuses have relatively large amounts of undeveloped open space, allowing them to expand through construction on land they already own. In explaining why its campus has also focused on construction, staff at CSU San José (San José State) stated that although the campus already has a densely developed footprint, the area lacks structures available for purchase that are suitable for the university's purposes, and privately owned properties around the campus have very high prices. Staff at two of these campuses also cited budgetary constraints as a reason why property acquisition was not more common during this period.

Eleven of 17 properties that the UC and CSU campuses we reviewed acquired between January 2010 and June 2015 did not affect property taxes during this period because the campuses acquired them from owners that were also exempt from taxation or because the properties themselves were already exempt.

We found that 11 of the 17 properties that the UC and CSU campuses we reviewed acquired between January 2010 and June 2015 did not affect property taxes during this period because the campuses acquired them from owners that were also exempt from taxation or because the properties themselves were already exempt. For example, UC Santa Barbara acquired land in April 2013 through a grant deed (donation) from a nonprofit public benefit corporation (nonprofit). This entity is included on the list by the State Board of Equalization of authorized organizations that counties may exempt from property taxes. The county assessor's office confirmed it has granted exemptions for property the nonprofit has owned in Santa Barbara County. Further, UC Berkeley made one acquisition from a city government, meaning that the property was already exempt when the campus purchased it. During fiscal years 2011–12 through 2014–15, CSU Chico acquired eight properties at a value of $1.9 million from an independent auxiliary organization. However, before the campus acquired these properties from its auxiliary organization, it was leasing those properties from the organization. As we discuss later in this report, properties leased by UC and CSU campuses may be exempt from property taxes. According to information provided by the assessor's office in Butte County, where CSU Chico is located, all eight properties were exempt when the campus acquired them. Finally, an additional property that CSU Chico acquired was an alleyway between two buildings that had never been subject to property tax.

We analyzed in two ways five of the remaining six campus acquisitions that affected property tax revenue to estimate the tax revenue that the properties would have generated for the local governments had the campuses not acquired them. In the first scenario, using property tax information we obtained from the counties where the campuses are located, we calculated the estimated property tax revenue lost to each local jurisdiction based on the assessed value of each property when the campus acquired it. This calculation reflects a scenario in which the previous owner never sold the property, and it assumes the owner continued paying taxes at the assessed value. Second, we calculated the estimated loss of property taxes based on the price the campus paid for the property as the market value or new assessed value. Because of California's limits on how much a property's assessed value can increase each year, the difference between a property's assessed value for property tax purposes at the time of purchase and the market value or purchase price at the time of purchase can be substantial. Therefore, this second scenario reflects a hypothetical purchase made by a taxable party instead of by the campus, at which point the county would reestablish the property's taxable value as equal to the purchase price.

Under both scenarios, our calculations found that the campuses' acquisitions had a very small impact on property tax revenue for the campuses' local governments. As Table 3 on the following page shows, under both of the calculations, each campus's acquisition reduced property taxes to the relevant local government by considerably less than 1 percent of the amount the local government would have otherwise collected. The total estimated impacts on property taxes for each acquisition listed on Table 3 represent the overall tax revenue that was lost for each acquired property from the time of the acquisition through June 30, 2015. However, the property tax revenue loss to the local government where the acquiring campus is located is considerably smaller than the total revenue loss because only a fraction of total tax revenue from each property goes to those local governments. The impacts are small for the individual governments not only because California law generally limits property tax rates to 1 percent of assessed value but also because state law apportions the property tax revenue generated across multiple local governments and districts.

The impacts are small for the individual governments not only because California law generally limits property tax rates to 1 percent of assessed value but also because state law apportions the property tax revenue generated across multiple local governments and districts.

A property that San Diego State acquired in September 2013 for $25.8 million provides an example of the minimal impact that the campuses' acquisitions have on property tax revenue. The previous owner's assessed value for property tax purposes at the time of the campus's purchase was $12.6 million. We estimated that if the campus had not acquired the property, the property would have generated approximately $262,100 in total property tax revenue between the time of acquisition and the end of fiscal year 2014–15. However, because the tax revenue is allocated among multiple local governments and districts, we estimated that the city of San Diego, where the campus is located, would have received only about $47,600 in total property tax revenue from the property during the same period. Had an entity subject to property taxes purchased the property for the same price as the campus, it would have generated approximately $533,600 in total property tax revenue over the same time period. In this scenario, we estimated that the city of San Diego's portion would have been about $96,900. Similarly, Table 3 presents estimates for each of the UC and CSU acquisitions in our time frame that had property tax impacts for the local governments where the campuses are located.

Given the small impacts of the acquisitions we analyzed, there was one acquisition by UC Berkeley in 2010 that we did not analyze because any potential effect it may have had would have been even smaller. In July 2010 the campus purchased a property for $258,284, which it then sold to a private individual in August 2010, just over a month later. Because of the relatively low value of the property compared to the other acquisitions we analyzed, and due to the very short time the property would have qualified to be exempt from property taxes, any impact on the city of Berkeley's tax revenue would be extremely small.

Table 3

Estimated Losses of Property Tax Revenue After Campus Acquisitions of Property
January 1, 2010, Through June 30, 2015

			ASSESSED VALUE (TIME OF ACQUISITION)				ASSESSED VALUE (PURCHASE PRICE)			
CAMPUS	NUMBER OF ACQUISITIONS	ACQUISITION YEAR	ASSESSED VALUE OF PROPERTY AT TIME OF ACQUISITION	ESTIMATED TOTAL PROPERTY TAX REVENUE LOST (SINCE ACQUISITION)	ESTIMATED LOSS OF PROPERTY TAX REVENUE FOR LOCAL GOVERNMENT (SINCE ACQUISITION)	ESTIMATED PERCENTAGE OF PROPERTY TAX REVENUE LOST FOR LOCAL GOVERNMENT	VALUE OF PROPERTY ACQUISITION	ESTIMATED TOTAL PROPERTY TAX REVENUE LOST (SINCE ACQUISITION)	ESTIMATED LOSS OF PROPERTY TAX REVENUE FOR LOCAL GOVERNMENT (SINCE ACQUISITION)	ESTIMATED PERCENTAGE OF PROPERTY TAX REVENUE LOST FOR LOCAL GOVERNMENT
California State University, Chico*	9	2012–2015	NA	NA	NA	NA	$1.9 Million	NA	NA	NA
California State University, Dominguez Hills†	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
California State University, San Diego	1	2013	$12.6 Million	$262,102	$47,603	0.006%	$25.8 Million	$533,609	$96,913	0.013%
California State University, San José†	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
California State University, Stanislaus†	0	NA	NA	NA	NA	NA	NA	NA	NA	NA
University of California, Berkeley	4	2010‡	NA	NA	NA	NA	$50,000	NA	NA	NA
		2010	§	§	§	§	$258,284	§	§	§
		2012	$1.7 Million‖	$64,315	$17,441	0.006%	$3.1 Million	$117,859	$31,962	0.012%
		2013	$15.2 Million	$392,945	$117,898	0.052%	$24 Million	$617,398	$185,238	0.082%
University of California, Merced	1	2014	$370,000	$3,631	0#	0.000%	$630,000	$6,183	0#	0.000%
University of California, Santa Barbara	2	2013**	NA	NA	NA	NA	$7 Million	NA	NA	NA
		2013	$2.4 Million	$38,926	$4,893	0.008%	$10.8 Million	$174,683	$21,946	0.035%

Sources: California State Auditor's analysis of acquisition documents provided by University of California (UC) and California State University (CSU) campuses and property tax information provided by the county where each campus is located.

Note: Some of the tax impact estimates in this table include property taxes to pay for voter-approved debt. According a 2012 report by the Legislative Analyst's Office titled *Understanding California's Property Taxes*, these types of property taxes primarily pay for bonds issued by a local government or district. Because these types of taxes are tied to a specific amount of debt, the loss of this specific revenue due to property tax exemptions is not permanent; instead, the administering entities adjust rates annually so that the taxes raise the money needed to pay the bond costs. These types of taxes represent only a small portion of the tax impacts we report, but we include them because they affect local governments by making taxes on other, nonexempt properties higher than they would otherwise be.

NA = Not applicable.

* One of the properties CSU Chico acquired did not affect property taxes because it was an alleyway between two buildings and had never been subject to property tax. The other eight properties were already exempt from property taxes at the time of purchase because the campus was leasing them from one of its auxiliary organizations. State law authorizes certain public education entities, such as a CSU or UC campus, to obtain exemptions from property taxes associated with the property they lease from other parties. On page 20, we discuss the loss of property tax revenue associated with the campus leasing and then acquiring these properties.

† Because this campus did not acquire any properties between January 1, 2010, and June 30, 2015, corresponding information is noted as *NA*.

‡ UC Berkeley acquired this property from a city, and therefore the property was already tax-exempt when the campus acquired it.

§ For this acquisition, UC Berkeley purchased a condominium for about $258,000 but sold the property to a private individual just over a month later. As a result of the value and short time the campus held the property, any property tax revenue loss from this acquisition is very small and therefore we did not estimate the amount for this table.

‖ According to the Alameda County Assessor's Office, part of this property was already tax-exempt at the time of that acquisition. However, that exemption was due to UC Berkeley's renting space in the building. Our estimate of the acquisition's impact is based on the full assessed value of the building at the time of the acquisition.

\# The Merced County Fire Department is funded directly by a specific allocation from property taxes on properties within its jurisdiction. According to the Merced County Assessor's Office, the property UC Merced acquired is not subject to the county fire allocation. As a result, we report no dollar or proportional tax loss to the local government in this table. The acquired property did affect the Merced County general tax allocation, but this impact was minimal: $536 based on assessed value and $912 based on the purchase price.

** UC Santa Barbara acquired this property through a grant deed from a nonprofit public benefit corporation. This entity is included on the State Board of Equalization's list of authorized organizations that counties may exempt from property taxes. The Santa Barbara County Assessor's Office confirmed that it has granted exemptions for property the entity has owned in the county.

The local governments' estimated property tax losses resulting from campus property acquisitions represent very small percentages of those governments' total property tax revenue. Table 3 on page 18 provides the estimated proportional impact of each acquisition on total property tax revenue for each relevant local government between the time the acquired property became tax-exempt during the period under review and the end of fiscal year 2014–15, calculated on assessed value at the time of acquisition as well as on purchase price. In all cases, the impact of the property tax revenue loss for the acquisitions reduced property tax revenue by considerably less than 1 percent. Even if we had used our estimates from the tax revenue loss based on the purchase price of each property, which was higher than the taxable assessed value of the property at the time of the acquisition, none of the acquisitions reduced the property tax revenue for the relevant local government by more than 0.082 percent of the government's total property tax revenue during the time the property was exempt. Further, local governments use property taxes to support a wide range of programs and services, including fire and emergency services. Therefore, the loss of property tax dollars to each of the programs and services within a local government would have been even smaller than the impacts shown in Table 3 for each of the local governments. In the case of Santa Barbara and Merced counties, where the estimated tax impacts affected the county fire departments directly through special property tax allocations, the impact still reduced the property taxes in the fire departments' budgets by much less than 1 percent during the affected period.

The loss of property tax dollars to each of the programs and services within a local government would have been even smaller than the impacts for each of the local governments.

Although an Auxiliary Organization Acquired Properties on Behalf of a Campus, the Property Tax Implications Were Insignificant

As previously mentioned, CSU Chico acquired eight individual properties at a value of $1.9 million from one of its independent auxiliary organizations between January 1, 2010, and June 30, 2015. These acquisitions did not affect the local government's property tax revenue because, according to information the Butte County Assessor's Office provided, the campus was already leasing each of the properties from the auxiliary organization at the time the campus acquired it. As we discuss in greater detail in the next section, property leased by certain educational entities may be exempt from property taxes. The county assessor's office confirmed that all eight properties had become exempt from property taxes when the auxiliary organization began leasing them to the campus between 2000 and 2008. However, CSU Chico's director of university budget and resource management stated that the auxiliary organization purchased these properties either because they were not yet included in the campus's approved planning documents or because the campus was not ready to make those acquisitions for other reasons. Therefore, the auxiliary organization purchased the properties on the campus's behalf and then began leasing the properties to the campus, making them exempt from property taxes. Later in this section, we discuss our calculations of the estimated effect of the properties purchased by the auxiliary organizations and subsequent lease to the campus on the local governments' property tax revenue from the time the properties became exempt.

Campus auxiliary organizations are independent entities affiliated with and overseen by CSU campuses. Each of the 23 CSU campuses and the CSU Office of the Chancellor (Chancellor's Office) have between two and six auxiliary organizations, such as campus foundations and student unions. State law identifies the objectives of campus auxiliary organizations as essential to the educational programs of CSU campuses. Specifically, auxiliary organizations provide for student self-government, help campuses provide instruction and services not normally supported by the state budget, and operate without the usual governmental budgetary and purchasing controls. Auxiliary organizations can accept donated property, and they can buy property and sell that property in support of the overall campus mission. Further, auxiliary organizations can purchase property on the campuses' behalf and then transfer or resell that property to the campuses at a later date.

Although the auxiliary organization sold the properties to the campus after January 1, 2010, it purchased them on behalf of the campus and began leasing the properties to the campus—making them tax-exempt—much earlier.

Acquisition of the eight properties by CSU Chico's auxiliary organization at different times between October 1999 and July 2007 did not have a significant property tax impact on the city of Chico. Although the auxiliary organization sold the properties to the campus after January 1, 2010, it purchased them on behalf of the campus and began leasing the properties to the campus—making them tax-exempt—much earlier. Therefore, we calculated the property tax impact of the acquisitions based on the dates when the properties were removed from the tax rolls when the auxiliary organization began leasing them to the campus. Using the same calculation methods used in Table 3 to estimate the property tax losses, we estimated that the total property tax revenue that these properties would have generated countywide by the end of fiscal year 2014–15 was about $124,000 if the properties had never been sold to the auxiliary organization and had remained with their previous owners. However, because of the way property taxes are apportioned in Butte County, we estimated that the city of Chico would have received only about $5,800 of that total. If the auxiliary organization had purchased the properties but never leased them and had then sold them to the campus, the properties would have generated a countywide total of approximately $228,000 in property taxes based on their purchase prices, $10,700 of which would have been apportioned to the city of Chico. To provide some context for these amounts, between fiscal year 2000–2001, when the first of the properties became tax‑exempt, and the end of fiscal year 2014–15, the city received $374.9 million in total property tax revenue.

Although the CSU campuses we reviewed acquire properties from auxiliary organizations, they do not make such acquisitions frequently. Of the five CSU campuses we reviewed, only CSU Chico acquired properties from its campus auxiliary organizations between January 2010 and June 2015, the period that we audited. As Table 4 shows, the CSU campuses we reviewed reported to us that they did make nine acquisitions from auxiliary organizations totaling $26.9 million between January 2000 and December 2009.

Table 4
Properties That Campuses We Reviewed Acquired From Their Auxiliary Organizations Between January 1, 2000, and December 31, 2009

CAMPUS	NUMBER OF PROPERTIES PURCHASED	PURCHASE YEAR	ACQUISITION COST
California State University, Chico	2	2001	$151,800
		2002	123,800
California State University, Dominguez Hills	2	2000	419,600
		2006	350,000
California State University, San Diego	3	2008	2,226,000
		2008	4,452,000
		2008	8,122,000
California State University, San José	2	2000	8,600,000
		2005	2,483,000
California State University, Stanislaus	0	NA	NA
Totals	**9**		**$26,928,200**

Sources: Acquisition information provided by staff at California State University campuses.
NA = Not applicable.

The Properties That Campuses Leased Also Reduced Local Governments' Property Tax Revenue by Less than 1 Percent

In addition to reducing property tax revenue when the campuses acquire property, some campuses' leasing of taxable property can also affect property tax revenue for local governments. If a landlord leases otherwise taxable property to certain types of cultural or educational entities whose use is exempt from taxation, such as CSU or UC campuses, state law specifies that those entities are entitled to enjoy the benefit of the exemption. These entities do so either by paying reduced rent (if the landlord claims the exemption)

We estimated that the leasing of taxable properties during fiscal year 2014–15 by UC Berkeley, which had the highest number of leased properties among the three UC campuses, reduced total property taxes in Alameda County by approximately $574,700.

or through a refund payment from the county of the property taxes the landlord pays. In either case, these types of lease transactions also reduce property tax revenue for local governments because the leased portion of property does not generate property taxes while the lease is active.

The number of leased properties and the corresponding exempted property values of these leases varied considerably across the campuses we reviewed. In order to determine the extent to which exemptions for properties leased by these campuses impacts local property tax revenue, we asked the assessors' offices in the affected counties for the number and value of any such exemptions effective during fiscal year 2014–15. According to information the counties provided, the three UC campuses we reviewed each leased between four and 20 properties that received tax exemptions during fiscal year 2014–15. We estimated that the leasing of taxable properties during this year by UC Berkeley, which had the highest number of leased properties among the three UC campuses, reduced total property taxes in Alameda County by approximately $574,700 in fiscal year 2014–15.

All five CSU campuses we reviewed leased property in fiscal year 2014–15. However, according to the county assessors' offices, only San Diego State and CSU Chico leased property that the county assessor exempted from property taxes. We estimated the total property tax loss across San Diego County resulting from the 12 properties San Diego State leased in fiscal year 2014–15 was approximately $7,300. By contrast, CSU Chico leased 28 properties during that fiscal year that the county assessor exempted, which resulted in an estimated total tax impact of about $138,000. However, that amount represented a 0.0689 percent reduction in the total tax collections in Butte County in fiscal year 2014–15 had the leased property not been exempt. Table 5 summarizes the number of exemptions and total property tax impacts in fiscal year 2014–15 for all eight campuses. Although we did not calculate the tax impacts from these exemptions for previous fiscal years, the number and value of lease exemptions were generally consistent going back to fiscal year 2010–11, suggesting that the tax impacts during this period, on average, did not vary significantly with the amounts we estimated for fiscal year 2014–15.

Although the number and value of each campus's lease exemptions varied significantly, the impact of the exemptions on the property tax collections for the respective counties was less than 1 percent. For example, at about $574,700, UC Berkeley's lease exemptions had the highest dollar impact on total property tax collections in fiscal year 2014–15 compared to the lease exemptions for other campuses we reviewed. However, that amount reduced property tax collections across Alameda County by only 0.0215 percent in that fiscal year. San Diego State's estimated property tax impact of $7,300 reduced property tax collections by only 0.0002 percent of total property taxes in all of San Diego County for fiscal year 2014–15.

Table 5
Property Tax Impacts of Property Leased by the California State University and University of California Campuses From Private Entities
Fiscal Year 2014–15

CAMPUS	EXEMPTED PROPERTY LEASES	ESTIMATED TOTAL PROPERTY TAX IMPACT	TOTAL PROPERTY TAXES COLLECTED IN THE COUNTY	PROPORTIONAL IMPACT ON PROPERTY TAXES
California State University, Chico	28	$138,021	$200.4 Million	0.0689%
California State University, Dominguez Hills	0	NA	NA	NA
California State University, San Diego	12	$7,277	$4.2 Billion	0.0002%
California State University, San José	0	NA	NA	NA
California State University, Stanislaus	0	NA	NA	NA
University of California, Berkeley	20	$574,656	$2.7 Billion	0.0215%
University of California, Merced	4	$69,686	$238.5 Million	0.0292%
University of California, Santa Barbara	8	$157,843	$621.8 Million	0.0254%

Source: California State Auditor's analysis of property tax information provided by counties where the campuses we reviewed are located.

Note: As Table 3 on page 18 discusses in more detail, some of the tax impact estimates in this table include property taxes to pay for voter-approved debt.

NA = Not applicable.

Local Governments Receive Property Taxes on Some Campus-Owned Properties

As previously discussed, state-owned property is not subject to property taxes. However, if a state entity leases its tax-exempt property to an entity whose use is not exempt, such as a bank or restaurant on a university campus, that entity is generally required to pay possessory interest property taxes if that lease meets three conditions under state law: the entity's use is independent, the lease extends for a defined amount of time, and the lease is exclusive. State law requires campuses to report possessory interests to their respective counties and to provide information about tenants that rent campus property. County assessors' offices generally then determine whether the tenant's use of the property constitutes a possessory interest. The State Board of Equalization identifies a number of ways for the counties to determine the taxable value of the possessory interest. Its assessors' handbook states that this value is typically best seen as the fair market value of the rights to the use of the property held by the party possessing the property.

The number and tax amounts that possessory interests generated varied among the campuses we reviewed, but none resulted in significant additional property tax revenue for the respective local governments. For example, the Alameda County Assessor's Office provided records of 50 possessory interests at UC Berkeley campus in 2014–15, the most of any campus we reviewed. We estimated that those possessory interests—which included space rented to medical providers, financial firms, and restaurants—resulted in nearly $62,000 in property taxes for the city of Berkeley that year. In contrast, the Butte County Assessor's Office reported just four possessory interests—a bank of four automatic teller machines—on the CSU Chico campus, which generated $98 for the city of Chico in fiscal year 2014–15. Table 6 shows the number of possessory interests at each campus we reviewed and the estimated tax revenue those possessory interests generated in fiscal year 2014–15 for its respective local government.

Table 6
Estimated Property Tax Revenue From Possessory Interests at the California State University and University of California Campuses We Reviewed
Fiscal Year 2014–15

CAMPUS	NUMBER OF TAXABLE POSSESSORY INTERESTS	ESTIMATED PROPERTY TAX REVENUE FOR LOCAL GOVERNMENT
California State University, Chico	4	$98
California State University, Dominguez Hills	10	724
California State University, San Diego	20	6,832
California State University, San José	1	1,079
California State University, Stanislaus	0*	0
University of California, Berkeley	50	61,561
University of California, Merced	4	1,334
University of California, Santa Barbara	12	2,364

Source: California State Auditor's analysis of property tax information provided by counties where the campuses we reviewed are located.

Note: As Table 3 discusses in more detail, some of the tax impact estimates in this table include property taxes to pay for voter-approved debt.

* At the time of our review, California State University, Stanislaus had not been reporting to the county regarding potential possessory interests on campus property as state law requires. After our inquiry, the campus began working with the county to determine whether there were any possessory interests to report. However, as of January 2016, the county had not assessed or billed any possessory interests.

According to the respective county assessors' staff, two of the eight campuses we reviewed—San José State and CSU Stanislaus—were not generating any tax revenue for fiscal year 2014–15 from possessory interests on campus-owned property at the time of our review. The chief appraiser at the Santa Clara County Assessor's

Office explained that San José State had reported annually to the county about its tenants, as state law requires. However, because the tenants listed might have been partially or entirely exempt from paying property taxes, the individual assessor assigned to review the campus's report decided not to issue any assessment on the possessory interests. After our inquiry, the assessor's office issued proposed property tax assessments for current and past fiscal years, but the chief appraiser explained that as of September 2015, the county had not yet issued any tax bills based on those assessments. In January 2016, a supervising appraiser at the assessor's office confirmed that two of three assessed possessory interests received property tax exemptions, meaning those possessory interests would not generate any property tax revenue for the city of San José, where the campus is located. However, the supervising appraiser explained that the county tax collector's office had issued a property tax bill to the third possessory interest for several past fiscal years, including 2014–15. Using this bill, we estimated that the possessory interest would generate approximately $1,100 for the city of San José for fiscal year 2014–15.

In the other instance, at the time of our inquiry to the Stanislaus County Assessor's Office, CSU Stanislaus was not reporting as required to the county about the campus's tenants. A supervisor at the county assessor's office explained that even when appraisers followed up with the campus directly, the campus had not responded to the county's annual requests for information on the campus's tenants, which state law requires the campus to report. When we asked the campus about this issue, the associate vice president of its financial services division confirmed that the campus does lease space to third-party tenants, but she stated that she could not find any records indicating receipt of requests from or completion of reporting to the county. After our inquiry, the associate vice president stated that the campus was working to provide the county assessor's office with the required information. The supervisor at the county assessor's office confirmed that this effort was occurring. However, as of January 2016, the county had not assessed or billed any possessory interests.

At the time of our inquiry to the Stanislaus County Assessor's Office, CSU Stanislaus was not reporting as required to the county about the campus's tenants.

Campuses Consider the Financial Impact on Local Governments When Circumstances Warrant

Campuses we reviewed generally do not have formal policies for engaging with local governments to discuss financial concerns about planned campus expansions. Additionally, we did not identify any statutory requirement for campuses to engage with local governments to discuss financial impacts before campuses' expansion activities. The campuses we reviewed pointed to the California Environmental Quality Act (CEQA), which requires campuses to interact with local governments when planning or undertaking certain construction projects, as the formal process for engaging with local governments. However, these interactions primarily focus on the environmental impacts of a campus's expansion activities. The campuses we reviewed complied with CEQA procedural requirements and university policies for engaging the public during both the campuses' specific planned expansion projects and their long-range planning processes. Although no formal policies require them to do so, some campuses told us they have discussions with local governments regarding planned expansions outside of the CEQA process. Further, a handful of campuses have entered into specific agreements with their respective local governments for the provision of fire protection and emergency medical services because of the specific needs of those campuses.

Some Campuses Have Informal Practices to Engage Their Local Governments

The campuses we reviewed generally do not have formal policies to confer with local governments regarding the potential impacts of campus property acquisitions and construction on property tax revenue and on the local fire departments that provide fire and emergency medical services to the campuses.

The campuses we reviewed generally do not have formal policies to confer with local governments regarding the potential impacts of campus property acquisitions and construction on property tax revenue and on the local fire departments that provide fire and emergency medical services to the campuses. In fact, we did not identify any statutory requirements for state entities, including CSU and UC campuses, to discuss such impacts with their respective local governments before acquiring or constructing properties. As we discuss earlier, the campuses we reviewed acquired 17 properties between January 2010 and June 2015. Additionally, our review found that campuses expanded through construction projects they completed during the period we audited. We discuss construction projects in Appendix A beginning on page 37.

Although CEQA may require campuses to interact with local governments when planning or undertaking certain construction projects, these interactions focus primarily on environmental impacts. These interactions may include discussions on financial impacts that may occur because of increased demand for fire and emergency services; however, we did not identify a state law that expressly requires that these impacts be mitigated. Specifically, state law requires that CSU and UC campuses must comply with CEQA during their respective long-range planning processes, and, as public agencies, the campuses must comply with CEQA when approving a CEQA-defined project. Under CEQA, a project is an action that has the potential to result in a direct physical change to the environment or in a foreseeable indirect change. The purpose of CEQA is to inform government decision makers and the public about the potential, significant environmental impacts of proposed activities and to identify ways that environmental damage can be avoided or reduced. CEQA requirements may include, among other things, preparing a draft environmental impact report that explains how a project's significant environmental damage can be reduced, holding a public review period to allow the public to review and comment on the draft environmental impact report for the proposed project, requesting comments from relevant public agencies on that report, and responding to those comments.

Both the Chancellor's Office and the University of California Office of the President (UCOP) have established procedures for the campuses to meet the CEQA requirements. They also have handbooks that provide guidance to comply with CEQA and to identify opportunities for campuses to interact with local governments about the impacts of planned campus expansions. When the CSU campuses submit their physical master plans, they must identify projects that will affect the environment and perform the procedures that their university system has established. When the UC campuses submit their long‑range development plans, they identify projected needs including campus population and space needs or identify projects that will affect the environment and perform the procedures that their university system has established. UCOP also requires each campus to conduct a public hearing for each project subject to CEQA requirements for which the campus prepares an environmental impact report. Systemwide offices and campus staff stated that local governments have opportunities to voice concerns during the CEQA process. The long‑range development plans guide physical development, such as the location of buildings, open space, and other land uses. Also, the plans can lay out planned construction projects.

The construction projects we reviewed complied with CEQA procedural requirements and university policies for engaging the public and for mitigating environmental impacts. Specifically, we reviewed 20 construction projects and found that, when applicable, the campuses complied with CEQA procedural requirements related to disclosing information about the projects to the public, including the respective local governments, and to responding to questions or concerns. We also found that campuses complied with the same procedural requirements when completing their long‑range planning documents relevant to the construction projects.

The construction projects we reviewed complied with CEQA procedural requirements and university policies for engaging the public and for mitigating environmental impacts.

The provisions of CEQA do not require campuses to address financial concerns unless they are related to a planned project's significant impact on the physical environment. In fact, staff at the Chancellor's Office stated that CSU campuses are required to provide written responses to comments related to significant issues raised during the CEQA process. The staff further stated that campuses would indicate that other comments do not refer to

CEQA issues. Similarly, staff at UCOP stated that CEQA does not require the mitigation of service levels that do not create physical impacts. During our review, we saw a few instances of campuses responding to comments raised during the CEQA process by stating that the concerns did not relate to environmental impacts and therefore did not require mitigation. For example, in 2009, during the public review of UC Merced's environmental impact report for its most recent long-range development plan, the city of Merced raised concerns about potentially needing to build a new fire station if the campus is annexed to the city of Merced for fire protection services. In its response, UC Merced stated that the costs of new fire facilities are not considered an environmental impact that the campus is responsible for mitigating.

Although UC Merced did not immediately address the city's concerns regarding the fiscal impact related to providing fire services as part of the CEQA process, the campus began discussions with the city separately from the CEQA process about some of its other fiscal concerns. Specifically, in April 2009, UC Merced sent a letter to the city indicating that it would fund its proportional share of contributions to mitigate these fiscal concerns. Since then, UC Merced told us it has continued to meet periodically with the city and county. Ultimately, in 2013, UC Merced noted in an amendment to its long-range development plan that as the campus develops, the university will contribute toward the provision of a fire station. The chief campus counsel for UC Merced told us that she anticipates that the campus may enter into an agreement with the city or county to provide fire services to the campus before the next phase of campus expansion is completed.

Six of the seven campuses we reviewed told us they informally engage with their local governments to discuss local government concerns regarding planned acquisitions or construction projects.

Notwithstanding the lack of statutory requirements for campuses to discuss with local governments any campus expansion's potential impacts on property tax revenue or on local fire and emergency medical services, six of the seven campuses we reviewed told us they informally engage with their local governments to discuss local government concerns regarding planned acquisitions or construction projects. For example, the assistant vice chancellor for real estate services at UC Merced stated that since 2014 she has met with local city and county representatives every month to discuss the acquisitions, planned construction, and other projects that the campus is undertaking. In addition, the interim associate vice president for facilities services at CSU Stanislaus stated that for the past two years campus representatives have met with city of Turlock officials quarterly to discuss general matters. The assistant vice chancellor for physical and environmental planning at UC Berkeley indicated that the campus informally engages the local community and government for planned construction projects, and she stated that this practice is evaluated on a project-by-project basis. For example, she noted that a project located outside of the campus or a project that is controversial typically generates public interest more than a project located within the central campus. She further indicated that UC Berkeley also typically holds public information sessions for projects off campus before beginning the CEQA process. Additionally, the director of Capital Development at UC Santa Barbara explained that the campus also has informal practices to notify the local government and communities about planned construction projects. For example, the campus contacts neighbors that are adjacent to the construction site to inform them about the project and also posts information in the student newspaper. The director of Campus Planning and Design at UC Santa Barbara stated that she has established relationships with representatives for the city and county of Santa Barbara, where the campus is located, and the nearby city of Goleta, and it is her informal practice to inform them of projects the campus is planning or designing. These informal practices provide campuses with an opportunity to collaborate with the local governments and to discuss potential concerns.

Some Campuses Have Agreements to Compensate Local Governments for Certain Services

The lack of a requirement that state entities engage with local governments about the entities' expansion activities has not prevented CSU and UC campuses from reaching agreements with local governments as needed to support fire and emergency medical services. A handful of campuses have entered into specific agreements to compensate their local governments for fire protection and emergency medical services. Generally, these agreements appear to be driven by the specific circumstances at each campus. In addition, some campuses located in unincorporated areas may receive their fire and emergency medical services from the California Department of Forestry and Fire Protection (CAL FIRE), while one campus also has its own fire department.

A handful of campuses have entered into specific agreements to compensate their local governments for fire protection and emergency medical services.

The audit request asked us to determine the budget allocations that the CSU and UC systems made to selected campuses for the past five years for fire protection and emergency medical services. Both the Chancellor's Office and UCOP told us that they only allocate funds from the State's General Fund to their campuses and that, in general, all other fund sources are generated at the campus level and are allocated by the campuses for specific purposes. UCOP also stated that campuses are expected to manage their funds to ensure that adequate safety and emergency services are available and that decisions are made at the campus level as to how much funding is needed for these services. Similarly, the Chancellor's Office told us that its campuses are generally responsible for managing their own funds related to fire and emergency medical services. Staff at five of the seven campuses we reviewed told us that they receive these services from their local governments and stated that they do not budget or pay for these services. The other two campuses we reviewed have agreements, which include payment arrangements for these services, with their respective local governments. We describe these agreements in more detail below.

Consistent with the audit request, we also determined whether any CSU or UC campus, not just those we reviewed, has an existing contract, agreement, or other *in lieu* payment arrangement with a fire agency to offset the revenue loss to that agency from campus property acquisitions, construction, or expansions. We contacted the Chancellor's Office, UCOP, and each of the campuses to identify any of these agreements. Table 7 identifies the campuses that have agreements and a summary of the arrangements with the local entities providing fire and emergency services to the campuses.

Table 7
California State University and University of California Campuses That Have Agreements Related to the Provision of Emergency Fire and Medical Services

CAMPUS	ENTITY PROVIDING EMERGENCY FIRE AND MEDICAL SERVICES	DESCRIPTION OF ARRANGEMENTS RELATED TO PROVIDING EMERGENCY FIRE AND MEDICAL SERVICES	CAMPUS REASON FOR AGREEMENT	FINANCIAL TERMS OF AGREEMENT RELATED TO FIRE AND EMERGENCY SERVICES FOR FISCAL YEAR 2014–15
California State University, Humbolt	Arcata Fire Protection District	Annual payment plus fee-for-service basis for additional services requested and received by the campus.	The fire protection district has served the campus with a level of service since the campus was founded. The fire protection district has tailored its services to meet the campus's unique demands; the need and value of the agreement is commensurate with the growing student population and facilities of the campus.	The campus pays an annual amount, beginning for fiscal year 2014–15, of $35,000 plus fees for service for additional requested services. Amount increases beginning in fiscal year 2016–17 by an amount equal to the Higher Education Price Index.
California State University, Monterey Bay	(1) California Department of Forestry and Fire Protection (CAL FIRE) (2) United States Army Garrison Presidio of Monterey Fire Department (Presidio)	(1) A memorandum of understanding with a community services district and two local fire districts to share the cost based on a percentage of specific CAL FIRE personnel to administer headquarters support of the campus fire and emergency services. (2) A mutual aid agreement with the Presidio to provide mutual fire protection services.	(1) The location of the campus necessitated a memorandum of understanding with local fire districts to become part of an existing agreement between those districts and CAL FIRE. (2) Because of the location of the campus, CSU Monterey Bay fire and emergency services department entered into a mutual aid agreement with the Presidio to respond quickly to any emergency to provide mutual fire protection services until CAL FIRE arrives on scene.	(1) The campus pays 2.05 percent of specified costs incurred by CAL FIRE. Fiscal year 2014–15 amount paid: $27,551. (2) Not applicable—mutual aid agreement only with no financial terms.
California State Polytechnic University, San Luis Obispo	City of San Luis Obispo	Annual payment plus fee-for-service basis for additional services requested and received by the campus.	The campus is situated in an unincorporated area and has more than one-third of its students living on campus. Therefore, the campus requires an increased level of fire protection service for the campus that cannot be provided by CAL FIRE.	For fiscal year 2014–15, $270,684 plus fee-for-service payment for additional services requested and received by the campus, such as responses to flooding and storms, electrical hazards, and special events.

CAMPUS	ENTITY PROVIDING EMERGENCY FIRE AND MEDICAL SERVICES	DESCRIPTION OF ARRANGEMENTS RELATED TO PROVIDING EMERGENCY FIRE AND MEDICAL SERVICES	CAMPUS REASON FOR AGREEMENT	FINANCIAL TERMS OF AGREEMENT RELATED TO FIRE AND EMERGENCY SERVICES FOR FISCAL YEAR 2014–15
University of California, Berkeley	City of Berkeley	Annual payment to the city for specified purposes, including a designated amount related to fire and emergency services.	The campus and the city desired to settle a lawsuit by the city challenging the campus's environmental impact report related to the 2020 long-range development plan.	Beginning July 2006 $1.2 million per year to the city with an annual increase of 3 percent through fiscal year 2020–21. For fiscal year 2014–15 the amount was $1,520,124. The agreement specifies that $600,000 of the annual payment is designated for fire and emergency equipment, capital improvements, and training, including maintenance and repair of equipment and capital improvements.
University of California, Davis	UC Davis	The campus (which has its own fire department) and the city of Davis partner for shared management and jointly coordinate personnel necessary for the city and campus fire stations.	The campus and the city entered into an agreement to maximize existing resources and reduce duplication of effort to deliver emergency services as a single, unified response force across both jurisdictions.	The campus and the city, in adopting their annual separate budgets, pay the specific costs to be shared for key management personnel salaries and benefits as well as materials, supplies and services. The key management personnel covered in the agreement includes the fire chief, deputy chiefs, and division chief. Costs are based on workload driven by service demand and agency complexity. According to the fire chief for the city of Davis, for fiscal year 2014–15, the campus's shared cost of the agreement was $440,771, or 28 percent of total cost, and the city's shared cost was $1,118,617, or 72 percent of total cost.
University of California, Santa Barbara	Santa Barbara County	Annual payment to the county for a portion of the costs of firefighter posts—which are needed to serve the campus's student population—at a county fire station on campus. Annual payment for the costs of employing student interns for the campus's emergency medical technician internship program.	The campus and county desired to provide for cooperative operation of specified fire protection, emergency response, and paramedic services programs and facilities.	Fify-five percent of a firefighter position, with up to a 5 percent increase annually, and up to $83,500 per year for student interns for the campus's emergency medical technician internship program. In fiscal year 2014–15 the actual costs paid by the campus were $384,000 in support of the firefighter post and $65,417 for student interns.
University of California, Santa Cruz	City of Santa Cruz	Biannual payments to the city for the provision of fire protection and emergency response services to the campus.	The campus and the city entered into an agreement because the campus decommissioned its fire department and needed an alternative for the provision of services.	The campus is to pay the city either 17 percent of the city's net actual expenses plus the associated 2.5 percent administrative fee, or the base year payment amount plus a 4 percent increase annually. The amount billed for fiscal year 2014–15, which was the base year, was $2,604,015.

Sources: University of California Office of the President, the California State University Office of the Chancellor, agreements between campuses and their respective local governments, and campus staff.

Three CSU campuses—CSU San Luis Obispo, CSU Monterey Bay, and Humboldt State—have agreements with local entities that the campuses will provide financial support for fire and emergency medical services, which are at least in part the result of the campuses' specific circumstances. Specifically, according to its agreement, CSU San Luis Obispo is situated in an unincorporated area and has more than one-third of its students living on campus. Before 1996 the campus operated its own fire department and later sought a more cost-effective solution to its fire protection and emergency medical services requirements. According to the agreement, campus administrators determined that the campus required an increased level of fire protection services for the main campus, which is characterized by dense development, including high-rise academic buildings and residence halls that house nearly 7,000 full-time residents. The administrators also determined that CAL FIRE could not provide the increased level of protection. As a result, the campus negotiated an agreement with the city of San Luis Obispo. As Table 7 beginning on page 30 describes, the agreement requires the campus to pay the city for services based on a set annual amount; the campus also pays for additional services requested and received, such as flood response. CSU Monterey Bay is also challenged by its geographic location, which, according to the director of business support services, resulted in its reaching out to local fire districts and a federal fire department to ensure adequate and timely fire protection response.

Finally, Humboldt State entered into an agreement with the Arcata Fire Protection District which, according to the agreement, has served the campus with a level of service available from the district since the campus was founded. The agreement states that the district has tailored its services to best meet the campus's unique demands through the purchase of specialized equipment, on-campus training, and inclusion of the campus in its overall strategic fire service planning. Further, the agreement states that the need and value of the agreement is commensurate with Humboldt State's growing student population and facilities.

Three CSU campuses and four UC campuses have agreements with local governments to provide financial support for fire and emergency medical services.

Four UC campuses also have agreements with local governments to provide financial support for fire and emergency medical services. As Table 7 illustrates, the terms of these agreements vary. For example, UC Santa Barbara pays the county a portion of the costs to provide services, whereas UC Davis has its own fire department, which shares the cost of management with the city of Davis fire department.

As with CSU campuses, circumstances specific to individual UC campuses and their associated local governments appear to drive the agreements that exist. For example, in response to a lawsuit filed by the city of Berkeley in 2005 challenging the validity of the environmental impact report for the campus's 2020 long-range development plan, UC Berkeley negotiated and reached a settlement agreement with the city. That agreement, in part, requires the campus to provide financial support to the city for a share of certain city-provided services, including fire services. As Table 7 shows, beginning in July 2006 the agreement required the campus to make annual payments to the city of $1.2 million, with an increase of 3 percent each year thereafter through fiscal year 2020–21. According to the agreement, $600,000 of the annual payment is designated for use by the city for fire and emergency equipment, capital improvements, and training, including maintenance and repair of equipment and capital improvements.

Campuses have reached these agreements with local governments in the absence of systemwide policies or requirements for CSU or UC campuses to negotiate with or provide financial support to local governments for local fire and medical services. When we asked CSU and UC system officials about the absence of such policies, their responses indicated that specific circumstances at each campus determine whether agreements are formed with local governments. According to UCOP's assistant director of physical and environmental planning, because each campus is in a unique community with a unique local government, each campus needs to decide its best course of action. She stated that in the case of UC Santa Barbara and its agreements with Santa Barbara County, the campus did what it needed to do within its unique local government and community when it entered into its agreements. Similarly, the chief of Land Use Planning and Environmental Review at the Chancellor's Office stated that campus-specific situations have led to establishment of formal agreements with local providers for the delivery of fire and emergency services.

Some Local Governments Have Expressed Concerns About Increased Demands for Services

Officials from two local governments expressed concerns about increased costs posed by campuses' demands for services.

Officials from two local governments expressed concerns about increased costs posed by campuses' demands for services. Merced County officials, including its assistant fire chief, expressed concerns to us about an increased demand for fire emergencies and service calls to UC Merced in recent years. According to the assistant fire chief, the increased demand has had a negative impact on the fire department's overall response times because it needs to devote more equipment and resources to service emergency calls to the campus. The assistant fire chief stated that the county and the campus have engaged in discussions that the campus initiated about its fiscal impact on the fire department and its resources. However, he stated that these conversations have been largely informal and have not resulted in any agreements to date.

The assistant fire chief also explained that the county tracks fire and emergency service calls to the campus, and these figures demonstrate the increased demand in services. According to the data provided by the county, the number of times the fire department responded to incidents on UC Merced campus increased from 68 in 2010 to 170 in 2014. A supervisor in the department of public safety at UC Merced acknowledged the increase in fire and emergency medical services calls and noted that UC Merced has had an increase in its student population and that the increase results directly in more calls. The county fire department did not provide us with any specific cost estimates related to providing services to the campus. The assistant fire chief explained that the county only recently began attempting to quantify the financial impact of the campus's share of fire and emergency services.

Merced County's executive officer also stated that the county is concerned about UC Merced's expansion and the growing costs to fire protection services but that the county has thus far focused primarily on negotiating agreements with the campus to address the campus's transportation and traffic mitigation. The executive officer also stated that although no formal agreement is in place regarding traffic issues, UC Merced has paid a portion of the county's costs for traffic mitigation projects near campus.

The city of Berkeley has ongoing concerns about the increasing costs that UC Berkeley's continued expansion poses to city fire and emergency medical services.

Another local government told us that it is concerned with the impacts of expansion by a campus in its jurisdiction. Specifically, according to the mayor of the city of Berkeley, the city has ongoing concerns about the increasing costs that UC Berkeley's continued expansion poses to city fire and emergency medical services. As we discussed earlier, UC Berkeley has an agreement with the city that requires an annual payment to the city and that designates $600,000 of the annual payment to support the city's fire department. The mayor stated that the amount of the annual payments is insufficient to cover the costs UC Berkeley poses to the city. The mayor's office provided a 2004 study that indicated that the city's cost to provide fire and emergency medical services to the campus is greater than the amount it receives through the agreement. However, the city entered into this agreement with the campus after the 2004 study was completed. Moreover, the mayor did not provide documentation demonstrating that the city has recently quantified the costs the campus poses, and he indicated that he has not taken any additional steps to address his concerns.

The chief of the city's fire department also expressed similar concerns but did not provide documentation to quantify any increased cost caused by the campus. The service call data provided by the campus indicates that although the number of fire responses generally did not change between 2010 and 2014, the number of responses related to emergency medical services increased during this period. Specifically, the number of emergency medical service incidents increased from

565 in 2010 to 741 in 2014, the last complete year for which we received data. The data also show a high of 869 incidents in 2013. The fire chief pointed to the increase in emergency medical service calls and stated that the increased calls were mostly alcohol-related incidents. He also stated that sporting events pose a large burden due to the increased number of people in one place and excessive alcohol consumption.

Campus staff acknowledged that many factors can affect the number of emergency calls in any given year, but they identified two factors that may have contributed to the spike in emergency medical calls during 2012 and 2013. Staff stated that the stadium was closed for construction for the 2011 football season, meaning no tailgating and likely less alcohol consumption on game days. The campus reopened the stadium in fall 2012 and launched an awareness campaign around alcohol misuse. This campaign may have contributed to increased reporting of alcohol misuse, and over time it may have led to positive changes in behavior. The campus also stated that emergency medical services are billed directly to the individuals receiving the service or their insurance providers, and it is UC policy for all students to have health insurance. According to the campus's website, all students are automatically enrolled in the UC student health insurance plan, unless the student requests a waiver because of other health coverage. Further, the coverage for emergency transportation under the UC student health insurance plan in 2014–15 was 90 percent of the charge. Moreover, the fire chief and the campus staff stated that the UC Berkeley Athletics Department offsets the overtime costs incurred by the fire department for its responses to the increased demand for services during those events. This offset is in addition to the amount the campus pays related to its agreement with the city. The fire chief did not provide further information to quantify his concerns.

The remaining five local governments that provide fire and emergency medical services to the CSU and UC campuses we reviewed told us that they were not concerned about increases in their campuses' demands for services. In fact, some local officials stated that they consider their respective campuses to be net benefits for their communities when compared with the campuses' draws on services. For example, the interim assistant fire chief for the San José Fire Department stated that although the campus has the potential to be a large draw on department resources at any given moment, the campus has not been a concern to the department from the perspective of its increasing demand for services or of it causing a strain on resources, at least not in the past five years. Similarly, the city manager for Turlock, where CSU Stanislaus is located, stated that because most CSU Stanislaus students commute to campus, the campus's principal effect on the city is through traffic congestion and parking issues. Further, because few students live on or near campus, the overall impact on fire and emergency services has been low historically. We discuss the benefits that some of the campuses have identified in Appendix B.

Some local officials stated that they consider their respective campuses to be net benefits for their communities when compared with the campuses' draws on services.

Since 2010 none of the local governments for the campuses we reviewed has proposed specific tax measures to fund fire and emergency services because of service demands from their respective campuses. Of the seven local governments, four of them—the city of Carson, home to CSU Dominguez Hills; the city of San Diego; the city of San José; and Santa Barbara County—proposed tax measures on their local ballots between January 2010 and June 2015 to partially fund public safety services. However, local government officials cited financial circumstances other than campus expansion as the reasons for these tax measures. For example, the city of San Diego proposed a measure on its November 2010 general election ballot to increase sales tax in the city by 0.5 percent to help offset severe cuts by the State and to help restore essential services, including police, fire, and street resurfacing services. According to the city of San Diego's chief financial officer, the causes driving the proposed tax measure were the economic recession in general and steep reductions in sales and tourism tax revenue in particular, not San Diego State's activities.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

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Date: March 3, 2016

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Appendix A

Construction Projects by Campuses We Reviewed

In its audit request, the Joint Legislative Audit Committee asked us to identify, to the extent possible, the current assessed value of all property constructed by a selection of campuses since January 1, 2010. However, staff at the assessors' offices for the respective counties in which the campuses are located stated that their offices do not appraise properties that campuses own. As we discuss in the Introduction, properties owned by the University of California (UC) and the California State University (CSU) are exempt from property taxes.[5] Consequently, improvement to or construction on these properties has no effect on property taxes because the properties are already exempt from taxation.

To determine the value of the campuses' construction projects, we relied on the campuses' records. None of the eight campuses we reviewed tracks the market value of the properties when it completes construction projects.[6] However, CSU and UC campuses track the actual costs of construction, including planning and project management costs. CSU and UC campuses capitalize all costs related to new construction as buildings and building improvements. CSU and UC campuses also capitalize any construction that adds costs of at least $5,000 and $35,000, respectively, to an existing building or that extends the useful life of an existing building for at least one year. Table A on the following page provides the total number of completed construction projects that the CSU and UC campuses capitalized as buildings and building improvements, and the costs associated with those projects between January 1, 2010, and June 30, 2015, at each campus we reviewed.

5 According to UC's tax manager, when UC purchases property for investment purposes, generally through a limited liability corporation, it is not exempt from property taxation in California.

6 As the Scope and Methodology section explains, for the audit objectives, we reviewed seven campuses—four CSU campuses and three UC campuses. These seven were the CSU campuses at Dominguez Hills, San Diego, San José, and Stanislaus, and the UC campuses in Berkeley, Merced, and Santa Barbara. For one of the audit objectives, we reviewed the same seven campuses, but we also added CSU Chico to our audit.

Table A

Number and Cost of Completed Capitalized Construction Projects at Each Campus Reviewed January 1, 2010, through June 30, 2015

CAMPUS	NUMBER OF COMPLETED CONSTRUCTION PROJECTS*	CAPITALIZED CONSTRUCTION COSTS
California State University, Chico†	119	$138,895,671
California State University, Dominguez Hills	18	62,437,372
California State University, San Diego	36	188,133,853
California State University, San José	19	52,464,672
California State University, Stanislaus	62	28,275,469
University of California, Berkeley	553	1,626,750,005
University of California, Merced	40	265,408,275
University of California, Santa Barbara	85	196,347,124

Sources: Accounting records from the California State University (CSU) and the University of California (UC) campuses.

* The projects included in this table represent the completed construction projects that the CSU and UC campuses capitalized as buildings and building improvements. These projects include all new construction and any construction on an existing building that has a cost of at least $5,000 or $35,000, respectively, or that extends the useful life of an existing building for at least one year.

† CSU Chico could not identify only the projects completed for January 1, 2010, through June 30, 2015. Therefore, we provided the number of projects and total capitalized construction cost for July 1, 2009, through June 30, 2015.

Appendix B

The Campuses Have Identified Their Economic Benefits to the Local Economies

Over the years, two of the California State University (CSU) campuses we reviewed, all three University of California (UC) campuses we reviewed, the CSU Office of the Chancellor (Chancellor's Office), and the University of California Office of the President (UCOP) have commissioned studies on the economic benefits their respective campuses bring to the regions where those campuses are located.[7] In general, staff familiar with the circumstances of these studies explained that the studies were intended to highlight campuses' positive impacts on their surrounding areas. Almost all of these studies used economic modeling software to measure the extent to which the campuses' direct spending on such costs as capital expenditures and salaries, student spending, retiree spending, and visitor spending generate economic activity. UC Santa Barbara staff told us that the campus commissioned a private consultant to prepare the economic impact data the campus published on its website, but she did not believe the campus had the underlying support for the data. Although the common conclusion among the studies is that the campuses provide economic benefits to their region, the estimated total economic impact reported varies widely. The studies commissioned by the Chancellor's Office and UCOP identified annual benefits of $75 billion and about $25 billion, respectively, for all campuses within the individual university system. Further, the campuses also reported varying levels of benefits, ranging from $193 million in annual benefits provided by CSU Stanislaus to more than $4 billion in annual benefits provided by UC Berkeley.

Additionally, although these studies generally used accepted models to estimate campuses' overall economic benefits, the manner in which the studies define the geographic areas of campuses' impact does not allow us to isolate the economic benefit of the campuses to the specific local governments in which they reside. For example, a 2007 San Diego State study estimated the campus's economic impact on all of San Diego and Imperial Counties, but the report does not specify an impact for the city of San Diego, where the campus is located. Only the 2013 report for UC Berkeley measures the campus's total economic benefit on the associated local government—the city of Berkeley—as well as on the multicounty region. Only the studies from the Chancellor's Office and San Diego State estimate the amount of tax revenue that the

[7] During the course of our review, we did not identify any independent studies by third parties that include information specific to the CSU and UC campuses we reviewed.

campuses' economic activities generate. However, neither of those studies estimates the tax revenue for the specific local governments where the campuses are located. Table B summarizes the types of information available in each study with respect to identifying campuses' economic impacts on local host governments.

Table B

Summary of Types of Economic Benefits Identified in Studies Related to Campuses We Reviewed

OFFICE/CAMPUS	DATE OF STUDY	GEOGRAPHICAL LEVEL AT WHICH ECONOMIC BENEFITS IDENTIFIED	TYPES OF BENEFITS IDENTIFIED	AMOUNT OF ANNUAL BENEFITS IDENTIFIED (IN MILLIONS)*
California State University Office of the Chancellor	2010	Statewide and Regional	General economic activity, state and regional tax revenue, research contributions, tourism	$75,230
California State University, San Diego	2007	Regional	General economic activity, regional employment, state and local tax revenue, workforce development, entrepreneurship	2,480
California State University, Stanislaus	2004	Regional	General economic activity, public service, cultural contributions	193
University of California Office of the President	2011	Statewide and Regional	General economic activity, employment	24,989
University of California, Berkeley	2013	Regional and city of Berkeley	General economic activity, employment, research contributions	4,119
University of California, Merced	2015	Statewide, regional, and Merced County	General economic activity, employment	400
University of California, Santa Barbara†	2006‡	Regional and Santa Barbara County	General economic activity, campus employment, charitable donations, research contributions, cultural contributions	1,000

Sources: Economic impact studies conducted or commissioned by University of California (UC) and the California State University (CSU) systems and by individual campuses we visited as well as interviews with staff familiar with those studies.

Note: Although these studies generally used accepted models to estimate the systemwide offices' and campuses' economic benefits, we did not attempt to validate the calculations the studies' authors performed, primarily because most of the offices and campuses were not able to produce the underlying data used in the studies. Further, the reported impacts are not comparable to one another because the studies did not always include the same types of spending in their calculations—some studies considered the impact of retiree or visitor spending while others only considered direct spending by the campuses themselves.

* Amounts shown are those that the studies identified at the highest geographical level. Further, amounts shown for the CSU Office of the Chancellor and the UC Office of the President are for all campuses within the respective university system.

† In contrast to the formal studies published by the other entities included in this table, UC Santa Barbara's economic benefit information consisted of statistics posted on the campus's website and did not contain a description of the methodology used to estimate those impacts.

‡ Staff at UC Santa Barbara were not able to provide the exact date the campus published the economic benefit information posted on its website. However, staff speculated that this information was published in 2006 or 2007.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

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SAN LUIS OBISPO
SAN MARCOS
SONOMA
STANISLAUS

February 11, 2016

Ms. Elaine M. Howle
California State Auditor
621 Capital Mall, Suite 1200
Sacramento, California 95814

Dear Ms. Howle:

The California State University (CSU) appreciates the time and effort dedicated by the California State Auditor in conducting this audit and we concur with the finding of the report that the acquisition of properties by CSU campuses has a minimal impact on local government property tax revenues.

As noted in your report, the CSU provides an economic benefit to the local economies where the campuses are located. Specifically, the impacts associated with the CSU originate with the institution itself—its faculty, staff, students, and alumni—then percolate through the economy generating successive rounds of economic activity because of the interlinkages between different economic sectors. More specifically, according to the ICF International *Impact of the California State University System* dated May 2010, direct CSU-related expenditures and the alumni earnings attributable to their degrees have generated a full economic impact of $70.4 billion. This level of economic activity supports roughly 485,000 jobs annually in the state and generates $4.9 billion in annual tax revenue for state and local governments.

If you have questions or concerns, please contact Ms. Cindy Sanford, Senior Manager at (562) 951- 4439, csanford@calstate.edu.

Sincerely,

Timothy P. White
Chancellor

TPW/tm

c: Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer
Ms. Cindy Sanford, Senior Manager

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