

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:30 p.m., Tuesday, May 16, 2006
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Carol R. Chandler
Moctesuma Esparza
Ricardo F. Icaza
Corey Jackson
A. Robert Linscheid
Craig R. Smith

Consent Item

Approval of Minutes of Meeting of March 14, 2006

Discussion Items

1. Report on the 2006-2007 Support Budget, *Information*
2. California State University Education Doctorate State University Fee – Independent Educational Doctoral Degree Program, *Information*
3. Student Costs of Attendance: Cost of Attendance, *Information*
4. Auxiliary Organization Financing at San José State University, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

March 14, 2006

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Cruz M. Bustamante, Lt. Governor
Herbert L. Carter
Carol R. Chandler
Murray L. Galinson, Chair of the Board
Corey Jackson
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig R. Smith

Approval of Minutes

The minutes of January 31, 2006 were approved.

Report on the 2006-2007 Support Budget

The Governor's January 2006-2007 budget provides an augmentation of \$215 million to the California State University that continues the fiscal recovery after three years of budget reductions totaling over \$524 million.

Trustee Hauck asked Mr. Patrick J. Lenz, Assistant Vice Chancellor, Budget Development, to present the report.

Mr. Lenz commented that at the moment, things are relatively quiet in Sacramento. The most notable news to date was that the legislature and the administration have been working on development of an infrastructure bond package that contains a facilities portion for CSU in overall funding, but does not address specific projects that will occur during the budget process.

Mr. Lenz reported that Chancellor Reed made a presentation before the Assembly Budget Committee on March 7, 2006 and provided details of the Chancellor's report. He also commented on CSU's differences with the Legislative Analyst's Office recommendations on a number of issues, particularly in the areas of enrollment and student fees. In addition, the

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Legislative Analyst still has issues on the overall Compact funding, indicating that the legislature ought to provide an alternative budget to the CSU.

Some high priority issues that are important to Board and the Chancellor in the coming year are, restoration of the \$7 million reduction in the Governor's proposed January budget for outreach and academic preparation programs, and funding related to our nursing programs.

Mr. Lenz noted that on April 17, 2006, Chancellor Reed is scheduled to present his review and comments before the Senate Budget and Fiscal Committee and will engage in some discussion on that day with the Senate.

Trustee Jackson asked when the board would hear results from the Committee for Alternative Funding. Mr. West replied a report of the committee's findings would most likely be presented at the September 2006 Board meeting.

Trustee Hauck concluded the meeting.

COMMITTEE ON FINANCE

Report on the 2006-2007 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The Governor's January 2006-07 budget provides an augmentation of \$218.3 million to the California State University that continues the fiscal recovery after three years of budget reductions totaling over \$524 million. The Senate and Assembly Budget and the Education subcommittees have been deliberating on the CSU budget for nearly two months and with the submission of the Governor's May Revise, the subcommittees will complete actions in the next two weeks. The Board will be given a brief overview of the budget subcommittee actions to date and the overall fiscal condition of the state budget.

2006-07 Support Budget Overview

There continues to be a mixed reaction to the Governor's January budget proposal. The Governor's budget proposes expenditures from general funds totaling \$97.9 billion, even though the state is only projected to take in \$91.5 billion during the fiscal year. There is \$6.4 billion in one-time money available because revenue last year and in the current year is higher than anticipated. Preliminary estimates indicate higher revenues will be part of the Governor's May Revise, however funding will still fall short of reducing the state's overall budget deficit.

Republicans are concerned the Governor has not proposed enough cuts to stabilize state spending and Democrats object to proposed cuts in spending on the state's neediest residents. Spending would be increased for education, transportation and prisons while assistance would be cut for welfare recipients and stipend increases for the aged, blind and disabled. The Governor indicated he could have eliminated California's operating deficit but chose instead to increase spending in areas such as education and transportation in response to the message voters sent in last year's special election.

CSU Budget

The University assumes the 2006-07 budget will contain approximately \$2.8 billion from the state General Fund, \$1.2 billion from fee revenue, and \$49 million from Lottery revenue for general operating support of just under \$4.5 billion. The 2006-07 support budget augmentation of \$218.3 million consists of \$192.3 million from the General Fund and \$26 million from student fee revenue as a result of targeted enrollment growth. The Governor's budget will remain consistent with the revenue and expenditure assumptions requested and approved by this Board last October. The Board-approved request included:

- Increasing enrollment growth by 2.5 percent to serve an additional 8,306 Full-Time Equivalent Students,
- A set-aside of one-third of fee revenue increases for student financial aid,
- \$28.9 million to cover mandatory cost increases,
- A compensation pool of \$93.9 million that begins a five-year plan to address critical salary gaps, and
- \$10 million for long-term needs including technology, libraries, and instructional equipment.

The Governor's budget supports CSU recommended changes in marginal cost funding to recognize the actual cost of new hire faculty salary rates, a 12-unit graduate course load equivalency for a full-time student, and support for increased enrollment-related plant maintenance. The Governor's budget also supports increased financial management efficiency at the University by allowing the deposit of student fee revenue into university trust accounts. Additionally, the Governor's Budget buys out undergraduate and graduate fee rate increases for the 2006-07 fiscal year.

Budget Subcommittee Recommendations

In the deliberations on the 2006-07 CSU budget, the Senate and Assembly Budget subcommittees have yet to take any significant action on the CSU budget, instead reviewing the issues as information items and reserving final actions until the Governor submits his May Revise to the budget. The following major issues are still before the legislature:

Enrollment Growth: There are three issues still under consideration regarding CSU (and UC) enrollment growth. The 2005 budget act contains language similar to the 2004 budget act that requires the CSU (and UC) to achieve specific enrollment targets, and for every Full-Time Equivalent Student (FTES) the universities are short, they must revert state funding per student back to the state General Fund. In 2004-05 the CSU was short 2,741 FTES and reverted \$15.5 million on a one-time basis back to the state. In 2005-06, CSU will be over the enrollment

growth target by 2,136 FTES however the current budget act language does not reward the university for being over-enrolled.

While the UC met its enrollment target for 2004-05 it failed to meet the 2005-06 enrollment target by 500 FTES and must revert \$3.8 million of state funding per student back to the General Fund. The UC is arguing that the university was over enrolled by 700 FTES on resident students, but short 1,200 FTES on non-resident students, and since the university met the “intent” of the number of resident students the state should serve funding should not revert. CSU has indicated that if the playing field is changed to include a different interpretation of the budget act language the legislature should go back one year and provide equitable treatment to the CSU with this interpretation. This would add back \$10.3 million to the CSU budget, on a one-time basis, for the 1,855 FTES that were non-resident students last year and counted in the return of the \$15.5 million.

The second issue related to enrollment deals with the budget bill language that calls for the universities to revert funding if enrollment targets are not achieved. The CSU has argued (and has agreement from the Department of Finance, Legislative Analyst’s Office, and legislative staff) that the current language is too punitive and flexibility in achieving the overall enrollment target is warranted. The CSU has proposed flexibility based on 25 percent or 2,122 FTES of the anticipated enrollment growth for the 2006-07 academic year. While the LAO agrees with CSU’s need for flexibility, the LAO is only willing to support 5 percent or 424 FTES of CSU’s 2006-07 enrollment growth.

The final issue is the overall enrollment funding provided to CSU (and UC) in 2006-07. The Governor’s budget proposes 2.5 percent enrollment growth while the LAO is recommending 2 percent enrollment growth. Both the CSU and the UC have made the case that the universities will achieve the enrollment targets for the coming academic year and any reduction in funding for enrollment growth would deny admission to students who already have been accepted to the CSU and UC.

Student Fees: Last fall, the Board of Trustees proposed an increase of 8 percent for undergraduates and 10 percent for graduate students. In his January budget, the Governor “bought out” student fees with a state General Fund augmentation of \$54.4 million. The LAO raised two issues regarding the merit of buying out the student fee and any consistency with an overall fee policy tied to the cost of education, recommending a 3 percent increase for CSU students (3.5 percent for UC students). In addition, the LAO questions whether the CSU, with (or without) the recommendation to increase fees, should be afforded the full \$54.4 million or if the legislature should have the option to use that money for other CSU, higher education, or general budget priorities. While both subcommittees reviewed the LAO recommendation it was clear that they are likely to support the “buy-out” of the student fees.

Marginal Costs: The Analyst has recommended the State fund enrollment growth at \$6,407 per FTES rather than the \$7,187 based on the 2006-07 marginal cost methodology recommended by the Governor. The main issues for the LAO are the calculation for first time faculty hires and how student fees and financial aid are counted in the methodology. Despite efforts to resolve this with the LAO and legislative staff there is still not a resolution to the marginal costs methodology issue at the time of writing this Board item.

Student Academic Preparation: The Governor's budget reduces CSU funding by \$7 million (\$17.3 million for the UC) for student outreach and academic preparation programs. While the budget subcommittees have not taken action at this time, there is a clear indication of the desire to restore this funding in the budget and advocate with the Governor's office that this become permanent funding to the CSU and UC budgets.

Nursing Programs: The CSU received \$560,000 in the 2005 budget act for masters level nursing programs and \$1.7 million in Senate Bill 73 for entry level nursing programs that would allow an individual with a baccalaureate degree to achieve a master's degree in nursing within 18 months. The Governor's office and the legislature are interested in continuing this funding for this purpose and augmenting the CSU budget to expand the number of Bachelor of Science in Nursing (BSN) degrees. The Board approved a recommendation last fall to support a \$3 million augmentation to the CSU budget to fund 340 additional FTES in the BSN program. This recommendation has been revised to \$3.6 million based on the change in marginal cost funding per FTES proposed in the Governor's January budget.

K-12 Math and Science Teacher Initiative: The budget subcommittees have not taken action on the \$1.1 million in funding provided to the CSU for the 2006-07 academic year. While there seems to be little debate on the merits of this funding, there is an issue in the Student Aid Commission budget where 660 APLE awards have been specifically designated as financial aid grants for CSU and UC student who participate in the K-12 Math and Science credential programs. Legislative staff are concerned with "setting aside" these grants for a designated purpose in the event they cannot be fully utilized. The CSU and UC have responded that guarantying these grants is a creative and beneficial tool in the recruitment of students for these programs.

Capital Fellows Program: Both houses of the legislature are interested in augmenting this program. The Senate has augmented it by the \$280,000 requested by the program advocates, and the Assembly is considering an augmentation that would increase from 18 to 21 the number of "slots" in the Fellow Program.

Conclusion

This is an information item, which will include a discussion of the May Revise to the Governor's Budget and the most recent actions by the legislature to the 2006-07 CSU budget.

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COMMITTEE ON FINANCE

California State University Education Doctorate State University Fee – Independent Educational Doctoral Degree Program

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick Lenz
Assistant Vice Chancellor
Budget Development

Summary

This information item is presented to the Board of Trustees to recommend authorization of a new fee, the CSU Education Doctorate State University Fee, which will be charged in lieu of the CSU State University Fee (SUF) students currently pay to attend the university. The new fee rate is recommended to implement the provisions of SB 724 (Scott), which established the independent doctorate for CSU. The law authorizes CSU to charge fees for its independent education doctoral program consistent with the University of California's educational fee for doctoral programs in order to satisfy program costs.

Background

The board has the authority to establish, adjust, and abolish systemwide fees. On September 22, 2005, Governor Schwarzenegger signed into law SB 724 (Scott), which for the first time allowed the California State University to offer an independent doctoral degree. Prior to SB 724, CSU could only offer joint doctorate programs with the University of California or with a private university. Recognizing there is an urgent need for well-prepared administrators to lead public school and community college reform efforts, the State supported CSU's request to offer graduate level instruction that would lead to the Doctorate of Education degree. The Doctorate of Education degree offered by the California State University is focused on preparing administrative leaders for California public elementary and secondary school districts and community colleges, and on the knowledge and skills needed by administrators to be effective leaders for California public schools and community colleges.

SB 724 stipulates that State funding for Doctor of Education degree instruction by the California

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State University shall be provided on a per full-time equivalent basis at the marginal rate for new enrollment growth within growth levels authorized by the annual Budget Act. Section 66040.5 of the law also stipulates that each student in the programs authorized by this article shall be charged fees no higher than the rate charged for students in state-supported doctoral degree programs in education at the University of California, including joint education doctorate programs of the California State University and the University of California.

The legislative intent regarding CSU independent education doctorate student fees in SB 724 was:

1. The fee should not be too large and students should not pay inordinately.
2. CSU should not return to the Department of Finance and the legislature requesting more funds to support these doctoral programs.

Following extensive analysis of the cost associated with offering the education doctorate, a fee action will be recommended to the Board for the 2007/08 fiscal year that incorporates the following:

- 1) The fee will be established as the CSU Education Doctorate State University Fee and will replace the CSU State University Fee for students enrolled in the Education Doctorate Program.
- 2) The fee structure will be a modified version of the State University Fee structure. Regular student fees will be defined as the fee rate for students enrolled in the Education Doctorate Program independent of number of units. Limited student fees will not apply to the Education Doctorate Program. Regular student fees will be equal to the full academic year fee rate. The summer term fee rate shall equal the academic year term rate regular students are charged, respectively, at semester or quarter campuses.
- 3) The CSU Education Doctorate State University Fee rate will be linked to the UC graduate fee rate (or their Education Doctorate fee rate if a separate professional fee is so established in the future). Increases in the CSU Education Doctorate State University Fee will be tied to the percentage increase in the UC graduate fee.
- 4) Because of the limited needs-based financial aid requirement for education doctorate student enrollments, the financial aid set-aside from student fees will be 10 percent of the academic year fee rate. After need-based aid has been provided, any remaining funds from the set-aside would be used for general operating support.
- 5) Employee fee waivers will have to be negotiated for the new fee and the cost for the waiver shall be funded from the employee compensation pool for each bargaining unit

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and non-represented employees.

- 6) The trustees will annually approve the academic year fee rate for the program.
- 7) Students enrolled in the Education Doctorate Program will also pay campus-based mandatory fees.

The fee model recommended will generate sufficient revenue to fund total program cost and still keep CSU firmly within the legislative guidelines established in SB 724. If the model had been implemented for 2006/07, for example, campuses with Education Doctorate enrollment would have received \$5,620 in state support, \$7,164 in academic year fee support (of which 10% or \$716 would have been set aside for financial aid), and \$3,582 in summer term fee support (of which \$358 would be identified for financial aid). Total college year support for a student taking 20 units would be \$16,366 at a semester campus (not including campus-based fees). This total funding support is in-line with anticipated program costs.

An agenda item will be presented at the July meeting to take action to establish this fee.

COMMITTEE ON FINANCE

Student Costs of Attendance: Cost of Attendance

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Allison G. Jones
Assistant Vice Chancellor
Academic Affairs, Student Academic Support

Background

The annual campus student fee report presented at the November 8, 2005 meeting of the Committee on Finance included information on student fees for CSU students relative to students at comparison public institutions. During discussion of the item, Board members requested information on how the total costs of attendance at California State University campuses compare to similar charges to students at the comparison institutions. This agenda item provides information about the total cost of attendance at CSU and comparison institutions.

Cost of Attendance

In addition to mandatory fees and tuition, the Cost of Attendance (COA) used for purposes of determining eligibility for student financial aid recognizes the following allowance:

- books and supplies;
- food and housing;
- transportation; and
- miscellaneous personal expenses

Where appropriate, additional allowances are included for child and dependent care as well as supplies and equipment for disabled students.

Postsecondary institutions develop these allowances, also referred to as standard student budgets, differentiating for students living at home with their parents, students living in campus residence halls, and students living off-campus, typically in a shared apartment. CSU campuses, along with most other California institutions, participate in the Student Expenses and Resources Survey

(SEARS) administered by the Student Aid Commission every three years to survey the expenditures and resources of students enrolled at postsecondary institutions in the state. The survey data on expenditures are used by the Commission to develop statewide cost of attendance allowances for purposes of determining eligibility for Cal Grants. CSU campuses also make use of these data, along with studies of living expenses in the local area, in establishing moderate and adequate standard cost of attendance allowances for purposes of determining student financial need.

Postsecondary institutions are required to make information on student charges available to students and to advise prospective students about the availability of this information. Costs of attendance are also reported annually to the U.S. Department of Education in conjunction with the Integrated Postsecondary Education Data System (IPEDS) maintained by the National Center for Education Statistics. The cost data, along with other information, is publicly available at the IPEDS College Opportunities On-line (COOL) website, <http://nces.ed.gov/ipeds/cool/>, designed to help college students, future students, and their parents understand the differences between postsecondary institutions and how much it costs to attend college. These data are reported in the spring for the current academic or award year.

The CSU Chancellor's Office maintains information on CSU campus costs of attendance on its website at http://www.calstate.edu/AR/fa_coa.shtml and each campus typically includes its costs on the local campus website.

2005-06 Costs of Attendance at the CSU and Comparison Institutions

In response to the Board's request for additional information, financial aid administrators at the comparison institutions were contacted to confirm the 2005-06 cost of attendance allowances for full-time, resident undergraduates at their institution. Table 1 summarizes the reported data for students who reside off-campus. For purposes of the table, CSU costs are represented by the average costs at four Los Angeles area campuses, Dominguez Hills, Long Beach, Los Angeles, and Northridge.

Table 1. Reported 2005-06 Cost of Attendance

Institution	Reported Total COA
Rutgers University, Newark	\$26,100
University of Maryland, Baltimore County	\$24,760
University of Connecticut, Storrs	\$19,250
Cleveland State University	\$18,730
Georgia State University, Atlanta	\$18,191
Illinois State University	\$18,023
George Mason University, Fairfax	\$17,876
Wayne State University, Detroit	\$17,808
University of Nevada, Reno	\$17,536
University of New York, Albany	\$17,400
University of Colorado, Denver	\$17,085
University of Wisconsin, Milwaukee	\$16,464
CSU LA Area Campus Average	\$16,086
Arizona State University, Tempe	\$15,838
University of Texas, Arlington	\$15,208
North Carolina State University	\$14,795

As evidenced, when the overall costs of attendance are considered, the average costs for the CSU Los Angeles area campuses fall in the lowest quadrant.

In order to take into consideration differences in the cost of living in communities surrounding the CSU and its comparison institutions, data on the Cost of Living Index (COLI) were obtained from ACCRA, the Council for Community and Economic Research. The ACCRA Cost of Living Index “measures regional differences in the cost of consumer goods and services, excluding taxes and non-consumer expenditures, for professional and managerial households in the top income quintile. It is based on more than 50,000 prices covering 60 different items for which prices are collected quarterly by chambers of commerce, economic development organizations or university applied economic centers in each participating urban area. The composite index is based on six components - housing, utilities, grocery items, transportation, health care and miscellaneous goods and services.”

Table 2 reflects the Cost of Living Index for Los Angeles as well as for the community in which each comparison institution is located. Data were not available for Storrs, Fairfax, Albany, or Tempe so the index for the nearest available city was used.

Table 2. Cost of Living Index (COLI)

Institution	Cost of Living Index (COLI)
CSU LA Area Campuses	157.4
George Mason University, Fairfax	145.9
Rutgers University, Newark	133.9
University of Connecticut, Storrs	119.5
University of Maryland, Baltimore County	117.0
University of Nevada, Reno	113.5
University of New York, Albany	106.2
Illinois State University	102.8
Wayne State University, Detroit	102.6
Cleveland State University	101.1
University of Wisconsin, Milwaukee	100.3
University of Colorado, Denver	99.6
Arizona State University, Tempe	99.0
Georgia State University, Atlanta	97.7
North Carolina State University	94.0
University of Texas, Arlington	89.7

When the reported costs of attendance for comparison institutions are adjusted using the Los Angeles area as a base, the CSU campus average costs are significantly lower than those of all comparison institutions. Table 3 reflects the adjusted costs for undergraduate students living off campus. These adjusted costs represent what the cost of attendance would be for students at comparison institutions if the costs in the area surrounding the campus were translated to costs in the Los Angeles area.

Table 3. Regionally Adjusted 2005-06 Cost of Attendance

Institution	Adjusted Total COA
University of Maryland, Baltimore County	\$33,313
Rutgers University, Newark	\$30,684
Georgia State University, Atlanta	\$29,322
Cleveland State University	\$29,169
Illinois State University	\$27,600
Wayne State University, Detroit	\$27,336
University of Colorado, Denver	\$27,000
University of Texas, Arlington	\$26,687
University of Wisconsin, Milwaukee	\$25,842
University of New York, Albany	\$25,798
University of Connecticut, Storrs	\$25,362
Arizona State University, Tempe	\$25,194
North Carolina State University	\$24,780
University of Nevada, Reno	\$24,329
George Mason University, Fairfax	\$19,290
CSU LA Area Campus Average	\$16,086

Summary

While the total cost of attendance at some CSU campuses may be slightly higher than the total cost at a few of the comparison institutions, taking into account variances in the cost of living index leads to the conclusion that most CSU students incur costs that are lower than those of students at the comparison institutions.

COMMITTEE ON FINANCE

Auxiliary Organization Financing at San José State University

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Don Kassing
President
San José State University

Summary

San José State University Foundation (Foundation), a recognized auxiliary organization in good standing, is proposing a borrowing in the amount of \$2 million to finance an already-completed acquisition of 9.5 acres made by the Foundation of the Rubis Property for Moss Landing Marine Laboratories. The David and Lucile Packard Foundation will provide this financing.

The financing transaction will not create any legal or direct obligation of the State of California or the Trustees, however, the transaction will be included on the balance sheet of the CSU's financial statements and will be considered a use of its available credit. San José State University Foundation will complete a loan agreement with the David and Lucile Packard Foundation.

Project Description and Proposed Financing

The Foundation acquired a 9.5 acre parcel in Monterey County, adjacent to the Moss Landing Marine Laboratories, in October 2005, in order to provide visiting scientist faculty housing in the two residential units. Additionally, a portion of the open property will be used for overflow parking at the labs. The campus's long-term goal is to develop the property to become a mixed-use facility to accommodate summer workshops and provide short-term housing for first year graduate students. Portions west of the flood control dike and areas along Moss Landing Road would be dedicated to conservation/habitat restoration.

The Foundation will repay this loan with rental income, contributions received by the Foundation, Moss Landing Marine Laboratory reserves, and a portion of the facilities and administration revenue from campus grants and contracts performed at Moss Landing Marine Laboratory. The David and Lucile Packard Foundation will provide this loan to the Foundation in furtherance of their program for conservation and science in the California coastal areas.

A Deed of Trust and Assignment of Rents will be provided to the David and Lucile Packard Foundation for the term of the loan, until full payment of all interest and principal outstanding.

The following summarizes key information regarding the proposed financing.

Financed Amount:	\$2,000,000
Term:	4 years
Interest Rate:	1%

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of the California State University, that the trustees;

1. Approve the proposed auxiliary organization financing in an amount of \$2,000,000 as described and for the purpose indicated in this agenda item.
2. Confirm that the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor, Financial Services, and the Senior Director, Financing and Treasury, are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in this agenda item.