AGENDA

COMMITTEE ON FINANCE

Meeting: **2:45 p.m., Tuesday, May 8, 2012**
Glenn S. Dumke Auditorium

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Linda A. Lang
Henry Mendoza
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of March 20, 2012

Discussion Items

1. Report on the Support Budget, 2012-2013 and 2013-2014 Fiscal Years, *Information*
2. Revenue Enhancement and Cost Reduction Strategies, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments, *Action*
4. Proposed Title 5 Revision: Dissolution of Auxiliary Organizations, *Action*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California

March 20, 2012

Members Present

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Glen O. Toney
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of January 24, 2012 were approved by consent as submitted.

Report on the Support Budget 2012-2013 and 2013-2014 Fiscal Years

Robert Turnage, assistant vice chancellor for budget, presented data from Illinois State University College of Education, which has for many years maintained a national survey on state spending on higher education, referred to as the Grapevine Survey Project. It shows that California has reached a very low level of support relative to the state's economy and the priority given to fund public higher education. The amount of money the state provides the CSU affects the number of students the CSU is able to be serve and the number of individuals the CSU can employ.

Mr. Turnage stated that there is a potential $200 million mid-year "trigger" cut to the 2012-13 CSU budget if the governor's tax initiative is not passed in November 2012. The CSU's annual state funding is already down $968 million with tuition revenue adding $593 million, leaving a total gap in funding of $375 million. This is not sustainable with mandatory costs increasing and campuses functioning on structural deficits.

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, mentioned that at the January 2012 Board of Trustees meeting, the board asked for an "all cuts" budget scenario to understand the impact on the university if the $200 million “trigger” cut were to happen. Several revenue enhancements and cost reduction strategies are being researched and Dr. Quillian will submit more detailed reports for the board’s consideration in the near future. In preparation for a possible $200 million reduction, the campuses are in the process of developing contingent strategies. Each campus’ share of the $200 million reduction is an average of $8.7 million. The campuses understand that they must maintain the safety of employees, students, and the general public. They will have to ensure the continuation of proper monitoring and compliance with applicable guidelines, labor agreements, executive orders, and board policies. Some campuses may be forced to consider elimination of sports and athletics; defer library acquisitions; defer maintenance; minimize travel; and reduce purchases. We will need to reorganize, downsize and restructure administrative units. Some campuses will seriously consider the elimination of low enrollment academic programs. As we establish lower enrollment targets for the campuses we will need to reduce the workforce by over 3,000 employees accomplished through a combination of not filling vacant positions; normal attrition; non-renewal of temporary and part-time employees; layoffs of full-time staff; and elimination of faculty positions due to the discontinuance of academic programs and reduced enrollment.

Mr. Turnage added that the “trigger” cut is dependent on the outcome of the November election but the CSU needs to start planning for academic terms, enrollment levels and admission cycles now, due to the long lead time. CSU is basically locked in on the fall 2012 academic term since admission letters were already sent out. The Spring 2013 admission cycle will close shortly and all applicants will be wait-listed, with the exception of 8 campuses staying open for the purpose of adhering to the expectations stated in SB1440 (California Community Colleges Student Transfers). The fall 2013 academic term is the most flexible in managing the “trigger” cut since students apply between October 1 and November 30, 2012.

Trustee Monville expressed concern about the implications of implementing a $200 million cut mid-year in the budget cycle and asked how that timing would impact enrollment and what lessons were learned from the last “trigger” cut that can be carried forward.

Dr. Quillian affirmed that this is a major challenge and that contingency planning is taking place to prepare for that.

Mr. Turnage added that in the first part of the year, there will be a continued reliance on one-time resources which is being factored into the planning.

Chancellor Reed stated that for planning purposes the CSU is looking at the worst case scenario and will start the year with a $200 million less budget assumption on the front end.

Trustee Achtenberg asked about the long-term implications of shrinking enrollment and what are the irreversible effects are even if the state’s financial situation vastly improves.

Dr. Quillian responded that opening and closing the enrollment doors is very difficult. Once enrollment is reduced, it is difficult to build it back up, especially when the students that CSU fails to admit decide to go somewhere else.

Dr. Ephraim P. Smith, executive vice chancellor and chief academic officer, commented that a major portion of the student body is continuing students. If that group is too large, it is difficult to reduce, and if the financial situation improves, it will take time to increase the numbers so wait-listing students in fall 2013 offers flexibility in adding students.

Trustee Mehas inquired if the "trigger" can be pulled the following year and how the CSU benefit if the tax initiative passes in the November election and what are the consequences for the following year.

Mr. Turnage responded that the CSU would benefit from the increased tax revenues received by the state that would flow into the general fund and provide widespread relief. The measure does not earmark money for higher education but it would begin to restore funding. The long-term plan that the governor proposed anticipates incremental recoveries in the general fund for CSU.

Trustee Achtenberg commented that reducing enrollment dismisses the aspirations and accomplishments of thousands of young people and their families.

Trustee Glazer recognized that this is an environment of great uncertainty. He asked how we examine the broad range of choices, even if all the choices are bad.

Chancellor Reed responded that the CSU did not count on losing $100 million in December permanently. While it's still early, we need to come up with other alternatives and share that with the board in May, which is within the timeframe needed to make decisions.

Trustee Hauck commented that it is clear from the board that they would like to see every conceivable proposal to reduce the impact of this financial situation on students and their continuing in the CSU system.

Chancellor Reed mentioned that there are some choices, which would require the board's approval, for example a change in the financial aid program.

Trustee Hauck commented that the options that will likely be presented will be short-term, for the most part, in hopes of getting CSU to a better place.

Dr. Quillian stated that providing every conceivable option is quite a challenge. Working groups have been established to develop revenue enhancers and cost reduction efforts. A comprehensive analysis will be prepared for the board to review.

Trustee Monville requested more data be presented on efficiencies and that lower enrollment or higher tuition be factored into the discussions.

Trustee Hauck commented that raising tuition can remain an option but doubts that the board will raise tuition in the near future.

With no further questions, Trustee Hauck proceeded to the next item on the agenda.

Report on Governor's 2012-2013 Cal-Grant Budget Proposals

Mr. Turnage stated that the proposals on modifying Cal-Grants are proceeding to the legislative budget hearings. The proposal with the most impact on students is the one raising GPA requirements. In the first year, it is estimated to affect 8,000 students bound for the CSU and the number of affected students increases with each incoming cohort of students. The CSU's concerns were communicated to the legislature. The assembly budget committee met and rejected all Cal-Grant cuts and the senate has not taken any action yet.

Karen Y. Zamarripa, assistant vice chancellor for advocacy and institutional relations, stated that a joint CSSA/CSU Advocacy Plan is being developed. Both she and Miles Nevin, executive director of CSSA, presented to the student board in February an outline of coordinating efforts in Sacramento and at the campus, pushing back on the "trigger" cut and opposing the Cal-Grant changes. CSSA leaders and campus student leaders worked on legislative issues and plotted a strategy campus by campus on how to communicate with local legislators. She is also working with private universities and colleges on a joint strategy in opposing the Cal-Grant cuts and working together. On May 1, 2012, they expect more than 300 people from CSU and others to visit with legislators.

With no further questions, Trustee Hauck proceeded to the next item on the agenda.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project

George Ashkar, assistant vice chancellor for financial services, requested board approval to authorize the issuance of systemwide revenue bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the CSU. The total project cost is $41,311,000 with program reserve contributions of $500,000 and an $8 million internal loan from the Affordable Student Housing Revolving Fund (ASHRF) program. The campus financial plan projects program net revenue debt service coverage of 1.10 in the first full year of operations in 2015-16, which meets the CSU benchmark of 1.10. The campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.36, which exceeds the CSU benchmark of 1.35.

The Bakersfield Student Housing project that is currently being presented is a variation of the prior approved 2008 amendment of the non-state capital outlay program, which is being scaled down from 648 beds to 512 beds. It has been value engineered to be more affordable and to replace the existing student housing facilities that is nearly 40 years old.

With no questions, Trustee Hauck called for a motion on the resolution, which was approved.

Proposed Title 5 Revision: Dissolution of Auxiliary Organizations

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, stated this amendment will give the chancellor authority to approve the distribution of assets when there is dissolution of an auxiliary organization. The chancellor would have the responsibility to monitor the net assets and their distribution to the successor once approved by the campus president. The chancellor will provide reports to the board detailing how these assets are distributed to a successor organization.

The trustees have delegated authority to the chancellor to approve the establishment of auxiliary organizations, to administer procedures for probation, suspension or removal of good standing status, and to review their operations. This proposal seeks to add this one outstanding aspect of auxiliary operations to the delegations already provided to the chancellor. Action on this item will come before the board in May.

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the Support Budget, 2012-2013 and 2013-2014 Fiscal Years

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

State Budget Overview

The 2012-13 governor's budget identified a $10.3 billion state budget problem (including the need to provide a $1.1 billion reserve). On or before May 14, the governor will revise this estimate and his budget proposal as part of the May Revision to the budget. The key to his budget, however, is a revised initiative for the November ballot that combines elements of his earlier tax proposal with elements of a prior initiative proposal by the California Federation of Teachers and other groups. This revised initiative would increase income tax rates on higher income taxpayers for seven years, starting with the 2012 tax year, and would increase the state sales tax rate by 0.25 percent. The increased sales tax rate would be in effect for four years, from January 1, 2013 through the end of calendar 2016.

In a joint analysis of the measure, the Legislative Analyst's Office (LAO) and the Department of Finance (DOF) estimate new revenue ranging from $6.8 billion to $9 billion for 2012-13, and from $5.4 billion to $7.6 billion annually, on average, in several subsequent fiscal years, if passed by the voters. The measure allocates the revenue to public schools and community colleges. However, because the added revenues would count toward the state's Proposition 98 funding guarantee for K-14 education, it would "free up" to some extent state General Fund monies. This effect, combined with spending reductions proposed by the governor's budget, would help balance the state General Fund budget.

CSU Support Budget

In mid-December 2011, the Director of the DOF, pursuant to authority in the 2011-12 budget act, approved a "trigger cut" of $100 million to the CSU's 2011-12 support budget. This brought the total reduction in state support to the CSU for the fiscal year to $750 million, or 27.5 percent. At its peak in the 2007-08 fiscal year, the state provided almost $3.0 billion of support to the CSU. The $100 million trigger cut brings state support for the current fiscal year to $2.0 billion.

Assuming the voters pass the initiative, the budget would maintain the current sharply reduced level of state support for the CSU, but would avoid further direct cuts. However, the budget proposes a new mid-year “trigger cut” of $200 million to the CSU if the tax initiative fails. If the full “trigger” reduction takes place, the two-year loss of state support would be $950 million, or almost 35 percent, and total state support to the CSU would be at its lowest point since 1996, despite inflation and despite the fact that the CSU is serving about 95,000 more students.

Given the reductions that have already taken place, the timing of a trigger cut in the middle of the academic year, and the long lead times needed to reduce spending further, the system and its campuses have begun planning on the assumption that the trigger reductions take place. The chancellor has been holding ongoing discussions with the campus presidents about the difficult choices involved.

Long-term Budget Plan for Higher Education

In its higher education chapter, the *Governor’s Budget Summary* outlines a long-term plan for all higher education that would provide “stable and increasing state funding” beginning in the 2013-14 fiscal year, provided the voters pass the tax initiative. The budget summary identifies significant plan components as follows:

- Affordability—the plan would “curtail” tuition and fee increases.
- Student Success—the plan would make annual General Fund augmentations contingent upon each university system achieving the administration’s priorities, including improvements in accountability metrics such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.
- State Funding—Under the proposed plan the state would increase its General Fund support to each university system’s prior-year *General Fund* base by a minimum of 4 percent per year, starting in 2013-14 and continuing through 2015-16. Including some proposed adjustments to what constitutes the “base” that would be grown each year, a 4 percent increase would translate into an estimated General Fund increase of $88 million in 2013-14 for the CSU.
- Fiscal Incentives—the state currently budgets separately for, and annually adjusts, retirement program contributions and debt service on state bonds for higher education capital outlay. The 2012-13 budget proposes to shift these appropriations into the CSU and UC budgets. According to the budget summary, this would incentivize the universities to factor these costs into their overall fiscal outlook and decision-making processes.

In its February 8 analysis of the governor’s higher education proposals, the LAO recommended that the legislature, in effect, approach higher education budgets one year at a time. The LAO recommended against the proposed 4 percent annual increases of the long-term plan as a form of “automatic augmentations.” The LAO also recommended that the legislature reject (a) the incorporation of state debt service into university budgets and (b) the proposed change in the treatment of CalPERS payments in CSU's budget.

The governor's administration has been engaged in separate, confidential, discussions with each higher education system, seeking agreements with each system for its "part" of the long-term plan. The issues under discussion are significant. At the time this analysis was prepared, however, it was unclear whether a modified plan would be presented to the legislature as part of the May Revision.

Spring Budget Hearings

The education budget subcommittees in each house have held some hearings to date and, for the most part, have withheld making decisions pending review of the May Revision. The Assembly budget subcommittee, however, has taken some actions of particular significance for the CSU. In March the Assembly subcommittee voted to reject the governor's proposed reductions to Cal-grants. In April the subcommittee voted to reject certain aspects of the governor's long-term plan for higher education, including the proposal to no longer adjust CSU appropriations for changes in employer contribution rates as they are annually revised by CalPERS.

Budget Gap Due to Prior Cuts

As we have discussed in prior board meetings, annual state support for the CSU in the current fiscal year (2011-12) is $968 million lower than the peak state support that was provided in 2007-08. This loss of support is compounded by an accumulation of mandatory cost increases that have not been funded by the state—such as employee health care benefits and the cost of operating and maintaining new facilities—totaling an estimated $135 million. Tuition fee revenue is up an estimated $593 million since 2007-08, leaving a net *negative* impact of $510 million to resources for instruction, student services and the operations of the university. Although the campuses and the Chancellor's Office have engaged in a wide range of cost-reduction actions and strategies to close this gap, a large portion of the gap in the current year is being covered by one-time resources and one-time deferrals on necessary purchases or projects.

Looking ahead to the 2012-13 fiscal year, an estimated $138 million of tuition fee revenue will be raised by the increased tuition fee rates authorized for Fall 2012. However, estimated mandatory cost increases unsupported by the state will rise an additional $26 million. Thus, the effective gap in fiscal resources relative to 2007-08—even with the most recently authorized tuition fee increase—will be approximately $400 million for the 2012-13 fiscal year. *This gap is based on the best-case scenario of the governor's tax initiative being passed by the voters in November*. Moreover, similar to the situation in 2011-12, a large portion of this gap will necessarily entail further draw-down of one-time resources and other one-time actions. This is an unsustainable long-term strategy. *This means that additional ongoing solutions must be found to close the gap even if the tax initiative passes*.

For example, to some extent, the direction given to campuses in March to further restrict enrollments is needed to address the current resources gap. Last year, the university identified a 2.4 percent reduction in its enrollment target—from 339,873 California resident full-time equivalent students (FTES) to 331,716 FTES as part of its strategy for addressing the reduction proposed by Governor Brown's budget proposal of January 2011. This enrollment reduction proposal was part of a required report to the legislature and governor and was approved by the legislature and governor in the final enacted budget package for 2011-12. Despite impaction in place at 16 campuses, our latest count indicates that the university will conclude the current fiscal year having served approximately 341,250 resident FTES, or 2.9 percent above the budgeted target. This is not truly surprising, given the upward momentum on enrollments caused by the large number of admissions made in the prior fiscal year in response to the budget restoration—and legislative and gubernatorial direction—contained in the 2010-11 budget act. However, it points out that this part of the strategy for addressing the current resources gap has yet to be implemented. This "over-target" enrollment has been served in 2011-12 with one-time resources, something that cannot be sustained.

In addition, there are various "synergies," administrative and instructional efficiencies, and other cost-reduction strategies—at the system level and at individual campuses—that are either in process of implementation or are under consideration that are needed to close the current resources gap on an ongoing basis. A more specific discussion of these efforts is intended under Finance Committee agenda item 2.

COMMITTEE ON FINANCE

Revenue Enhancement and Cost Reduction Strategies

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Ephraim P. Smith
Executive Vice Chancellor and
Chief Academic Officer

Background

At the March meeting of the Board of Trustees, the possibility of a $200 million budget reduction in Fiscal Year 2012-13 was discussed. In addition, the steps that would be necessary to accommodate such a cut were outlined; assuming no additional revenues and the elimination of the structural deficits in the budgets over the next two fiscal years. After hearing the impact of a $200 million reduction, the board asked staff to present at the May meeting a set of alternative strategies for the board to consider. This agenda item will address various options.

The options, however, are not recommendations. Instead they are a preliminary review of alternatives being proffered for trustee feedback and thoughts. Some options may, upon review, be seen as impractical for a variety of reasons. Others may be feasible, yet still raise legitimate concerns. Nevertheless, the intent is to provide a wide range of ideas that could mitigate the university's budget shortfalls.

Input has been received from presidents, provosts, administrative vice presidents, faculty and staff. A few weeks ago the Northridge campus held a symposium on the issue of funding the CSU. The symposium discussions provided a general framework that can be useful in determining appropriate strategies. That framework can be summarized as follows.

- First, it is important to understand the CSU's "core business" and make sure that it is maintained with as much quality as possible;
- Second, because we can no longer afford to do everything for everybody, we need to eliminate those activities and functions that are no longer useful or in demand; and
- Third, we need to invest resources in projects and programs that anticipate the future needs of the state and our students.

In that context, various options are presented below as questions to stimulate conversation. Additional details, pros and cons related to each will be presented at the board meeting.

Cost Reduction Strategies

- To what extent should the CSU reduce the number of administrative activities that are performed at each campus?

  There is considerable duplication of effort across the CSU campuses. The duplication is costly. Essentially the question refers to the concept of "shared services." A common definition of shared services is the provision of a service in one part of an organization instead of providing that service in more than one part of the organization. The move to shared services centers is taking hold in higher education, bringing the promise of fewer managers, less utilization of space, overall efficiencies, and economies of scale. However, there are also examples of failed efforts or efforts failing to yield significant savings.

  The CSU is exploring the concept. Led by Presidents Armiñana and Morishita, a task force is currently looking into the cost effectiveness of establishing a shared services center to provide the services of purchasing and accounts payable. The analyses are expected to be completed by the end of the calendar year. Some of the preliminary findings suggest savings in the millions just by leveraging the size of the CSU and changing purchasing practices.

- Should the CSU close one or more campuses?

  The closure of a campus could significantly reduce expenditures and the strain on the system budget, assuming the state allocation remained unchanged. The amount of the reduction would depend on the campus chosen for closure. Strictly looking at the state support going to CSU campuses, the amount to be reallocated would range from $44.1 million to $133.9 million. To date, however, there has been no serious consideration given to the closure of a campus. The closure of a campus would leave the region it serves without ready access to an affordable quality higher education. Thousands of employees and students would be displaced. Moreover, there are numerous complicated issues to be addressed, such as: coverage of existing debt service; disposition of buildings, grounds and other assets; ongoing and ongoing contractual obligations.

- Should the CSU consider moving one or more campuses to be independent of state funding?

This question raises the issue of chartering one or more campuses. The idea would be to zero out state support for a campus and set the tuition high enough at the campus to cover the costs of operations. Moving in such a direction would require selecting a campus: a) with a distinctive mission that reaches beyond a given region; and b) with a student population with a modest need for financial aid. The "charter school" concept could eliminate many of the current restrictions on campus operations that add cost to managing a campus. If the state allocation were not reduced, the result would be more resources to a smaller number of campuses.

A charter campus would necessarily serve a student population with a higher income base, and the resources going to the campus would likely be much more than to other campuses. Moreover, the charter campus would need to generate sufficient revenue from philanthropic support, investments, non-resident tuition and high tuition and fees. The charter campus would increase the inequity among the campuses and tend to favor the "haves" over the "have nots."

- Should the CSU move some academic programs to be fully supported through tuition fees?

  This idea is a variation of the chartered campus idea. Specific programs would be targeted for higher tuition fees to cover the cost of the program delivery. Most likely the targeted programs would be in the STEM areas, and there could be a substantial reallocation of resources. For example, if all of the engineering programs were allowed to charge tuition fees high enough to cover their operating costs, over $70 million could be reallocated throughout the system.

  However, individuals trained in the STEM disciplines are vital to the state's economic recovery. Although the STEM programs are often expensive to offer, caution must be given to charging more for those programs and possibly discouraging individuals from pursuing the degrees for financial reasons.

- Should the CSU discontinue certain academic programs?

  There are currently a number of programs throughout the system that have very low enrollment and/or very high cost. In addition, like or similar programs are sometimes offered by campuses in the same region of the state. Phasing out these programs or combining programs across campuses would free up resources for higher demand or more cost-effective programs in the years ahead. Such an approach, if properly implemented, would continue to provide needed programs in a given region but reduce the costs associated with providing the same program on multiple campuses.

To date, only a few steps have been taken in the direction of program eliminations. This will require extensive review of the programs and consultation with the faculty. Consideration could be given to the establishment of task forces to examine the costs and demand of program offerings and make recommendations for program consolidations across campuses and program eliminations.

- Should the CSU identify specializations in academic programs at identified campuses and eliminate duplication at nearby institutions?

  This idea suggests moving the academic programs of more of the CSU campuses toward greater specificity and focus. For example, there could be campuses that primarily offer specializations in business and economics, while other campuses might focus on teacher education and social work, while others might focus on the arts and humanities. Every campus would not try to be everything to everybody. Rather, the underlying assumption is that resources specifically targeted within a campus would lead to higher quality offerings in a fewer number of disciplines. This idea would require extensive analysis to identify the cost benefits.

  This approach would dramatically change the character of the CSU and its original mission to service the various regions of the state. If the CSU were specialized at the campus level but comprehensive as a system, many students who are “place-bound” (unable to travel significant distances to pursue their studies) would be unable to get to their major of choice.

  Such a shift would be costly and disruptive to employees and students alike and inconsistent with the CSU mission.

- Should the CSU seek to increase the student-faculty ratio (SFR) by increasing the average number of students in a class?

  The response to the question should be based on the anticipated impact on teaching demands and learning outcomes. Obviously costs can be reduced if fewer faculty members are teaching more students, but the effect on learning outcomes and the workload of the faculty must be carefully considered. There is research to show that learning can be increased in smaller classes and that smaller classes can help to close the achievement gap between minority and majority students. Very high student-faculty ratios can lessen opportunities for one-on-one interactions between faculty and students. Nevertheless, the current fiscal constraints and the possibility of additional cuts require balancing the affordable size of the faculty with the learning outcomes required by the students.

The student-faculty ratio of a university is considered an indicator of quality, and colleges and universities seek to maintain lower ratios. In fiscal year 2007-08, the CSU student-faculty ratio was 20.64:1. By 2010-11 the ratio had climbed to 22.4:1. Such levels could be considered higher than desirable.

- Should the CSU have tenured and tenure-track faculty members teach additional classes?

  The implication is that greater use of tenured and tenure-track faculty members in the classrooms would reduce the need for hiring non-tenured faculty members. If, for example, tenured and tenure-track faculty members taught one more course a year, the result would be approximately 10,000 more classes taught. Assuming that the number of part-time lecturers would be reduced, the savings could exceed $60 million.

  Compliance with the negotiated labor agreement would be required and a careful case-by-case analysis would be needed to ensure that grant and research obligations are met, and that workloads are not excessive or unreasonable. Moreover, there could be an impact on advising, mentoring and the amount of time faculty members could devote to other academic initiatives, including meeting the standards for rank and tenure.

- Should the CSU eliminate or reduce sabbaticals for faculty?

  Sabbaticals are intended to be a part of faculty development. The effectiveness of teaching should be enhanced if sabbaticals are taken appropriately. However, the fiscal constraints being faced currently by the CSU require more careful attention to the granting of sabbaticals. Sabbaticals cannot be considered an entitlement to time off with pay. Approximately $12.5 million is spent on an annual basis for replacement faculty. In a manner consistent with the requirements of the collective bargaining agreements, sabbaticals should be approved only after full attention has been given to campus program needs and campus budget implications. In the context of the budget reductions, such attention should reduce the number of sabbaticals being approved.

- Should the CSU increase employee contributions toward health benefit plans?

  Annual spending by the CSU on health benefits has climbed by $59.5 million since 2007-08 to an estimated total of $355 million in 2011-12, despite the fact that there are about 3,000 fewer CSU employees. Although the formula is a generous benefit to CSU employees, the costs are prohibitive in the context of the cuts to the CSU budget. Like increases going forward will erode the CSU's ability to conduct the core of its mission.

Increasing the employee contributions would reduce the CSU obligation, but the collective bargaining agreements adopt Government Code Section 22871 as the negotiated employee benefits contribution. Any change from the legislated formula would require negotiation, and the CSU could not impose an employee contribution rate greater than that specified in the code without the agreement of the unions or without a change in the Government Code.

- Should the CSU reduce employee compensation for all employee categories?

  Each one percent of decrease in employee compensation would reduce expenditures by approximately $28 million. The last time all employee groups received a compensation increase was in 2007-08, and the pool was 5.7 percent. The faculty received an additional two percent increase in the following year. In 2009-10 almost all employee groups had a 10 percent reduction in pay due to 2-day per month furloughs. CSU employee salaries have fallen behind even the Consumer Price Index by 11 percent in the intervening years. Any reduction in pay would have a significant impact on employee morale and productivity.

- Should the CSU reduce enrollment, and if so, to what degree?

  In college year 2007-08, the level of CSU FTES was at 342,893 resident FTES. For the next two years through 2009-10, despite reduced resources from the state, CSU continued to protect FTES instruction by taking one-time cuts in other areas. The CSU no longer has been able to provide instructional opportunities and to offer admission to all qualified applicants. The FTES target for college year 2011-12 is 331,716, about a three-percent reduction from the CSU's all-time high in 2007-08. For college year 2012-13, CSU campuses were told to continue to manage enrollments at the 331,716 FTES level, recognizing that deep structural deficits will hit hard in 2013-14. Given the now deep structural deficits that CSU campuses face, for planning purposes, campuses were provided with draft FTES targets that sum to 321,806 FTES, another three-percent reduction.

  The doors to CSU campuses welcomed almost 95,000 new undergraduates in fall 2011, but were closed to almost 22,000 qualified applicants. Increasing reductions in FTES instruction can be modeled to address prospective budget shortfalls, with this the doors to the CSU will close to increasing numbers of high school seniors who have prepared for college and California Community College students who have prepared to transfer.

A three percent reduction in enrollment would result in a related reduction in workforce of approximately 1,500 faculty, staff and administrator positions and generate about $60 million.

Review of the CSU Fee Structures for Revenue Enhancement

The fee structure that is in place today was approved by the Trustees in 1985 when the CSU received needs-based enrollment funding from the state that recognized enrollment demand served by the university. In 1993, the state abandoned needs-based enrollment funding driven by student demand and began providing funding for enrollment growth based on the annual availability of revenue to support specified levels of instruction. The university has never modified its fee rate structure in recognition of this change in state funding. Some of the ensuing ideas reflect addressing certain types of student fees:

- Should the CSU add a third tier to the current two-tier tuition fee structure for students taking more than 16 units?

  The state provides funding on the basis of 15 units of instruction per term for each student. In a highly constrained resource environment, students taking more than 16 units per term could result in other students not being able to access a full load of classes. Charging a “third tier” supplement could fund the additional course sections needed for all students to have fair access to a full course load. Depending on how many students would continue to take more than 16 units if this third tier were implemented, projections estimate a significant amount of revenue could be generated.

- Should the CSU add a commencement incentive fee for “super seniors”?

  The current fee structure does not recognize student instruction that exceeds the cumulative unit requirements for a degree. On average, roughly eight percent of CSU baccalaureate degree recipients achieve degrees with cumulative units earned that exceed the required threshold by at least 18 units, or the equivalent of over one semester of instruction. Progress to degree has been delayed by one term, and additional access to the university has also been denied to new students because state-funded targets are filled by these students. Depending on how many students would continue to exceed the unit requirement for a degree this fee is estimated to generate a significant amount of revenue.

- Should the CSU implement a “course repetition” fee?

Such a fee would be intended to discourage students from unnecessarily or frequently repeating classes in which they did not perform well and free up space in the classroom for other students. The fee should be set at a level that ensures students pay the full cost to provide the course.

- Should the CSU modify the tuition fee structure for masters-level programs?

  Current Trustee policy calls for differential tuition fee rates for these more costly programs. The original objective was to phase in an increase to bring the graduate rate to 150 percent of the undergraduate rate. This objective has never been fully achieved. For example, the regular graduate tuition fee rate is currently 123 percent of the undergraduate rate

- Should the CSU increase the tuition rate for nonresident students?

  In addition to the basic tuition fee, out-of-state students currently pay nonresident tuition of $372 per semester unit and $248 per quarter unit. This rate is set at a level intended to cover the full cost of education and was last adjusted in 2008-09.

- Should the CSU implement a variable tuition fee structure that recognizes higher demand at some campuses?

  Based on the concept of “market demand” the university could establish different fee rates based upon this economic market philosophy approach. The additional revenue that is generated from one campus charging a higher tuition rate would be shared across the system so that inequities are not stimulated.

Additional Strategies

Consideration is being given to a wide range of additional ideas. In many cases, work has already begun. For example, a task force led by Presidents Rosser and Armstrong is planning the conversion of the campuses on quarter sessions to semesters. The plan is a phased approach over a three-year period to reduce the upfront fiscal impact. Over time the conversion will provide numerous benefits to students and reduce the overall costs of operations.

Steps are also underway to facilitate the usage of the resources in the Continuing Education Revenue Fund (CERF). President Haynes, who is Chair of the Commission on the Extended University, is providing information on the various CERF accounts, the restrictions on fund usage and obligations like debt and capital improvements.

Working closely with the University of California, the CSU is looking into independent energy choices and the expanded use of renewal energy. If the efforts are successful, substantial savings are anticipated into the foreseeable future.

The State University Grant (SUG) program has been in place since 1992, and essentially works as a fee waiver program for those students who qualify. The Chancellor has directed staff to conduct a comprehensive review of CSU's financial aid policies and practices. The intent is to develop improvements that can take more complete advantage of federal financial aid, direct aid to more undergraduate students, and protect student access to high quality academic programs, courses and support services.

Plans are also underway to take advantage of new technologies in computing that will enable the CSU to dramatically reduce the number of data centers it operates and move toward cloud computing. The initiative, known as the Cyberinfrastructure Strategy, will greatly reduce operational and infrastructure costs, and free up space that can be converted for academic uses.

A major online initiative is being launched. Cal State Online is in the early stages of its development. President Welty chairs the Cal State Online Board, which is made up of faculty and staff. The initiative promises to mitigate the impact of the budget cuts by providing new avenues of access to students and reducing the demands on space utilization.

Summary

Absorbing a $200 million budget reduction in fiscal year 2012-13, on top of the previous $750 million, will present a major challenge. The situation is compounded by the budget gap and structural deficits that have been created by the prior cuts in state support, which total $968 million since 2007-08 a reduction of 38 percent of the university's state funding. Difficult decisions will have to be made, and there will undoubtedly be trade-offs between a number of interrelated factors, such as enrollment, tuition fees, the size of the workforce, administrative structures, and program offerings. And given that approximately 85 percent of the CSU operating budget is tied to personnel costs, it will not be possible to avoid a reduction in the workforce and a reduction in the size of the student body, even if the strategies set forth above are employed.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

This item requests the board to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of $11,285,000 to provide financing for an auxiliary project. The board is being asked to approve resolutions related to the project. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue Bonds.

The project is as follows:

1. San Diego Aztec Shops, Ltd. – University Towers Renovation

In November 2011, the board approved the amendment of the 2011-2012 non-state funded capital outlay program to include the renovation of University Towers, a nine-story, 560-bed residence hall, located at the corner of Montezuma Road and 55th Street on the southern border of San Diego State University (the "Project"). The Project is owned by Aztec Shops, Ltd. (the "Corporation"), a recognized San Diego State University auxiliary organization in good standing, and includes renovation to the food service facility as well as upgrades to residence hall restrooms, entryways, and lobby, and selected exterior upgrades and landscape improvements. On November 23, 2011, the Chancellor's Office Capital Planning and Design Construction, under Trustee-delegated authority, administratively approved schematic design plan for the Project, and on March 2, 2012, the Corporation's board of directors adopted a resolution authorizing the renovation and financing of the Project.

The not-to-exceed par value of the proposed bonds is $11,285,000 and is based on an estimated total project cost of $10,134,000. Additional net financing costs (estimated at $1,151,000) are to be funded from bond proceeds. Final bid results are expected to be completed sometime in late May 2012. Delivery method is construction manager at risk, with a construction start date of June 2012 and estimated completion date of May 2013.

The bonds are structured as a tax-exempt issue, and will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including food service sales generated by the Project. The bonds will be amortized over 30 years, with a level debt service schedule and a maximum annual debt service of $767,288. Based on the financial plan, debt service coverage is projected at 1.32 for the Project and 1.24 for the auxiliary debt program in 2014-15, the first full year of debt service repayment for the Project, compared to the CSU benchmark of 1.25. In 2015-16, the auxiliary debt program coverage is expected to be 1.43, exceeding the benchmark, with improving coverages thereafter. When combining the Project with 2010-11 information for all campus pledged revenue programs and the campus' two existing auxiliary debt programs, including the Corporation and San Diego State Foundation, the campus' overall debt service coverage is projected at 1.82 in 2014-15, which exceeds the CSU benchmark of 1.35. The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 5.63%, reflective of adjusted market conditions as of April 2012 plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting for the project described in this agenda item that authorize interim and permanent financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in a not-to-exceed amount of $11,285,000 and certain actions relating thereto.

2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in Agenda Item 3 of the Committee on Finance at the May 7-9, 2012, meeting of the CSU Board of Trustees is recommended for:

San Diego Aztec Shops, Ltd. – University Towers Renovation

COMMITTEE ON FINANCE

Proposed Title 5 Revision: Dissolution of Auxiliary Organizations

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Background

Auxiliary organizations at the California State University (CSU) are non-profit organizations which are separate legal entities that operate pursuant to written operating agreements with the CSU Board of Trustees, have separate governing boards with close campus linkages and follow all legal and policy rules established by the CSU system and the respective campus administration. Auxiliary organizations were created to perform essential functions associated with a postsecondary educational institution, which under California law were difficult, cumbersome, or legally restricted for the university and were not supported by state funding. The CSU established a network of supplemental services that complement the core academic programs at each campus and provide the full range of educational experiences expected by its students.

The campus presidents have responsibility for ensuring auxiliary organizations operate as an integral part of the overall campus program and operate in conformity with policies of the Trustees and the campus. The Trustees have delegated authority to the chancellor to approve the establishment of auxiliary organizations (completed via addition to list of auxiliary organizations in good standing); to administer procedures for probation, suspension or removal of good standing status; and to review auxiliary organization operations.

Approval of the successor to whom the net assets, other than trust funds, of an auxiliary organization shall be distributed upon dissolution of the auxiliary is the only aspect of auxiliary organization oversight that has not been delegated and therefore requires approval by the Board of Trustees. This proposal seeks to add this one outstanding ministerial aspect of auxiliary operations to the delegations already provided to the chancellor. The delegation will enhance the efficiency of distributing auxiliary resources after dissolution. However, all such actions will be reported to the board in a timely manner.

Proposed Revision

The following resolution is proposed to modify Title 5:

> **RESOLVED** by the Board of Trustees of the California State University that under Section 89030.1 of the Education Code, that Article 3, Section 42600 of Title 5 of the California Code of Regulations be amended as follows:

Title 5. Education
Division 5. Board of Trustees of the California State Universities
Chapter 1. California State University
Subchapter 6. Auxiliary Organizations
Article 3. Organization and Operation
§ 42600. Organization

(a) An auxiliary organization which is not a corporation shall adopt a constitution and file a copy thereof with the Chancellor.

(b) By ~~July~~ December 31, ~~1982~~ 2012, the articles of incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the ~~Board of Trustees~~ Chancellor.

NOTE: Authority cited: Sections 66600, 66600, 66606, 89030 and 89900, Education Code. Reference: Section 89900, Education Code.