

AGENDA

COMMITTEE ON FINANCE

Meeting: **9:45 a.m., Wednesday, January 29, 2014**
 Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Lou Monville

Consent Items

Approval of Minutes of Meeting of November 5, 2013

Discussion Items

1. Report on the 2014-2015 Support Budget, *Information*

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**

November 5, 2013

Members Present

Roberta Achtenberg, Acting Chair
Rebecca Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Bob Linscheid, Chair of the Board
Lou Monville
Timothy P. White, Chancellor

Trustee Achtenberg called the meeting to order. She announced that Item 6, Review of Management and Purchase Option Agreements for a Student Housing Project on Private Property Adjacent to California State University, San Bernardino, had been tabled.

Approval of Minutes

The minutes of September 24, 2013 were approved by consent as submitted.

Trustee Achtenberg introduced speakers for public comment.

Lillian Taiz, President of the California Faculty Association, noted that despite Proposition 30's passage, the state's contribution is still \$100 million short of that allocated in 2010. She also expressed concern surrounding the rise of online learning programs.

Juan Herrera, an undergraduate student and director of student services at CSU San Bernardino, expressed concern about enrollment capacity at his campus.

Approval of the 2014-2015 Support Budget Request

Mr. Robert Turnage, assistant vice chancellor for budget, expressed gratitude to the state for its renewed investment in and prioritization of higher education, in light of the enactment of Proposition 30. He emphasized that the budget request presented is a recommended expenditure plan, and commented that the state augmentation included therein had been somewhat reduced since its first being presented to the board in September, from \$250 million to \$237.6 million.

Mr. Turnage first commented on enrollment demand, noting that the support budget request presupposes a 5% increase in funded enrollment. Expenditures would be covered by tuition and fee revenues, and the state would be asked to provide \$79.2 million to allow for 16,800 full-time equivalent students (FTES) or roughly 20,000 individual students. He also noted that \$50 million in augmentations will be requested to support improved student success and completion rates.

Secondly, Mr. Turnage addressed capital infrastructure issues, citing a growing backlog of maintenance and repair needs across the system. He related a plan to dedicate a portion of the augmentation in funding for purposes of debt service on financing that would enable the leveraging of funds to address the most pressing maintenance and infrastructure needs.

Finally, Mr. Turnage remarked on the university's need to invest in its faculty and staff, given five years of no general salary increases. He noted that the budget includes a 3% increase in the compensation pool. In summary, the support budget request totals to \$344 million, or \$237.6 million net of enrollment growth revenue.

Trustee Glazer requested clarification of the proposed financing mechanism for infrastructure needs. He expressed concern at the prospect of incorporating incremental \$15 million increases into the system's base funding. Mr. Turnage restated the plan, acknowledging the assumption of some risk, and described a similar, ultimately successful, course of action taken by the university in the mid-90s to address deferred maintenance needs.

Student Trustee Cipriano Vargas testified to the benefits he personally has realized from programs being implemented to drive student success and completion. He also expressed support for increasing enrollment capacity. He deferred the remainder of his time to Sarah Couch, president of the California State Student Association (CSSA).

Ms. Couch expressed support for the support budget request on behalf of the CSSA, stating that the university must ask for the resources necessary to best support student success.

At Trustee Achtenberg's request, Chancellor White addressed the concerns raised by Trustee Glazer with respect to financing maintenance and repair projects. He commented that the decaying state of infrastructure across the system is of paramount importance. He affirmed that the university would not take on any debt absent a commitment from the legislature, and any decisions to increase funding would be made in the context of present economic conditions.

Dr. Benjamin Quillian, executive vice chancellor and chief financial officer, clarified that the key is to obtain the authority to use general fund monies for debt service. Chancellor White asserted that alternatives to the proposed plan had been duly explored.

Trustee Monville stated that the board must be mindful of the severity of the infrastructure issues, and not delay action.

In response to a question from Trustee Norton, Dr. Quillian confirmed that at present the university is prohibited from using general fund monies for debt service.

Diana Guerin, representing the Academic Senate of the California State University, commented that her organization had voted together with the students in support of the budget request, as presented.

Upon motion duly made and seconded, the committee approved the 2014-2015 Support Budget Request.

Trustee Glazer introduced an amendment, seconded by Trustee Monville, to replace the \$15 million included in the proposal with a direct request for \$50 million in maintenance funding from the state.

Mr. Turnage commented that the resultant “pay as you go” methodology would dramatically reduce the amount of funding available for projects and would also increase the overall request to the state by \$35 million.

The amendment was defeated by a roll call vote of the committee members.

Trustee Faigin, with respect to the issue of bottleneck courses, requested that a report be prepared for the board outlining the university’s mitigation plan, contingencies and a schedule for implementation. He further requested that a discussion on the topic of online courses be added to the agenda in the near future. He also stated that as the board has the final vote on the budget, the dissemination of printed and bound budget books prior to the board’s discussion and voting on the item may inaccurately imply the board’s endorsement and/or authorship.

Trustee Faigin then introduced an amendment to the support budget request item, a resolution, which he read aloud for the record, and which expressed gratitude to the governor and legislature for increased funding support for the university and averred that the future of California and its economy rests on the success of the CSU in achieving its mission.

The amendment was adopted by a roll call vote of the committee members.

Upon motion duly made and seconded, the committee approved the 2014-2015 Support Budget Request, as amended.

2014-2015 Lottery Revenue Budget

Mr. Turnage explained that this action item is presented as a follow up to an information item from the September agenda. He commented that the lottery revenue budget represents less than 1%, or approximately \$40 million, of the university’s overall operating budget, but nevertheless provides for many important programs.

In response to a question from Trustee Glazer, Mr. Turnage affirmed that the system's policy, consistent with the lottery statute itself, is to advise campuses not to allocate lottery monies for permanent programs owing to the volatility of the revenue.

Upon motion duly made and seconded, the committee approved the 2014-2015 Lottery Revenue Budget.

2013-2014 Student Fee Report

Trustee Achtenberg explained that this information item is brought before the board each November, pursuant to board policy. She briefly described the various means by which student fees may be posited and levied, noting that the chancellor reserves the ultimate authority to reject any fee deemed outside the interest of the university.

In response to a question from Trustee Monville, Mr. Turnage affirmed that the report captures fees levied by students themselves, either by referendum or by resolve of a campus fee advisory committee.

Trustee Eisen questioned the high degree of variability in student fees across the system. Mr. Olin explained that the disparities are tied to students' threshold of tolerance for perceived needs at their respective campuses.

Trustee Monville reported visiting the student center at Sonoma State University and commended students there for voting to assess themselves some years ago in order to fund its construction, in the interest of those who would come after them.

California State University Annual Investment Report

George Ashkar, assistant vice chancellor for financial services, reported on the 2012-13 investment report for funds managed under the CSU investment policy. Specifically, he reported that as of June 30, 2013, the asset balance of the systemwide investment fund trust (SWIFT) portfolio totaled \$2.55 billion, realizing a return of 0.406% over the 12-month period ending on that date. Moreover, he remarked that the return was greater than that achieved by its benchmark, the treasury-based index. He then provided a brief overview of the fund's composition before introducing its investment directors and officers: Michael Rogers, managing director and head of institutional fixed income at Wells Capital Management, and Jim Palmer, chief investment officer of U.S. Bank Asset Management.

Messrs. Rogers and Palmer delivered a market update to the board spanning July 1, 2013 through the present and looking into the near future, and noted that the CSU is safeguarded against risk while achieving a competitive rate of return.

In response to a question from Trustee Eisen, Mr. Ashkar commented on investments in LAIF and SAIF, describing the latter as a one-time investment opportunity from the state, and both the former and the latter as having zero balance at present.

California State University Investment Policy Clarification

Mr. Ashkar explained that due to the creation of a single investment portfolio managed by the Chancellor's Office, the CSU's investment policy needs clarification. Accordingly, he noted, "campus" had been replaced with "CSU" in multiple instances and the campus reporting requirement had been struck.

In response to a question from Trustee Eisen, Mr. Ashkar clarified that while the SAIF is not an investment option being utilized at the present time, it continues to be a legal investment vehicle and should therefore remain in the policy as a potential future option.

Upon motion duly made and seconded, the committee approved the California State University Policy Clarification.

Trustee Achtenberg adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2014-2015 Support Budget

Presentation By

Sally Roush
Interim Vice Chancellor for
Business and Finance

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Summary

The 2014-2015 Governor's Budget identifies a \$1.9 billion surplus for 2014-2015. This surplus is net of \$8.3 billion of increased state expenditures between 2013-2014 and 2014-2015 and the revenues that support that surplus and new expenditures. The governor proposes applying large portions of the surplus to aggressively retire the state's "wall of debt", establish a new rainy day fund and to increase K-14 program spending with smaller portions of that surplus for programmatic investments concentrated in health, welfare, deferred maintenance, and higher education programs.

The governor has utilized a portion of these funds to make higher education a priority of his 2014-2015 budget. The governor's budget provides a \$142.2 million state general fund increase for the California State University (CSU) operating budget support. This amount is consistent with the governor's multi-year funding plan first proposed and adopted in 2013-2014. Additionally, the governor's budget includes a plan to fold in funding for state bond debt service into the CSU support budget—including with it new statutory authority for the CSU to: (1) refinance/restructure a portion of that debt service and (2) pledge and use the CSU support budget for infrastructure and maintenance projects. The framework of the CSU debt service proposal is very similar to the framework adopted last year for the University of California (UC). New initiatives are also included that would require the CSU to prepare academic program sustainability plans and that would create a one-time award program for innovation in higher education.

State Budget Overview

The state's budget outlook has markedly changed in recent years. Only two years ago, the 2012-2013 Governor's Budget Summary estimated a \$9.2 billion budget problem and future annual budget deficits of up to \$5 billion. Under the leadership of the governor, and with the assistance of many others, including the CSU and its many stakeholders, voters approved Proposition 30 in

November 2012, which temporarily increased sales and personal income tax rates over a multi-year period. The resulting additional state revenue, together with significant and permanent expenditure reductions made by the state and an improving state economy, have reversed the fiscal fortunes of California. Today, the 2014-2015 Governor's Budget Summary reports a \$1.9 billion surplus for 2014-2015. This surplus is net of \$8.3 billion of increased state expenditures between 2013-2014 and 2014-2015 and the revenues that support that surplus and new expenditures. The governor's budget estimates future annual revenue growth of \$4.5 billion or more.

When the governor unveiled his 2014-2015 budget proposal on January 9, 2014, he aligned the available additional revenues and his fiscal policy priorities. Specifically, the largest expenditure increases would pay down the state's "wall of debt", meet Proposition 98 funding requirements for K-12 and community colleges, and establish a rainy day fund. Other notable expenditures would include the expansion of Medi-Cal benefits, a five-percent CalWORKs grant increase, a statewide deferred maintenance investment (excluding CSU and UC), and additional investments in the governor's multi-year funding plan for higher education, which for the CSU is \$142.2 million.

2014-2015 CSU Support Budget

The governor continues to make higher education a priority of his budget plan, although not at the level requested in the CSU budget plan approved by the Board of Trustees in November 2013. The governor's budget provides similar treatment to the CSU and the UC. For each system, the budget (1) provides an augmentation of \$142.2 million for support of each system; (2) presumes tuition fee rates will remain at 2011-2012 levels for 2014-2015; (3) proposes a nearly identical debt service framework for the CSU that has already been adopted for UC; and (4) requires both systems to prepare academic program sustainability plans.

Appropriation Increase

The \$142.2 million augmentation is aligned with the governor's multi-year funding plan for higher education that was first implemented in 2013-2014. This is the second year of the four-year funding commitment. Funding can be used for any CSU operational purpose and comes with the expectation that tuition fee rates will not change from 2011-2012 levels. The CSU appreciates the governor's fiscal commitment, his understanding that the CSU had to implement very difficult cuts during the challenging fiscal years, and his granting of fiscal flexibility contained within the augmentation, so that the system can continue in its recovery from prior reductions and can address its most pressing needs.

Debt Service Framework

The proposed debt service framework has many components and many potential positives for the CSU. First, the funds that support debt service payments for all outstanding general obligation (GO) bond and State Public Works Board lease revenue (LR) bond funded projects would be

folded into the CSU support budget under this framework. This “fold-in” adds approximately \$197 million for GO bond projects to the CSU support budget and provides a grand total of \$297 million for GO and LR debt service. Generally, this proposal would be cost neutral in the near term. As this debt is retired over time, this component of the framework provides the CSU the opportunity to retain the \$297 million indefinitely and to use more of those funds over time for infrastructure or other capital needs.

Second, the proposed framework would authorize the CSU to restructure the LR debt service. There is potential for the CSU to financially benefit from a restructuring if terms are appropriate and market conditions are agreeable.

Third, the proposed framework would authorize the CSU to pledge its support budget and/or expend these funds for a host of infrastructure-related purposes. Specifically, this includes the construction, repair, and maintenance of academic facilities the construction of energy conservation projects, cogeneration facilities, etc. The proposal would enable the three-year financing strategy approved by the trustees in November 2013 to commit \$15 million a year (growing to \$45 million by the third year) for deferred maintenance, repair, and facility improvement needs. To date, the CSU has been either significantly limited or prohibited from using its support budget for these purposes. This proposal provides the CSU additional financing and pay-go options for these types of projects as well as the ability for the system to consume less energy and save utility costs.

Academic Program Sustainability Plan

State law established last year requires the CSU to report on a number of student success performance measures. Some examples include the number of students enrolled by different student categories, two-year and three-year graduation rates of community college transfer students, and the number of degree completions by varying student categories. The governor’s budget proposes to build upon these performance measures by requiring the CSU to prepare a multi-year plan that would establish annual goals for the performance measures and outline how assumed revenues and expenditures would sustain the plan and achieve the goals. This proposal would require the trustees to adopt a multi-year budget plan based on yet-to-be defined assumptions prescribed by the Department of Finance. This would be a significant departure from the practice in which the trustees annually determine revenue and expenditure assumptions and adopt the CSU support budget.

Awards for Innovation in Higher Education

The governor’s budget proposes a one-time \$50 million program administered by a new seven-member selection committee. One purpose of the program is to identify public colleges and universities that have particular success in: (1) bachelor’s degree completion rates; (2) four-year graduation rates; and (3) easing transfer through the public higher education system and recognizing learning that has occurred across the public higher education system or elsewhere.

Awards would be provided to the colleges and universities that could efficiently bring successful models to scale for the benefit of the three public higher education institutions.

Proposed Cal Grant Change

One Cal Grant program proposal has an important implication for currently-enrolled CSU students. Under current law, a CSU student permanently loses Cal Grant eligibility if at any point during his or her academic career the family's income or assets exceed certain levels. The governor's budget proposes to allow that student to regain his or her Cal Grant if his or her family's income or assets once again fall below certain levels. This proposal is a significant policy and fiscal change that could positively affect hundreds of currently-enrolled CSU students in 2014-2015 by restoring previously provided state Cal Grant financial assistance. This could also help with the retention and persistence of students who, under current law, stop or drop-out strictly based on lost Cal Grant eligibility. Additionally, because most CSU students affected by the current Cal Grant policy are likely to have financial need, the recovery of Cal Grant funding would lessen pressures on university financial aid resources and/or student dependence on loan assistance.

Conclusion

The 2014-2015 Governor's Budget again makes higher education a priority, notwithstanding the call by many to reinvest more state general fund resources into programs that were significantly reduced or eliminated during the state's extremely challenging fiscal circumstances of the recent past years. This budget proposal, if approved by the legislature, would allow the CSU to invest, to some degree, in enrollment growth, student success and completion initiatives, compensation improvements, and maintenance and infrastructure needs.

Presuming that the state's positive economic prospects persist into the May revision, CSU staff commits to working with the governor and legislature through the budget process to ensure that the priorities outlined in the trustee-approved CSU support budget are met by an appropriate level of state support.