

AGENDA

COMMITTEE ON FINANCE

Meeting: 8:30 a.m., Thursday, November 13, 2014
Glenn S. Dumke Auditorium

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe C. Garcia

Consent Items

Approval of Minutes of Meeting of September 9, 2014

Discussion Items

1. Approval of the 2015-2016 Support Budget Request, *Action*
2. Approval of the 2015-2016 Lottery Revenue Budget, *Action*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California Polytechnic State University, San Luis Obispo, *Action*
4. Real Property Development Project at California State Polytechnic University, Pomona for Innovation Village Phase V, Commercial Office and Research Facility for Southern California Edison Company, *Action*
5. 2014-2015 Student Fee Report, *Information*
6. Working Group on Category II Student Success Fee, *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**

September 9, 2014

Members Present

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe Garcia
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Trustee Achtenberg called the meeting to order.

Approval of Minutes

The minutes of July 22, 2014 were approved by consent as submitted.

Public Comments

Mr. Pat Gant, CSUEU President commended everyone for working together. He also thanked Speaker Atkins for her advocacy and leadership. He recommended that the CSU ask for what it needs and continue to work together.

Mr. Robert Dewitz, a CSU Dominguez Hills student representing Students for Quality Education questioned the definition of success as it relates to the student success fees. He stated that tuition fee increases hinder graduation rates and the CSU needs to stop taxing students every year. He added that the alternative consultation was ineffective in engaging students. He would like the student success working group to consider this information.

Ms. Jennifer Ovalle, a CSU Dominguez Hills student representing Students for a Quality Education spoke against student success fees. She indicated that the cost of higher education is already high. She added that the CSU should be leading the way in access and affordability.

Planning for the 2015-2016 Support Budget, *Information Item*

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer stated that the purpose of the presentation was to provide the board with a preliminary support budget plan for the 2015-2016 fiscal year and to solicit ideas and feedback from the board that will be used to craft the final support budget plan. That final support budget plan will be an action item at the November 2014 Board meeting. He stated that there would be a gap between the Governor's budget and a necessary support budget to achieve the University's goals for the year. He stated that in keeping with the board's direction in the past, staff would present and advocate for a budget that would allow the University to fulfill its obligations to the people of the State of California. Mr. Relyea thanked Speaker Atkins for her leadership and work with AB 1476.

Ryan Storm, Interim Assistant Vice Chancellor for Budget presented an update on the 2014-2015 support budget. He stated the need to review the critical budgetary and enrollment decision points on a calendar. The decisions points that the State, board, Chancellor's Office, and campuses make are asynchronous. One complete cycle (beginning with Chancellor's Office budget planning and ending with students entering their first day of classes) spans more than a year. He presented the board with a visual that highlighted budget-related items, enrollment-related items and key board decisions points.

Trustee Glazer asked if staff could illustrate what happens from the time the board's budget request is submitted to the time the Governor's budget proposal is presented. He questioned how students can be admitted without knowing the final budget. Chancellor White responded that presidents prepare for the worst case outcome. He added that if revenues are higher than planned campuses can open for mid-year admissions at campuses. He indicated that the CSU turns away somewhere between 20,000-30,000 qualified students due to capacity issues.

Mr. Storm continued with the 2014-2015 support budget update. He stated that over the next two meetings, the board will be developing and approving the CSU support budget. The support budget's purpose is to meet the core mission of state-supported instruction, applied research, and public service. The support budget has two primary funding sources: state general fund, which is provided by the state legislature and governor, and systemwide tuition, which is provided by students and their families. At its worse, the CSU's state general fund appropriation was reduced by one-third, or approximately \$1 billion. That loss had a significant impact on campuses and it still lingers today. However, the state has been slowly reinvesting in this institution and the CSU is about half way out of that \$1 billion hole.

Mr. Storm presented slides on the two primary revenue sources of the support budget and how that mix has changed over time. Over a ten year period, the ratio of state general fund to tuition and fee revenue shifted from approximately an 80%/20% split to essentially a 50%/50% split. Additionally, the number of full time equivalent students (FTES) had been on a significant upward trend since the early 2000s, topping out in 2008-2009 and dropping during some of the recessionary years. State funding tended to align with the student trend until 2011-2012 when

FTES and state funding went in opposite directions. However, the state's disinvestment has been reversed by the administration's commitment to its multi-year funding plan for the CSU. The administration has committed to and delivered modest increases to the CSU's base budget since 2013-2014.

Beginning with 2007-2008 the University experience significant absolute funding reductions coupled with an erosion of its purchasing power. He stated the CSU has to be appreciative that State leadership is planning to take future steps to reinvest in the CSU, but there are lingering fiscal challenges that campuses are striving to overcome in order to provide the current and growing student population with quality educational opportunities. He added that when the State expects the CSU to keep tuition flat and it provides a 4% increase in State general fund, overall revenue only grows by approximately 2%. There is also \$651 million of tuition discounts known as the State University Grant. He added that the CSU does not collect any money from the most financially-needy students this is foregone revenue to the system.

He stated that student access to the CSU is important to the long-term success of California. Presently, CSU awards approximately 50% of all undergraduate degrees in the state, per year. The CSU is a significant factor in educating the future California workforce. Yet, the CSU has turned away tens of thousands of prospective fully CSU eligible undergraduate students each year because it does not have sufficient financial resources to offer the courses that these potential students would need.

Mr. Storm noted that the state appears to be in a good fiscal position to be able to fund the third year of the Governor's multi-year funding plan or perhaps go beyond that level of funding. In its June 2014 Budget Act publication, the Department of Finance forecasted several years of positive revenue receipts of between four and six percent per year. The Legislative Analyst's Office has developed and reported a similar positive fiscal outlook. If these forecasts come to fruition, it could result in billions of dollars of new one-time or ongoing funds per year that could be allocated to state programs, including the CSU.

Mr. Storm stated that staff would appreciate the board's input on a final draft of this budget plan to be considered at the board in November. Mr. Storm presented a slide with an overview of the components of the preliminary support budget plan for 2015-2016. This preliminary expenditure plan would bring annual spending for support of the CSU to nearly \$5 billion, including systemwide tuition revenues net of financial aid.

Trustee Monville asked for the staff's opinion how SB 1440 will affect the CSU. He expressed his concern about the position the CSU would be in if enrollment continues to be improperly funded, as it could put the CSU in a quandary if it is forced to admit only transfer students, placing first time freshmen as second priority. Executive Vice Chancellor Ephraim Smith responded that, for now, the CSU can handle the number of SB 1440 applications received.

However, he cautioned that in the future it could become a problem if the CSU is not increasing enrollment while the community colleges are turning out more students.

Trustee Achtenberg agreed with Trustee Monville that there could be unintended consequences that are very significant and the CSU should be ahead of that curve. Dr. Smith responded that by November his staff will have the number of SB 1440 students that enrolled in the CSU this fall. Trustee Achtenberg inquired about the possibility of projecting out some scenarios to indicate the impact on the ability to admit first time students.

Chancellor White indicated that another factor is the significant increase in community college funding. He added that there is a growing mismatch in funding. This is an issue that the legislature, executive branch and the three systems need to tackle together.

Trustee Eisen inquired about the criteria used to determine the number of ineligibles. Dr. Smith responded that they receive a listing from campuses of the denied eligible students to determine the number not accepted at any campus. He added that half of the students not accepted by the CSU attended a community college, the rest attended other four year universities, and some do not attend college at all. Trustee Fortune stated that half of the students that go to a community college may not ever make it to the CSU. She added that if the goal is graduation it is better to admit them to begin with.

Mr. Storm stated that the proposed expenditure plan to support enrollment represents a three percent increase, or approximately 10,000 FTES. This increase would allow for growth in the number of students admitted and served, as well as accommodate existing demand by current students for additional courses (allowing improved time-to-degree). The costs of accommodating additional enrollment are covered by additional systemwide tuition revenue and state general fund. For planning purposes, a one percent increase in enrollment would cost approximately \$35 million and would provide access to approximately 3,500 FTES.

Mr. Storm added that the CSU's \$1.8 billion backlog of facility maintenance and infrastructure needs is massive and growing. Even with the state having made statutory changes that provide the CSU with the autonomy to self-determine its academic-related capital program, the state did not provide sufficient funds in 2014-2015 for the CSU to capitalize the new program. Consequently, annual support budgets will not be able to retire significant portions of maintenance backlog for many years without additional resources being allocated for this purpose. He added that the board may want to consider an additional request of one-time funding for infrastructure priorities.

Mr. Storm indicated that it would be a challenge under the Governor's plan to significantly invest in students, faculty, staff, and infrastructure. He then solicited comments from the board on the critical needs of the university for the upcoming fiscal year.

Trustee Day noted there was a big discrepancy in the numbers regarding the assumption of growth. Between the years 2000-2010 the millennial age population grew roughly 16% and the projections between the years 2010-2025 was .03%. Mr. Storm indicated that budget planning was based on K-12 output. In addition, there is an overall cultural influence on students to receive a college degree even though the demographics show a slowing of the birth rate. Trustee Achtenberg stated part of the discrepancy could be the increasing percentage of high school students preparing themselves for college. Chancellor White stated that the common core is the reset of the K-12 system and have more students eligible to enter a community college, CSU or another 4-year institution.

Trustee Eisen asked for clarification in regards to the FTE number. She also inquired as to how this translates to people in terms of the percentage growth in admissions. Mr. Storm responded the 10,000 FTES is equivalent to a 12,000-13,000 head count. Dr. Smith added that the Chancellor encouraged campuses to allow their current students to enroll in more classes so that they can graduate in a timely manner. He added that the proposed three percent enrollment growth is not strictly used to admit new students. It is also used to let current students take additional classes.

Trustee Faigin agreed that there are tremendous needs and that a lot of people are not getting educated because the CSU is not receiving the funding that is needed. He inquired if there is a plan if the CSU does not receive the funding it has requested. Chancellor White responded that if the Governor's numbers prevail, then the CSU would plan according to that number. He stated that he is enormously grateful to Governor Brown for the incremental increases in the four year plan. He added that he is also grateful to Speaker Atkins for her efforts for more funding for the CSU. He added that without some alternatives, the CSU would end up not being able to fulfill the needs of California or its current students.

Trustee Glazer thanked Mr. Relyea and Mr. Storm for their work and bringing the board clarity. He stated the student success and completion initiatives are not very specific and that he is looking forward to receiving more information in November. He added that the facilities and infrastructure needs are very clear and apparent and in some cases urgent. He indicated that the proposed \$39 million is not sufficient to deal with the CSU's urgent infrastructure needs and he would like the CSU to ask for additional funds for these needs. He added that it is worth having a discussion about whether or not enrollment growth is the right choice given the urgent repairs and maintenance crisis. Trustee Glazer reminded the board that the Governor previously raised the question of whether the CSU should be growing given the important infrastructure concerns.

Trustee Eisen agreed with Trustee Glazer in regards to needing more information about the student success and completion initiatives. She inquired if there was anything in the base budget that could be used for deferred maintenance. Chancellor White responded that in the existing recurring base budget there is \$10 million that could be used for financing deferred maintenance. If that were to happen, approximately \$140 million could be used for some critical projects. He

added the possibility of asking for a one-time request for facilities. He also stated that it would be a very unwise decision to discuss 0% growth. CSU campuses have built relationships with K-12 institutions and community colleges to get more students in the pipeline. To indicate that the CSU is not growing at all is a violation of that relationship. He recommended that the board identify a small growth number. He added that direction from the board is needed.

Trustee Day agreed with the one-time request and recommended fixing the buildings that exist rather than building new ones. Chancellor White stated the Department of Finance is concerned with revenues and debt load in the future which supports asking for the one-time request of non-recurring funds to commit to meaningful projects on various CSU campuses.

Trustee Achtenberg expressed that she would not endorse a zero percent growth budget. She stated that there would be repercussions if that were proposed to the legislature. A baccalaureate degree is the key to the future. A no growth budget would be inconsistent with the CSU's philosophy of access.

Trustee Garcia stated that she would like to hear how the student success initiatives in place are being evaluated prior to making a final decision. She would like to know if the initiatives are meeting objectives and delivering a return on investment. Chancellor White cautioned that when programs are put in place they may take a few years demonstrate success. Trustee Garcia responded that she would like to see metrics showing that progress is headed in the right direction. Chancellor White stated that staff would report on a couple of large systemwide efforts. He added that he will also have a couple presidents provide a short summary on campus efforts.

Chancellor White stated that he has the support of the board to place before them a needs based budget that will exceed the administration's number. He also stated that he would add to it a one-time request for facilities.

Student Success Fees Working Group, *Information Item*

Chancellor White presented the information item. He stated that the student success fees working group was formed to provide the board with a history of campus-based mandatory fees referred to as student success fees, and to make recommendations relating to changes in the creation of or delegations associated with such fees. The working group is comprised of trustee, president and student representation and is an advisory group to the board. The group has met once over the past several weeks to define the process for a review of information related to student success fees and their implementation at twelve campuses. Recently enacted legislation places a moratorium until January 1, 2016 on new student success fees pending this review, and it requires that the board report to the state by February 1, 2015 on any revisions to CSU fee policy relative to student success fees.

Chancellor White added that the CSU currently utilizes five fee categories to define fees charged. The student success fee is a Category II fee and is governed by procedures first adopted by the Board in 1996. Specifically, the Chancellor is delegated authority over the establishment, oversight, and adjustment of Category II fees, including the student success fee. Presidents have been delegated authority for the oversight and adjustment of student success fees, but cannot establish a fee without approval of the chancellor. The board receives an annual report on the level and fee range of all Category II fees, including student success fees.

Chancellor White stated that the student success fees working group will review fee policy and accountability measures currently in place, and identify any revisions that may be required to ensure campus student success fee implementation complies with CSU fee policy and principles. Rodney Rideau, Acting Deputy Assistant Vice Chancellor for Budget, provided additional details. He indicated that staff is establishing a website where individuals can provide feedback. In addition, the working group will visit campuses to meet with those who are interested in providing feedback. He reiterated that the board delegated authority governing student success fees to the chancellor and campus presidents in 1996, and revised that policy in 2000 following CSU students' request that individual campuses follow their own guidelines governing the fee referendum process rather than a system prescribed process. In January 2011, all CSU fee policies were brought together under Executive Order 1054, which serves as the guiding document for fee compliance. This Executive Order identifies the minimum requirements for the fee referendum and alternative consultation processes developed by campuses, and affirms trustee oversight over the level and range of fees charged to students.

Mr. Rideau explained that the student success fee approval process begins when a campus president submits a signed fee request to the chancellor that provides a justification for the fee and a detailed statement of compliance with the terms, conditions, and requirements of CSU fee policy. By delegation, the chancellor is responsible for ensuring proper and effective consultation has occurred before a student success fee has been approved. Each of the student success fees established at the twelve campuses has gone through this oversight process.

Mr. Rideau stated that while there is no formal notification to the board when a student success fee is approved, the board may receive information on the fee process through a variety of communication outlets, a result of open transparency rules governing all mandatory fee actions that occur at CSU campuses. The board also receives additional information on student success fee rates during its annual review of Category II fees. The student success fees work group is still in the process of an overall review of student success fees. A preliminary review of current campus fees was conducted to guide a broader review of fee policy and procedures. The November report to the board will provide an extensive and more comprehensive report on the work group's findings. The first student success fee was established at CSU Northridge in 2008. Since then, eleven more campuses have established student success fees.

Mr. Rideau stated the work group is conducting its work with the understanding that a student success fee is a campus-based, campus-driven, campus-controlled fee designed to enhance the quality of academic programs and the experience of students on a specific campus. As such, due to local control, no student success fee is identical to any other each reflecting the priorities of the campus where it is adopted. A series of campus visits have been planned for the remainder of September and early October that are designed to inform the work group of the wide spectrum of decisions being made at the local level relative to student success fees. The visits will focus on the campus fee approval process, student elections and consultative processes, transparency and accountability, the impact of fees on academic programs, and financial assistance available to students with need. He indicated that in order to obtain broad public comments from all CSU constituencies, an online forum has been created at the <http://www.calstate.edu/studentsuccessfeeforum/> website, and a memorandum to targeted CSU constituency groups is being drafted to solicit their input on the current student success fee process and recommendations for improvement.

Reports on the work groups findings and recommendations will be made at the November and January meetings of the Board of Trustees. Before final action on any recommended policy changes relative to student success fees are made at the January meeting, consultation with the California legislature will occur to ensure areas of legislative concern have been addressed.

Trustee Stepanek applauded the creation of the student success fee working group and their work. However, he noted that there was no faculty representation within the group and requested that faculty be added.

2015-2016 Lottery Revenue Budget, *Information Item*

Mr. Storm presented The CSU proposed Lottery Budget for 2015-2016. He stated that it would be brought back to the board for consideration as an action item in November. He provided the board with historical context and stated that in 1984, California voters approved the California State Lottery Act of 1984. The Lottery Act allows for expenditure of lottery dollars to supplement the total amount of money allocated for public education. To date, the CSU has received funding from the state totaling \$1.03 billion, which equals approximately 4.5 percent of all lottery funds distributed for educational purposes. He stated that although the Lottery Act does not specifically define “education of pupil and students”, CSU has specified that lottery funds shall be used only for instruction or instructional-related purposes. In response to the Lottery Act, the CSU adopted further guidelines to ensure that lottery funds are used to improve instructional quality and the academic environment. Each year, the board is asked to adopt a systemwide lottery revenue budget that incorporates CSU guidelines and adheres to Lottery Act provisions.

He stated that in prior years, the vast majority of funds were spent directly on instructional or instructionally-related activities. Last fall, the board adopted the Lottery budget for the current fiscal year 2014-2015 with planned expenditures equaling anticipated receipts of \$41 million.

The lottery budget is annually equivalent to approximately one percent of the entire CSU support budget.

The 2015-2016 proposed Lottery budget for the board's consideration includes a recommendation for increased expenditures to match growing Lottery receipts, largely based on the addition of Powerball in 2012 and the resulting increase in lottery activity. Revenue growth of approximately \$3.1 million is anticipated for 2015-2016 over the 2014-2015 levels. It is important to note that the board has taken a conservative approach in making Lottery revenue assumptions because it can be a volatile funding source. As a result, the board relies on past year actual revenue receipts to determine trends. The most recent trend has been up. With the addition of Powerball in 2012, it is now evident with all of 2012 and 2013 revenues accounted for that the CSU has a new, higher Lottery revenue base to work with. As a result, staff believes it is reasonable to assume this higher revenue source for 2015-2016 purposes.

Of the new receipts, \$3 million is recommended for allocation to the Early Start Program, which provides fee waivers for the neediest CSU students in need of Math and English remediation as they prepare to enroll at our campuses. The program, now in its third year, would receive a total allocation of \$8 million, which would help the program continue to expand. The Early Start Program is considered a campus-based program.

It is recommended that the remaining \$100,000 of the anticipated revenue growth be used to increase access to the Pre-Doctoral Scholars program. Scholarship demand for the program has increased noticeably in recent years, and the addition of \$100,000 in funds will enable an additional 20 scholars to participate in the program. CSU students in the program will participate in research projects and summer internships at Doctoral-granting institutions.

He added that staff would incorporate any feedback the board may have on this item before bringing it back for the board's approval at the November meeting.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Northridge, San Diego State University, and Sonoma State University, *Action Item*

George Ashkar, Assistant Vice Chancellor and Controller stated that this item requests the California State University Board of Trustees to authorize the issuance of long-term Systemwide Revenue Bonds (SRB) financing and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the Commercial Paper Program in an aggregate amount not-to-exceed \$173,705,000 for the financing of three campus projects. The following are financing items in which revenue generated by the relevant facilities covers the cost of debt service and operating expense. These financings will not be affected by the new authorities.

The board is being asked to approve resolutions related to the financing of:

1. California State University Northridge, Extended Learning Building –

The project consists of a new office and classroom building for the Tseng College of Extended Learning, under the continuing education program, and will be located on the southwest quadrant of the campus between West University Drive and Darby Street. The facility will be approximately 68,470 gross square feet and will provide office and support space for the college's seven administrative units, in addition to classrooms and seminar space.

The total budget for the project of \$38,942,000 is intended to be funded from \$30 million in existing continuing education reserves and \$9 million from continuing education net revenue generated during the construction period.

Since all funding sources must be identified at the time of the construction contract signing, finance approval will allow the construction contract to be signed and keep project construction on schedule. In the unlikely event that the additional \$9 million in net revenue is not generated as expected during construction, financing through the SRB program will allow completion of the project and will be paid for from Extended Learning Revenues.

The not-to-exceed par value of the proposed bonds is \$9,670,000 with estimated capitalized interest and cost of issuance being \$670,000.

The continuing education program net revenue debt service coverage will be 5.4 in 2016-2017, the first full year of operations, which exceed the CSU benchmark of 1.1 for the program.

When combining the information for all campus pledged revenue programs, the overall net revenue debt service coverage for the first full year of operations is projected to be 2.43, which exceeds the CSU benchmark of 1.35. Exceeding the benchmark is desirable.

2. The San Diego State University South Campus Plaza –

The project consists of a mixed-use facility that will include 659 beds of student housing for first-year students, 35,000 gross square feet of retail space, and a 392 car parking structure. The financial responsibility will be split, appropriately so, between the campus housing program and the campus parking program.

The not-to-exceed par value of the proposed bonds is \$158,025,000 and is based on a total project budget of \$142,700,000 with a program reserve contribution of \$6,000,000 (housing program \$2M, parking program \$4M). Net financing cost, estimated to be approximately \$21M, will be funded from bond proceeds.

The project is scheduled to start construction in October 2014 with completion in August 2016. The campus projects housing and parking net revenue debt services coverage of 1.53 and 1.33. Both exceed the CSU benchmark of 1.1.

The campus overall net revenue debt service coverage for all campus pledged revenue programs is projected to be 1.58, which also exceeds the CSU benchmark of 1.35 for the campus. Again, exceeding the benchmark is desirable.

3. The Sonoma State University Joan and Sanford I. Weill Commons –

This project will consist of a build-out of the Weill Commons lawn area (including grading and drainage infrastructure, perimeter roads, pathways, loading dock road, adjacent fire lane, landscaping, electrical, and other infrastructure).

The not-to-exceed par value of the proposed bonds is \$6,010,000 and is based on a total project estimated budget of \$5,500,000. Financing and capitalized interest and cost of issuance is estimated at \$510,000. This project is scheduled to start construction in October 2014 with a completion date of May 2015. Housing program revenues will be used to service the described debt.

As with other hospitality related campus program activities, the campus housing program will be involved with overseeing the venue. Further, this housing program will provide an added source of pledged revenue for the debt service obligation. The campus housing program net revenue debt service coverage of 1.41 in 2016-2017, the first year of operations, exceeds the CSU benchmark of 1.1 for the program. The overall campus pledged revenue programs (combined net revenue debt service coverage for the first full year of operations) is projected to be 1.85, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

Staff recommends approval by the trustees authorizing issuance of long-term systemwide Revenue Bonds (SRB) financing and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the Commercial Paper Program in an aggregate amount not-to-exceed \$173,705,000 for the financing of three campus projects.

Trustee Morales inquired about the commons area at Sonoma State. Mr. Ashkar responded that it is a multi-purpose common area of lawn adjacent to their housing. Trustee Eisen inquired about the trajectory of these projects and why they are presented at different times. Mr. Ashkar responded that it has to do with the timing of the schematics, planning and financing. He added that it is a joint operation between the campus and the Chancellor's Office. Trustee Eisen asked how many projects were on this path and suggested they are presented on a grid. Mr. Ashkar responded that he currently does not have a list but would work on one.

California State University Annual Investment Report, *Information Item*

Mr. Ashkar provided the annual investment report for fiscal year 2013-2014 for funds managed under the California State University Investment Policy. As of June 30, 2014, the asset balance in the Systemwide Investment Fund Trust (SWIFT) portfolio (consisting of Cash, US Treasuries, US Government Agencies, Corporate Securities—both Long & Short Term) totaled \$2.83 billion. The SWIFT portfolio provided a return of 0.866 percent during the twelve months ended June 30, 2014. This return was greater than the benchmark for the portfolio, which is a treasury based index. SWIFT is divided equally between U.S. Bancorp Asset Management and Wells Capital Management, and includes internal resource funds, like parking, housing, Continuing Education and Extended Learning, and health services. These revenues are dedicated to very important operations of the CSU Enterprise day-to-day activities.

The State Treasurer also provides and manages other investment vehicles that may be used for CSU funds, including the Surplus Money Investment Fund (SMIF). The amount of CSU funds invested in SMIF (consisting of CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies) was approximately \$310 million throughout the year and was maintained at that level to assist in the funding of our monthly payroll. We fund our payroll monthly from the limited CSU working capital (approximately two months of payroll) which is a portion of our appropriation from the State and tuition fees.

Mr. Ashkar introduced the CSU's investment directors and officers of SWIFT, Mr. Jim Palmer, Chief Investment Officer, U.S. Bancorp Asset Management, Mr. Thomas Moore, Managing Director, U.S. Bancorp Asset Management, and Mr. Mike Rodgers, Managing Director, Head of Institutional Fixed Income, Wells Capital Management. Mr. Palmer and Mr. Rodgers provided the Board with the Investment Manager's report.

There being no further questions, Trustee Achtenberg adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Approval of the 2015-2016 Support Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Summary

At its September 2014 meeting, the California State University (CSU) Board of Trustees was presented with a preliminary plan for purposes of crafting the CSU's support budget request for the 2015-2016 Governor's Budget. This item presents for the board's review and approval a recommended support budget request for 2015-2016. Accompanying this agenda item as Attachment A, is the Proposed 2015-2016 CSU Support Budget Request, which contains additional detail for the board's consideration.

State Budget Overview

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the submittal of budget requests to the Department of Finance, it is necessary to adopt the Proposed 2015-2016 CSU Support Budget at the November meeting.

The significant tax revenues produced by Proposition 30 and the ongoing economic recovery allowed the state to begin anew to invest in public higher education, including a \$125.1 million programmatic funding increase for the CSU in the enacted 2013-2014 budget and a \$142.2 million increase in the recently enacted 2014-2015 budget, which equates to approximately a 2.5 percent increase for each of those years. While the University of California (UC) received the same level of funding increases as the CSU, K-12 local educational agencies and community college districts received a combined \$5.6 billion increase, equivalent to a ten percent increase. Also, Proposition 30 and the economic recovery allowed the state to set aside \$3 billion in reserves and to retire \$10 billion of debt in 2014-2015.

The state, however, continues to face significant expenditure obligations and risks. The state is challenged by significant debts, deferrals, and budgetary obligations in excess of \$300 billion, according to estimates by the Department of Finance. Examples of these obligations include state employee and teacher pension obligations and deferred maintenance. Also, recent wildfires and earthquakes coupled with the potential for additional, significant natural disasters have and could still require significant sums of state funds. While the national economy is steadily growing, the state economy is growing at a slower pace. Capital gains taxes make up a significant portion of the state budget revenue picture, but this revenue source is highly volatile and can swing dramatically from one year to the next.

If the state's economic recovery continues, state revenues could continue to grow by four to six percent per year through 2017-2018, according to projections by the Department of Finance. Recently, the Legislative Analyst reported that tax revenue collections for the first quarter of 2014-2015 exceeded previous estimates by several hundreds of millions of dollars. The outlook for 2015-2016 ranges from continuing constraint to significant opportunity.

The Governor's Office Multi-Year Funding Plan for CSU and UC

In January 2013, Governor Brown's budget proposal included a multi-year plan to provide funding stability to CSU and UC. This plan calls for state funding increases to the two universities totaling \$511 million each over the course of four years, culminating with the 2016-2017 fiscal year. This recognizes the fact that both universities endured state funding reductions in equal dollar amounts during the recent half decade of fiscal crisis. The cumulative increase occurs in annual increments as follows:

- \$125.1 million in 2013-2014
- \$142.2 million in 2014-2015
- \$119.5 million in 2015-2016
- \$124.2 million in 2016-2017
- Cumulative increase in annual funding = \$511 million

Although the legislature has not adopted this plan, it approved the first and second year increases of \$125.1 million and \$142.2 million, respectively.

One tenant of the governor's office multi-year funding plan is that the universities not increase tuition during this period. CSU's support budget is dependent on two revenue sources: state general fund and tuition revenue, with each making up approximately fifty percent of the support budget. As the governor's office funding plan effectively removes half of the CSU's potential revenue source from the discussion, it places significant pressure on the university to meet its budgetary needs.

The Governor's Office Funding Plan Does Not Meet CSU's Needs

The limited resources from the state for 2014-2015 did not provide the CSU the opportunity to serve thousands of CSU eligible students who have been denied access for fiscal reasons to the university. This not only limited CSU's ability to serve prospective CSU students, but it also did not help serve the state's larger, long-term need to increase its baccalaureate-holding workforce. With the shift of responsibility for capital outlay and infrastructure investment from the state to the CSU, the CSU was able to carve out enough funds to address one year's worth of accruing deferred maintenance, but was otherwise unable to begin to address the estimated \$1.8 billion backlog of deferred maintenance projects. The governor's office funding plan would provide a \$119.5 million increase in 2015-2016, which is a smaller increase than provided in 2014-2015 (\$142.2 million).

2015-2016 Recommended CSU Support Budget

In this agenda item, we share with the board a recommended support budget request for 2015-2016 for CSU. The recommendation represents a credible statement of the university's key funding needs and it reiterates the continued necessity for the state and CSU partnership in ensuring student access and success, competitive salaries and other compensation improvements, and infrastructure investment.

Recommended Expenditure Plan

The recommended support budget request for 2015-2016 is summarized below. These recommended items would require new ongoing revenues from the state of \$216.6 million (\$269 million anticipated expenditures, less \$52.4 million from additional tuition revenue). This recommended expenditure plan exceeds the minimum \$119.5 million increase specified for 2015-2016 under the governor's office funding plan. However, it is a statement of the university's true funding needs and—given the possibility that 2015-2016 state revenues could grow substantially above current levels—presents worthy opportunities for the state to invest further in students, faculty, and staff of the CSU. The executive summary of the Proposed 2015-2016 Support Budget Request (Attached), intended for ultimate distribution to the governor's office, legislators, and other policy makers in the capital, is included in the board members' materials as a supplemental document to this agenda item and also can be accessed through the following link: <http://www.calstate.edu/budget/fybudget/2015-2016/executive-summary/documents/2015-16-Support-Budget.pdf>

• Mandatory Costs (employee benefits & new space maintenance)	\$23.1 million
• 2% Compensation Pool Increase	65.5 million
• 3% Funded Enrollment Increase (10,400 FTES)	103.2 million
• Student Success and Completion Initiatives	38.0 million
• Academic Facilities Maintenance and Infrastructure Needs	25.0 million
• Information Technology Infrastructure Upgrade and Renewal	14.0 million
• <u>Center for California Studies—Cost Increases</u>	<u>0.2 million</u>
<hr/>	
Total Ongoing Expenditure Increase	\$269.0 million

This recommended expenditure plan would bring annual spending for support of the CSU to just over \$5 billion, including student tuition revenues (net of financial aid).

Mandatory Costs

Mandatory costs are costs that have already been determined by state law, CSU policy, and operational needs, such as employee benefits and maintenance of new space.

Compensation Pool

The calculated cost of \$65.5 million represents a two percent increase to the compensation pool for 2015-2016.

Funded Student Enrollment

There will continue to be strong demand for a CSU education from high school students and community college transfers. Over 20,000 students each year have been denied access for each fall admission cycle between 2010 and 2013 because the university did not have sufficient financial resources from the state to admit and educate them. Access to education and the preparation of the state's future workforce depends on the state investing in the CSU.

However, the expenditure plan departs from the past practice of requesting funded student enrollment increases of five percent or more. In recent years, the CSU's funding requests for this level of student access repeatedly was not met by the state. Instead, the CSU decreased enrollments (during the recent recession) or only increased funded enrollments by a fraction of the request. For example, the 2014-2015 expenditure plan requested five percent, but due to the state not fully funding that support budget request, CSU increased funded student enrollment by approximately 2.5 percent. Because student access goals have not aligned well recently between

the CSU and the state, this expenditure plan proposes a three percent increase in an attempt to more practically align the request with what the state is willing to invest.

The proposed expenditure plan to support enrollment demand represents a three percent increase in full-time equivalent students (FTES), or approximately 10,400 FTES. This increase would allow for growth in the number of students admitted and served, as well as accommodate existing demand by current students for additional courses (allowing improved time-to-degree). The cost of accommodating additional enrollment is \$103.2 million.

Student Success and Completion Initiatives

The recommended expenditure plan includes a \$38 million augmentation under the title of Student Success and Completion Initiatives for a variety of efforts and strategies to close achievement gaps and facilitate student success and degree completion. These funds would be used in six initiative areas:

1. *Tenure-Track Faculty Hiring.* \$11 million for campuses to hire tenure-track faculty and continue reversing the declining ratio of tenured and tenure-track faculty to lecturers, as well as to improve student/faculty ratios. These funds would augment state funds and tuition revenue related to funded student enrollment and savings from retiring faculty, to enable campuses to hire more tenured and tenure-track faculty systemwide. More faculty, added to current faculty numbers, mean more sections of high-demand courses taught and more faculty mentoring/advising of students.
2. *Enhanced Advising.* \$7 million, with \$4 million to hire more professional staff advisors systemwide, and \$3 million to leverage the work already underway with various e-advising technologies that provide clear and accurate “real time” information for students and advisors related to graduation and major requirements and the efficient scheduling of classes.
3. *Augment Bottlenecks Solution Initiative.* \$1.5 million to expand the initiative to \$11.5 million. The added funding would support more online concurrent enrollment courses.
4. *Student Preparation.* \$5 million augmentation to help incoming freshmen attain college readiness before arriving on CSU campuses.
5. *High-Impact Practices for Student Retention.* \$9 million to “scale up” a wide range of successful “high impact” practices such as service learning projects, undergraduate participation in applied research, first-year learning communities (a cohort or shared academic focus for groups of first-year students), and peer mentoring (upper division students mentoring lower division students).

6. *Data-Driven Decision Making*. \$4.5 million for the Data Dashboard, a project currently underway at the CSU to provide all 23 campuses with the type of data they need to make important decisions related to time to degree, and term-to-term retention. Growth and wide-spread adoption of the use of data, and the mechanism to report and display this data in an accessible way for faculty and staff, will dramatically improve decision-making at the campuses and the system and improve overall effectiveness and efficiency of the university's programs. CSU campuses also will use this data to give faculty and staff a basis upon which to make decisions about graduation pathways and measure the success of academic and student success programs including high impact practices.

Academic Facilities Maintenance and Infrastructure Needs

The CSU's backlog of facility maintenance and infrastructure needs is massive and growing. Even with the state statutorily changing the way it handles CSU academic-related infrastructure needs by providing the CSU with the autonomy to self-determine CSU's capital program, the state did not provide sufficient funds in 2014-2015 for the CSU to capitalize on the new program. Consequently, annual support budgets will not be able to retire significant portions of maintenance backlog for many years without additional resources being allocated for this purpose. For example, the 2014-2015 support budget set aside \$10 million per year for the university's most pressing renewal projects. The recommended expenditure plan would commit an additional \$25 million per year to use as cash for the most critical projects or to finance approximately \$325 million of the university's next, most pressing group of renewal projects.

Information Technology Infrastructure Upgrade and Renewal

The recommended expenditure plan includes a \$14 million augmentation prioritized for information technology infrastructure to meet the most urgent needs for campus network upgrade and renewal. Specifically, these proceeds will be used to replace the data network equipment at each campus on a four to five year replacement cycle.

More than 13 years ago when the CSU Common Network Initiative was instituted, members of the campus communities accessed relatively few online resources from a handful of wired campus locations such as libraries and computer labs. Today, students, faculty, and staff wirelessly access a seemingly infinite set of data and information repositories located on campus and around the globe. They communicate via digital video and access an ever expanding number of network-enabled devices to aid teaching and learning and to conduct research. The result has been a 2,000 percent increase in network traffic and no tolerance for operational disruption.

While the criticality of this infrastructure has increased, financial resources to maintain and periodically replace obsolete components have not kept pace. Today, the CSU has a growing

inventory of critical network equipment that is no longer supported by the vendor, rendering it effectively obsolete. Specifically, 86 out of 138 (62 percent) mission-critical core routers, and 2,547 out of 4,044 (63 percent) network access switches are obsolete across the CSU. In addition, 7,523 out of 12,573 (60 percent) wireless devices will also be obsolete by the next fiscal year. This has resulted in diminished network reliability, and increased risk of information security breaches because vendors are no longer providing related software security patches.

The \$14 million augmentation will be used to replace the remaining obsolete switching and routing hardware, obsolete wireless access points and controllers, and obsolete network security devices at all campuses. After the initial investment, funds will be used to refresh this equipment on a four to five year cycles (four to six campuses per year) to ensure that such obsolescence does not occur in the future.

Recommended Revenue Plan

The following plan for increased revenue would provide the resources needed to meet the expenditure plan.

- Total State General Fund Increase \$216.6 million
- Net Tuition Fee Revenue from Student Enrollment Increases 52.4 million

Total Ongoing Revenue Increase \$269.0 million

The recommended expenditure plan significantly addresses many of the CSU educational and operational needs. But if required to do so, it would be exceedingly difficult for the CSU to operate within the confines of the governor's office funding plan. Mandatory costs and compensation pool costs alone would consume approximately \$90 million of the \$119.5 million state General Fund available from the governor's office funding plan. This would leave approximately \$30 million state General Fund to address enrollment, student success, and infrastructure. This scenario would do very little to serve prospective and current student needs and CSU facility and infrastructure needs.

The CSU's current effort focuses on stating the need for \$216.6 million in state appropriations for 2015-2016.

Conclusion

This is an action item, presenting a final recommendation for the Proposed 2015-2016 Support Budget Request to the governor's administration. This recommended plan strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably

requested from the state and an amount that can be reasonably provided through tuition revenues generated by enrollment increases. Development of a 2015-2016 budget request on these lines would provide the governor and legislature with an achievable plan for investment in the CSU for the sake of California's economic and social future. The plan is capable of reprioritization if, ultimately, the university must budget within the minimum \$119.5 million funding increase specified for 2015-2016 under the governor's office funding plan. Such a reprioritization is far from ideal; there would be significant short-term and long-term consequences to the state and to current and prospective CSU students. At this stage, however, the recommended budget focuses on stating needs and being positioned for opportunity.

Recommendation

This following resolution is presented for approval.

RESOLVED, that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their increased budget support; and be it further

RESOLVED, that the Board of Trustees understands there are numerous competing interests for budgetary support given the fiscal constraints and competing policy priorities under which California continues to operate; and be it further

RESOLVED, that the future of California and its economy rests on the success of the CSU in providing life-changing benefits to hundreds of thousands of students; and be it further

RESOLVED, by the Board of Trustees of the California State University that the 2015-2016 Support Budget Request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that any changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, that copies of this resolution be transmitted to the governor, to the director of the Department of Finance, and to the legislature.

PROPOSED
**Support
Budget**

2015 - 2016

www.calstate.edu/budget



DRAFT for Board of Trustees Consideration

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Chancellor's Message

A little more than 150 years ago, the California State University and the state began a partnership—with a three thousand dollar public investment in the San Francisco Normal School supporting the enrollment of 60 students intent on becoming teachers. That partnership was strengthened when the renamed California State Normal School relocated to the site that is now San José State University—with classrooms, dormitories, and offices funded through a state property tax. This was the origin of the state's capital investment and support for student access to excellent public higher education.



I am thankful for those early pioneers and the countless leaders since who have held firm to that partnership. In these fifteen decades, the CSU has educated three million people who contribute on a daily basis to California's schools, economy, and culture. In fact, one out of every ten employees relied on to drive California's vital industries, from aerospace to biotechnology and from entertainment to hospitality, earned a degree on a CSU campus. CSU graduates have the skills, expertise, and preparation to succeed and excel in knowledge-based fields like life sciences, information technology, and the emerging "green" industries as well as the public sector fields of education, criminal justice, social work, and public administration. Of particular note the CSU produces well over 50 percent of the bachelor's degrees awarded in California in the fields of hospitality and tourism, business, and agriculture.

As in those early days, the public good of the CSU is made possible by the public funds of the State of California. It is imperative that our partnership grow stronger in thoughtful and strategic ways. Illustrating our commitment to this strategic partnership, the CSU established the Graduation Initiative during the depths of the recession. As a result of a relentless CSU focus on enabling student success, the CSU achieved a nearly 11 percentage point rise in 6-year graduation rates in the last decade, well outpacing the national trend for similar universities.

Yet, the CSU is limited in what we can do without meaningful support from our strategic partner. This budget recommendation for 2015/16 represents a significant state financial investment that emphasizes current student success and completion, increases community college and first-time freshman student access, stresses the need for academic facility and information technology infrastructure repair, replacement, and improvement, addresses compensation issues, and funds CSU mandatory costs. This request meets the high expectations that we all have for an educated and successful California populace.

A handwritten signature in black ink that reads "Timothy P. White".

Timothy P. White
Chancellor
California State University

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CSU – Providing for our Future

As the nation's largest four-year public university system, the CSU is a crucial partner in ensuring the state has an adequate educated workforce. As noted in recent budget requests, California's near-term and long-run prospects for economic recovery and prosperity depend largely on the ability of the CSU to increase the number of Californians attaining higher education degrees. According to a report published by the Public Policy Institute of California (PPIC), the CSU and public higher education are critical to California's economic future:

- Four of every five college students in California are enrolled in one of the state's three public higher education systems;
- The value of the college degree results in a 50 percent higher wage for workers over their peers who only hold a high school diploma; and
- Nearly 90 percent of parents hope their child pursues a post high school education.



Student demand is at an all-time high. CSU campuses received more than 760,000 undergraduate applications for admission to the fall 2014 term and that number is expected to continue to increase this year. In order to meet the growing demand, renewed investment from the state is critical to ensuring the CSU can continue to build upon recent efforts to improve graduation rates, close the achievement gap and contribute to the overall economic prosperity and growth of the state. Over the past year, the CSU has continued to strategically focus resources on key student success initiatives that have shown proven progress towards improving degree attainment.

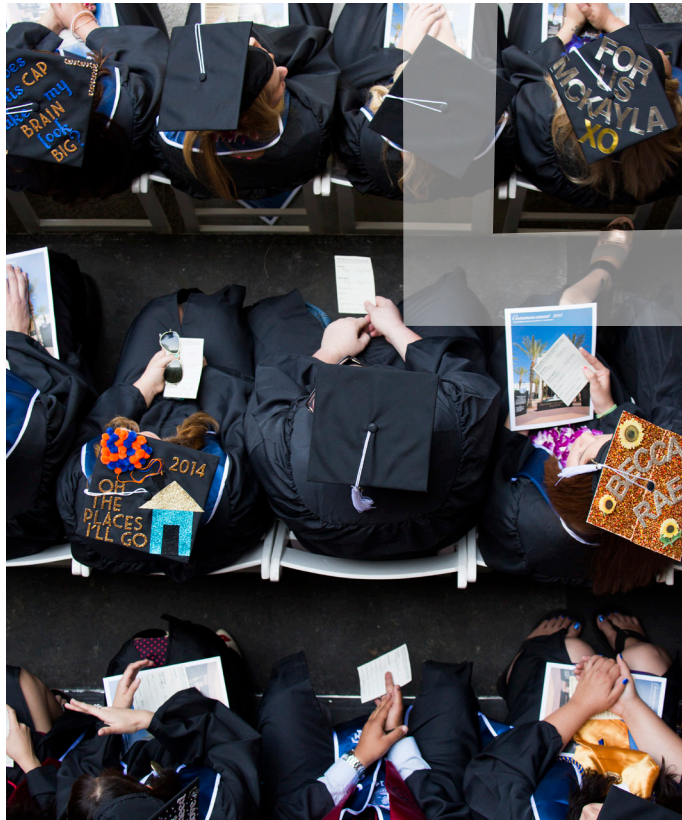
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Graduation Initiative

Launched in 2009 amidst the height of the economic downturn, the CSU Graduation Initiative has explicitly refocused CSU priorities and maintained the historical focus on access, quality, and affordability, but with the added component of successful, timely degree completion. In the project's shorthand, genuine access should not be strictly to the campus, but also to the degree. The initiative's initial phase is approaching its sixth and final year and is on track to end with the likelihood of exceeding a very ambitious target for overall rates. In his inaugural "State of the CSU" address in January 2014, Chancellor White committed the system to continuing its focus on student success and to raising graduation rates for first-time full-time freshmen and transfer students.

The chancellor set 2025 as the target date for these goals, consistent with the year identified in the 2009 PPIC report, by which time the state will fall short by one million college graduates unless there is improvement. Since the publication of that report, PPIC staff has recognized gains in the CSU's graduation rates, observing that the system is on-track to contribute its share of the additional degrees needed. However, as the chancellor pointed out in January, meeting the state's long-term needs will require continued improvement and renewed, robust investment in higher education.

The second phase of the initiative launched October 15, 2014, with re-benchmarked systemwide and individual campus target graduation rates that will carry the CSU through 2025. This signature, over-arching systemwide initiative and systemwide and campus student success funding requests are uniquely and intimately integrated with these efforts. These funding requests tend to fall into two categories: 1) strengthening campus capacity to gather, analyze, and use real-time student success data, in support of local decision-making; or 2) supporting high-impact educational practices that deepen learning, improve graduate rates, and close achievement gaps. The CSU has been successful in strategically investing limited resources that are already starting to show positive returns.



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Associate Degree for Transfer

Recently, the California Community Colleges Chancellor's Office provided the CSU with 5,082 records for students identified as graduates with an Associate Degree for Transfer from 2012/13 to 2013/14. When the CSU matched the records against systemwide applications files, 4,575 matched records were generated (90 percent of the records), indicating those graduates applied for transfer to the CSU. Ultimately, 4,337 were admitted to a CSU campus.

As of spring 2014, the CSU has identified 131 CSU graduates who entered with an Associate Degree for Transfer from a California Community College. All of these graduates matriculated in fall 2012 or after and in some cases graduated less than 2 years after transfer. As the number of Associate Degrees for Transfers continues to expand at the community college level, the program is showing promise for initial transfer students successfully completing their degrees in a timely manner.

Early Assessment and Early Start Programs

The Early Assessment Program (EAP) has been in existence for more than a decade. The program identifies students who are not yet ready for college level courses in English and mathematics by the end of their junior year of high school and provides them an opportunity to use their senior year to improve upon those skills. This early identification allows students to focus on those subjects and likely be more successful upon enrolling at the CSU.

Over the past decade, the CSU has seen a steady increase of students participating in EAP and who are designated as college ready by the end of their senior year (317,056 students participated in 2006 compared to 387,405 in 2013). In English, students who are college ready at the end of their junior year has increased from 15 percent in 2006 to 25 percent in 2014. Similarly, in mathematics, the percent of students who showed readiness at the end of their junior year was 12 percent in 2006 compared to 14 percent in 2013. During the same time, students who were conditionally ready in mathematics grew from 43 percent to 46 percent. Students who are deemed "conditionally ready" are highly encouraged to enroll in an advanced English and/or mathematics course in their senior year in order to be determined "college ready" at high school graduation.

Building on the successes of EAP and local campus approaches to address college readiness, such as Summer Bridge, the Early Start Program requires underprepared students to simply "get started" on their pathway to proficiency in the summer proceeding their freshman year of college. Students who have not otherwise demonstrated college readiness in English or mathematics must begin developmental coursework, but do not need to complete remediation nor even reduce their remedial course load. Intensive classes in English and mathematics strengthen skills and reduce the time necessary to get on the college track.

Early Start is envisioned as one additional pre-college pathway to enable underprepared students to start college as ready as possible. The number of students participating in Early Start has increased from over 16,000 in summer 2012 to more than 20,000 in summer 2014. While it will take several years to evaluate the impact of the program on retention and graduation, early indicators such as retention, persistence, and average unit load have shown promising results.

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Student Success Initiatives

The CSU Enrollment Bottleneck Solutions Initiative, launched in 2013, is designed to accelerate student progress to degree and decrease bottlenecks that negatively impact students. Bottlenecks are anything that limits students' ability to make progress toward graduation. Demand often exceeds supply because public universities are constrained by limited facilities and course requirements; faculty, staff and student schedules; resources; academic program requirements; and student readiness and their academic program choices.

Strategies and solutions to address the causes of enrollment bottlenecks include course redesign to improve student success and access; CourseMatch, which offers CSU students access to online courses delivered by campuses other than their own; Virtual Labs where faculty can offer hybrid lab courses; and eAdvising to streamline advising, registration, and academic planning for undergraduate students at all 23 campuses.

Reducing Overall Units to Degree/Time to Degree

The CSU has made significant progress through various initiatives to improve and support timely degree completion for all students. Notably, curricular reform between Spring 2009 and Fall 2014 has shrunk the percentage of baccalaureate degrees in excess of 120 required units from 29 percent to 5 percent systemwide. At the same time, the CSU strives to ensure and mitigate potential roadblocks that may delay graduation. Efforts to support student success and timely degree completion have included eAdvising and early warning and predictive analytics where students receive better and faster feedback about their performance in critical courses. Continued and renewed investments supporting student success initiatives that improve a student's time-to-degree can prove to pay positive economic dividends for both students and taxpayers, as students will require fewer state resources per degree.

2015/16 CSU Budget Plan Summary

The tables on the following pages provide background data on the CSU's state-assisted budget for the current and prior fiscal years and summarize the CSU's 2015/16 budget plan. The plan focuses on critical needs to fulfill the CSU's mission to educate Californians under the state's higher education master plan and, to this end, seeks ongoing reinvestment by the state in the CSU. The planning approach is tempered by recognition of the state's finite resources, yet represents a credible statement of the CSU's key funding needs for the upcoming fiscal year.

The 2015/16 budget plan increase of \$269.0 million would bring the CSU's annual support budget to approximately \$5.1 billion, with approximately \$2.1 billion from tuition fee and other fee revenues (net of financial aid) and a requested state appropriation of almost \$3.0 billion. As shown in the summary, we estimate that additional tuition fee revenues generated by enrollment growth will total \$52.4 million. This revenue, combined with a recommended increase of state support of \$216.6 million, would provide the needed ongoing revenues for the recommended spending increase. Specific justifications for the elements of planned spending increase are provided in the narrative pages for uses of revenue following the summary displays.

A much larger increase in resources could be justified for the CSU to fully meet the expectations placed upon it by the higher education master plan. This budget plan, however, strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition fee revenues generated by enrollment growth. Development of a 2015/16 budget request on these lines provides the governor and legislature with an achievable plan to continue investing in the CSU for the sake of California's economic and social future.



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Three-Year Budget Summary and Highlights

Table 1: Support Budget	2013/14 Actuals	2014/15 Final Budget¹	2015/16 Request
General Fund Support Appropriation	\$2,255,596,000	\$2,455,702,000	\$2,647,312,000
Net Tuition Fee and Other Fee Revenue ²	2,144,688,000	2,045,274,000	2,097,691,000
TOTAL SUPPORT BUDGET	\$4,400,284,000	\$4,500,976,000	\$4,745,003,000

Table 2: Maintenance and Infrastructure Needs	2013/14 Actuals	2014/15 Final Budget¹	2015/16 Request
General Fund Debt Service Payments on Existing Facilities ³	\$90,104,000	\$296,316,000	\$313,944,000
Budget Plan: Maintenance and Infrastructure Needs	0	10,000,000	25,000,000
TOTAL MAINTENANCE AND INFRASTRUCTURE NEEDS	\$90,104,000	\$306,316,000	\$338,944,000

Enrollment, Programs, and Operations (Support Budget)			\$191,406,000
Center for California Studies ⁴			204,000
Total General Fund Support Budget Appropriation Increase			\$191,610,000
Net Tuition Fee Revenue Adjustment⁵			\$52,417,000
Maintenance and Infrastructure Needs Appropriation Increase			\$25,000,000
TOTAL SOURCES OF REVENUE			\$269,027,000

Table 3: Sum of Tables 1 & 2	2013/14 Actuals	2014/15 Final Budget¹	2015/16 Request
Total Support Budget	\$4,400,284,000	\$4,500,976,000	\$4,745,003,000
Total Maintenance and Infrastructure Needs	90,104,000	306,316,000	338,944,000
GRAND TOTALS	\$4,490,388,000	\$4,807,292,000	\$5,083,947,000

¹ The CSU 2014/15 GF Final Budget Act Appropriation (support budget) was \$2,399,439,000, net of \$296,316,000 for maintenance and infrastructure. Additionally, the state-funded 2014/15 employer-paid retirement adjustment of \$66,263,000 is added to the GF support budget total.

² Includes tuition fee and other fee revenue reduced by total tuition fee discounts from revenue forgone (reference table 4).

³ A major change in the CSU budget appropriation beginning in 2014/15 is the fold in of state general obligation bond debt service payments (\$197.2M) into the CSU main appropriation and movement of CSU lease revenue bonds debt service from a separate appropriation to the CSU main appropriation item (\$99.1M), which the state will increase \$7.6M to \$106.7M in 2015/16.

⁴ This expenditure augmentation of \$204,000 is included at the request of the Center for California Studies, which is a state-funded program administered through the CSU.

⁵ This represents revenue to be collected from an increase in funded enrollment net of tuition fee discounts.

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Highlights—Uses of the 2015/16 CSU Budget Increases

- \$ 23.1 million for mandatory cost increases (e.g. health benefits, retirement and new space)
- \$ 65.5 million for a 2 percent compensation pool increase
- \$ 38.0 million for student success and completion initiatives
- \$103.2 million for 3 percent increase in funded enrollment
- \$ 14.0 million for information technology infrastructure upgrade and renewal
- \$ 0.2 million for Center for California Studies
- \$ 25.0 million for maintenance and infrastructure needs

Three-Year Summary of Tuition Fee Discounts and Tuition Fee Waivers/Revenue Forgone

Table 4	2013/14 Actuals	2014/15 Final Budget	2015/16 Request
Tuition Fee Discounts (Forgone from Tuition Fees) ¹	\$619,464,000	\$644,191,000	\$644,191,000
Tuition Fee Discount Adjustment from Increase in Funded Enrollment	0	0	13,175,000
Tuition Fee Waivers ²	65,735,000	65,735,000	65,735,000
TOTAL TUITION FEE DISCOUNTS AND WAIVERS/ REVENUE FORGONE	\$685,199,000	\$709,926,000	\$723,101,000

¹ Tuition Fee Discounts cover tuition fees for eligible students with financial need. Amounts awarded reflect forgone tuition fee revenue for the CSU.

² Includes the campus tuition fee waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08). Amounts awarded reflect forgone tuition fee revenue for the CSU.

Three-Year Budget Summary by Program

Table 5	2013/14 Actuals	2014/15 Final Budget	2015/16 Request
Instruction	\$2,091,171,000	\$2,178,351,000	\$2,178,351,000
Research	11,103,000	8,586,000	8,586,000
Public Service	11,167,000	10,012,000	10,012,000
Academic Support	535,618,000	550,540,000	550,540,000
Student Services	530,168,000	535,500,000	535,500,000
Institutional Support	643,076,000	671,508,000	671,508,000
Operation and Maintenance of Plant ¹	635,379,000	820,847,000	828,475,000
Student Grants and Scholarships (without Tuition Fee Discounts) ²	32,706,000	31,948,000	31,948,000
Provisions for Allocation	0	0	269,027,000
GROSS EXPENDITURES	\$4,490,388,000	\$4,807,292,000	\$5,083,947,000

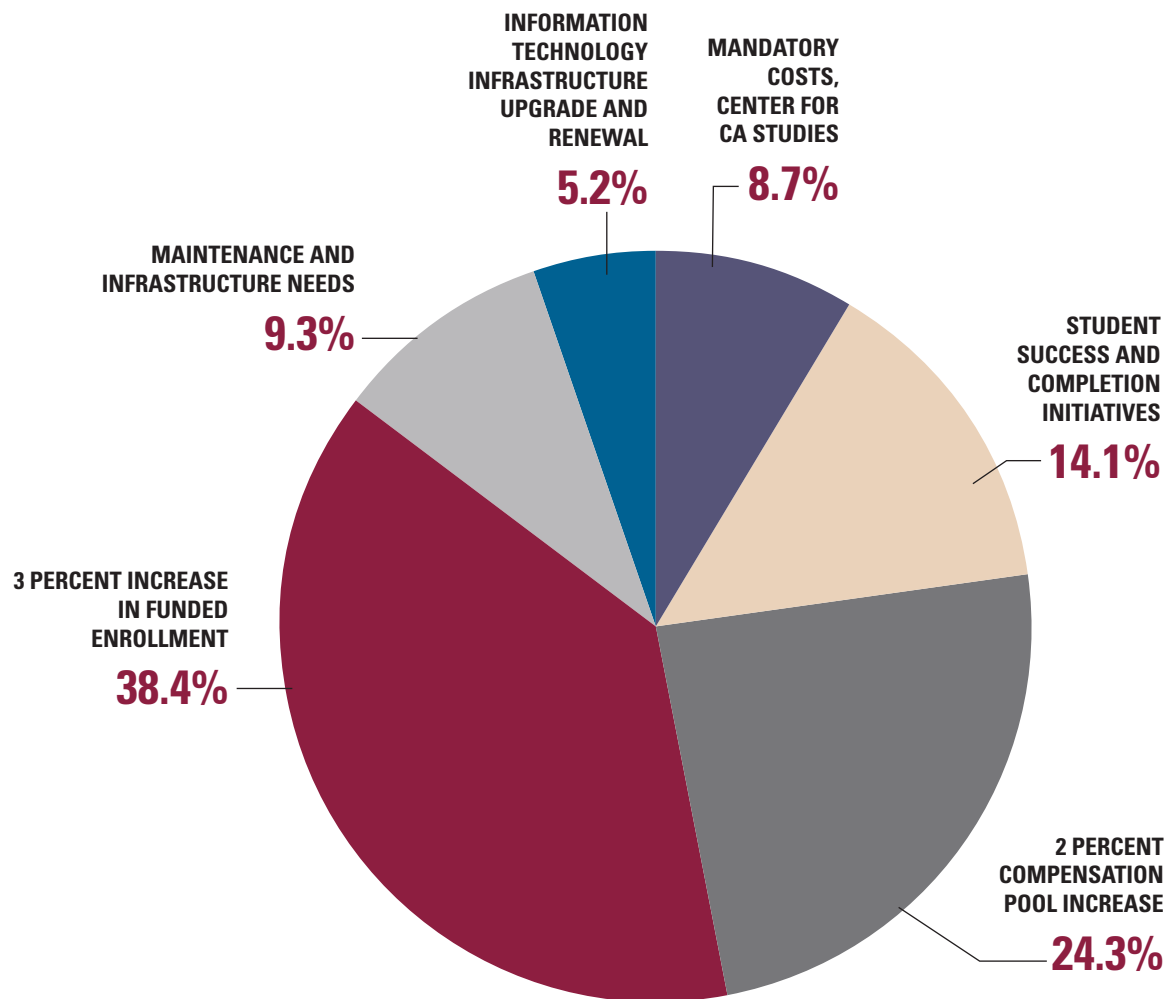
¹ 2015/16 operations and maintenance of plant includes the \$7.6M state increase in lease revenue bond debt service.

² Amount is reduced by the tuition fee discounts (revenue forgone) as shown in table 4.

Sources of Funds and Expenditure Augmentations

SOURCES OF FUNDS		
General Fund Increase		\$216,610,000
3 Percent Enrollment Growth, Programs, and Operations	216,406,000	
Center for California Studies	204,0000	
Net Tuition Fee Revenue Adjustment		\$52,417,000
3 Percent Funded Enrollment Increase		
(10,382 FTES Revenue)		
TOTAL REVENUE INCREASE		\$269,027,000
EXPENDITURE AUGMENTATIONS		
Mandatory Costs		\$23,077,000
Compensation Related		
Health Benefits	11,040,000	
Retirement	7,000,000	
Other Increases		
Maintenance of New Space	5,037,000	
2 Percent Compensation Pool Increase		\$65,528,000
3 Percent Increase in Funded Enrollment		\$103,218,000
Student Success and Completion Initiatives		\$38,000,000
Information Technology Infrastructure Upgrade and Renewal		\$14,000,000
Center for California Studies		\$204,000
Maintenance and Infrastructure Needs		\$25,000,000
TOTAL EXPENDITURE INCREASE		\$269,027,000

Distribution of Expenditure Increases



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Sources of Revenue

The 2015/16 California State University Support Budget proposal includes a \$216.6 million increase to the currently authorized CSU \$2.8 billion General Fund base for a total of almost \$3.0 billion. The \$216.6 million General Fund requested increase for 2015/16 budget is comprised of the following:

- \$216,406,000 to fund 3 percent enrollment growth, programs, and operations; and
- \$204,000 to fund annual cost increases for the state Center for California Studies Capitol Fellows Program.



The CSU 2015/16 budget plan also reflects tuition fee revenue from the recommended 3 percent California resident funded student enrollment (10,382 FTES). The net change in tuition fee revenue, after adjusting for forgone revenue associated with financial aid, is \$52,417,000.

The total 2015/16 support budget plan increase in sources of funds is \$269.0 million.

State General Fund Increase	\$216,610,000
Tuition Fee Revenue Adjustments	\$52,417,000
TOTAL	\$269,027,000

DRAFT for Board of Trustees Consideration

Programs and Operations

The 2015/16 CSU budget request is based on a General Fund increase of \$269.0 million and tuition fee revenue adjustments of \$52.4 million to fund the cost of budget plan expenditure augmentations for various needs, including mandatory costs, funded student enrollment, employee compensation, student success and completion, and maintenance and infrastructure needs. The General Fund increase also includes funding for the Center for California Studies. These cost increases are detailed in the next section.

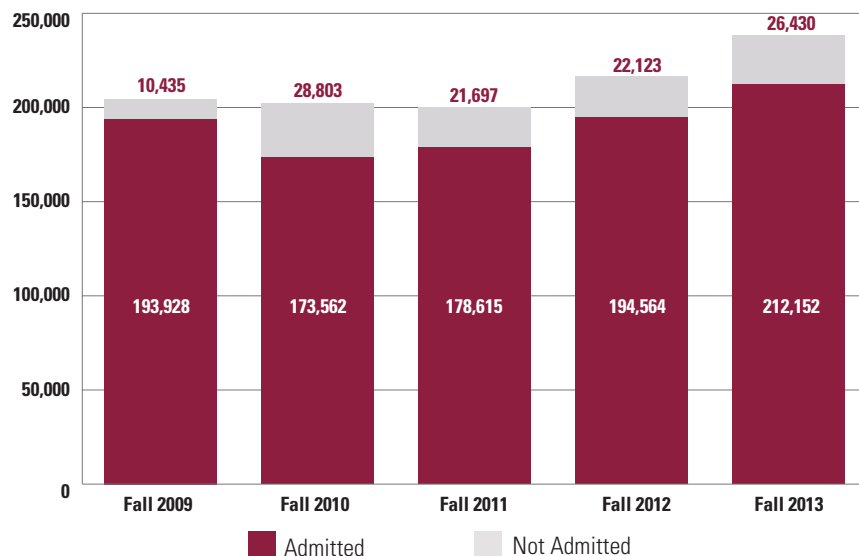
3 Percent Funded Enrollment

The 2015/16 budget plan augmentation supports a 3 percent increase in resident student enrollment to continue to address California's higher education demand.

Many CSU campuses continue to experience record levels of applications and enrollments. The CSU had to turn away more than 26,000 eligible undergraduate applicants in fall 2013. Demand for the CSU has remained high at more than 760,000 undergraduate applications for admission to the fall 2014 term. Funding restrictions have constrained the ability of the CSU to admit eligible applicants as shown in the following chart.

Increasing enrollment from the current state-assisted level of 346,050 California resident FTES by 3 percent to a new level of 356,432 is entirely feasible, given adequate support from the state. Continued restoration to meet demand of baccalaureate and master's instruction at the CSU is a vital investment by the state for the sake of student access and for the sake of California's further economic recovery and workforce development. Simply on the basis of application demand, an increase in state-assisted enrollment of more than 3 percent would be justified. However, due to the lead times and operational complexities of implementing funded enrollment growth at the campuses, this request is limited to 3 percent for the 2015/16 fiscal year.

Eligible Undergraduate Applicants - California Residents



Based on the state-approved marginal cost methodology, the 2015/16 estimated net marginal cost rate of instruction, after forgone financial aid, has been calculated at \$9,942 per FTES. This amount times 10,382 FTES (3 percent) equals an estimated cost of \$103.2 million. The General Fund portion of marginal cost rate of instruction is \$7,405 per FTES, which equates to \$76.9 million funded from the state General Fund appropriation. The remainder would be offset by the estimated tuition fee revenue (net of financial aid) generated by the additional enrollment. The 10,382 FTES translates into more than 12,000 additional students.

DRAFT for Board of Trustees Consideration

2015/16 Tuition Fee Revenue

A 3 percent increase in resident FTES enrollment (10,382 FTES) is projected to generate \$52.4 million in new tuition fee revenue, after adjusting for forgone revenue associated with students receiving CSU Tuition Fee Discounts.



DRAFT for Board of Trustees Consideration



Revenue Forgone

Tuition Fee Discounts and Tuition Fee Waivers

The Tuition Fee Discount program (also known as State University Grants) is a critical source of assistance for CSU students. Since its inception in 1982/83, the Tuition Fee Discount program has provided need-based discounts to offset the cost of mandatory systemwide tuition fees for resident students and the impact of increased charges for students with the greatest financial need.

Prior to 1992/93, the state provided the funds necessary to ensure adequate assistance was available for the CSU's neediest students. Since 1992/93, the CSU has continued assistance to these students by forgoing one-third of annual revenue increases from tuition fees in most years.

The amount projected for 2015/16 Tuition Fee Discounts from tuition fee revenue is \$657.4 million, an increase of \$13.2 million from 2014/15. The Tuition Fee Discount adjustment is due to a one-third set-aside from tuition fee revenue derived from a 3 percent increase in funded enrollment (estimated 2015/16 marginal cost of \$1,269 per FTES). This \$657.4 million of financial aid reflects tuition fees that go uncollected—in effect, waived—and is a form of revenue loss for the CSU.

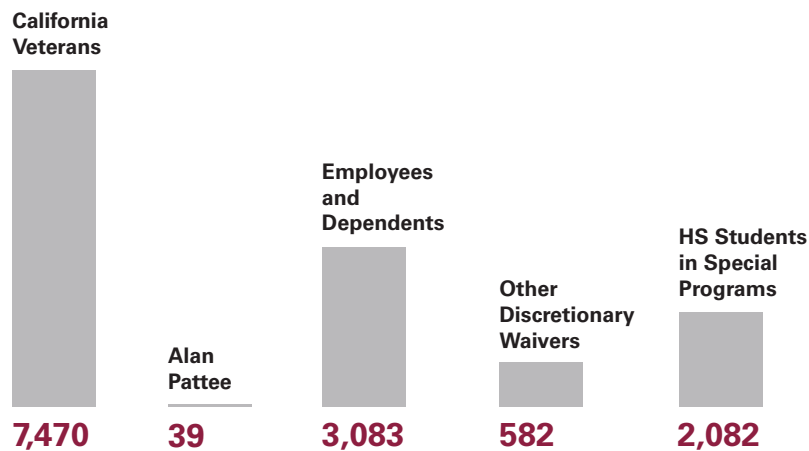


DRAFT for Board of Trustees Consideration

Under current law, there are four state-mandated tuition fee waiver programs: the California Veterans Waiver for children of disabled/deceased veterans (Education Code 66025.3), the Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code 68120), the tuition fee waiver for California residents who were dependents of victims killed in the September 11, 2001 terrorist attacks (Education Code 68121), and the tuition fee waiver for the two students serving on the Board of Trustees (Education Code 66602). In addition to state-mandated tuition fee waiver programs, other tuition fee waiver programs include waivers for employees and employee dependents pursuant to collective bargaining agreements. Other non-mandatory waivers have been established by CSU Board of Trustees policy and California statute that include programs for high school students and California residents age 60 years and older, among others. The state has not provided General Fund support for CSU tuition fee waiver programs since 1992/93.

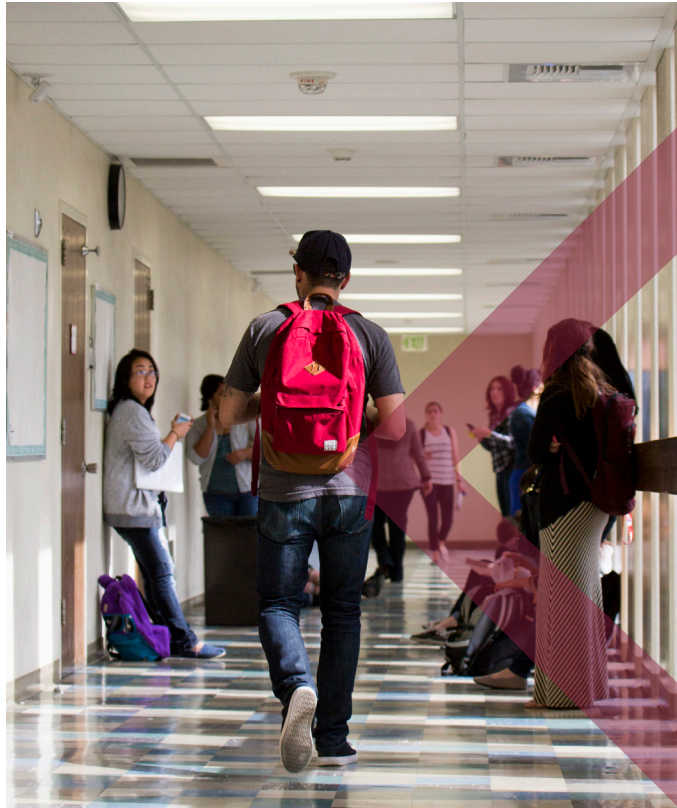
A summary of the total revenue forgone and applied to Tuition Fee Discounts and mandatory waivers from 2013/14 through 2015/16 is included in the **Three-Year Budget Summary and Highlights** section. In the 2013/14 college year (fall, winter, spring, and summer), 13,256 tuition fee waivers were granted to CSU students. When tuition fee rates are applied to these waivers based on student enrollment status, it amounts to approximately \$65.7 million in revenue forgone to the CSU.

2013/14 Systemwide Tuition Fee Waivers



Uses of Revenue

The 2015/16 California State University Support Budget proposal recommends an expenditure plan based on General Fund and tuition fee revenue increases from higher enrollment to cover the cost of expenditure augmentations. The expenditures outlined below address the university's fundamental priorities for the 2015/16 fiscal year. These include increases for mandatory costs, employee compensation, enrollment, student success and completion initiatives, facilities and infrastructure needs, and the Center for California Studies.



Mandatory Costs, \$23,077,000

Mandatory costs are expenditures the university must pay regardless of the level of funding appropriated by the state. These costs include increases for employee health and retirement benefits and operations and maintenance of newly constructed space. Without funding for mandatory cost increases, campuses must redirect existing resources from other program areas to meet these obligations. In order to preserve the integrity of CSU programs, the 2015/16 support budget plan provides for the following increases in mandatory cost obligations.

Mandatory Costs

Health Benefits	\$11,040,000
Retirement Benefits	\$7,000,000
New Space Maintenance	\$5,037,000
TOTAL	\$23,077,000

DRAFT for Board of Trustees Consideration

Two Percent Compensation Pool, \$65,528,000

The CSU Board of Trustees recognizes compensation for faculty, staff, and management as a key element of the university's success. The ability to offer a competitive compensation package is essential to the CSU's ability to recruit and retain faculty, staff, and management employees who contribute to the CSU's mission of excellence.

Continued investment to make progress toward competitive salaries for faculty and staff are needed to place the CSU in a stronger position to fulfill its primary mission of providing accessible higher education that maintains quality and supports the state's ability to fill jobs and support the economy. There continues to be critical salary-related concerns across CSU employee groups that require attention by CSU leadership and the collective bargaining process. The first general salary increase in several years for faculty and staff occurred in 2013/14 with \$38 million, representing an average increase of 1.34 percent, distributed across employee groups. A three percent compensation pool increase has been budgeted for 2014/15, subject to collective bargaining.

This budget plan calls for approximately \$65.5 million to fund a two percent compensation pool increase, subject to collective bargaining, for all employee groups effective July 1, 2015. A two percent pool is intended to strike a balance between competing priorities. The 2015/16 cost of each one percent compensation increase is based on 2014/15 final budget salaries and salary-related benefits (OASDI, Medicare, and retirement) and is summarized in the following table.

Estimated 2015/16 Cost of 1 Percent Compensation Increase

	2014/15 Final Budget Compensation (Adjusted ¹)	2015/16 Cost of 1% Increase
Faculty	\$1,650,399,000	\$16,504,000
Staff	1,626,040,000	16,260,000
TOTAL	\$3,276,439,000	\$32,764,000
COST OF 2% INCREASE		\$65,528,000

¹ The compensation base is adjusted for changes in employer-paid retirement rates. The CalPERS member categories for State Miscellaneous-Tier 1 and State Peace Officer/ Firefighter increased 3.077 percentage points and 5.507 percentage points, respectively, from the 2013/14 composite rates of 21.203 percent and 31.320 percent to 2014/15 rates of 24.280 percent and 36.827 percent.

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Funded Student Enrollment, \$103,218,000

The 2015/16 budget plan includes a three percent funded student enrollment increase of 10,382 California resident FTES from a 2014/15 California resident FTES base of 346,050.

2015/16 FULL-TIME EQUIVALENT STUDENTS ENROLLMENT TARGET

2015/16 Resident FTES Base	346,050
2015/16 Resident Student Enrollment Growth (3%)	10,382
2015/16 TOTAL RESIDENT FTES	356,432

This enrollment increase will be funded using a marginal cost rate of \$9,942 per FTES. The total funding required to sustain direct instruction, academic support, student services, institutional support, and plant operations related to the proposed enrollment growth is \$103.2 million.



DRAFT for Board of Trustees Consideration

Student Success and Completion Initiatives, \$38,000,000

The 2015/16 support budget includes \$38 million for a variety of efforts and strategies to close achievement gaps and facilitate student success and degree completion.

These funds will be used in six initiative areas:

- 1. Tenure-track Faculty Hiring** – \$11 million for campuses to hire tenure-track faculty and continue reversing the declining ratio of tenured and tenure-track faculty to lecturers, as well as to improve student/faculty ratios. These funds would augment state funds and tuition fee revenue related to new enrollment and savings from retiring faculty, to enable campuses to hire more tenured and tenure-track faculty systemwide. More faculty, added to current faculty numbers, mean more sections of high-demand courses taught and more faculty mentoring/ advising of students.
- 2. Enhanced Advising** – \$7 million, with \$4 million to hire more professional staff advisors systemwide, and \$3 million to leverage the work already underway with various e-advising technologies that provide clear and accurate “real time” information for students and advisors related to graduation and major requirements and the efficient scheduling of classes.
- 3. Augment Bottleneck Solutions Initiative** – \$1.5 million to expand the initiative to \$11.5 million. The added funding would support more online concurrent enrollment courses.
- 4. Student Preparation** – \$5 million augmentation to help incoming freshmen attain college readiness before arriving on CSU campuses.
- 5. High-Impact Practices for Student Retention** – \$9 million to “scale up” a wide range of successful “high impact” practices, including service learning projects, undergraduate participation in applied research, first-year learning communities (a cohort or shared academic focus for groups of first-year students), and peer mentoring (upper division students mentoring lower division students).
- 6. Data-Driven Decision Making** – \$4.5 million for the Data Dashboard, a project currently underway at the CSU to provide all 23 campuses with the type of data they need to make important decisions related to time to degree and term-to-term retention. Growth and wide-spread adoption of the use of data, and the mechanism to report and display this data in an accessible way for faculty and staff, will dramatically improve decision-making at the campuses and the system and improve overall effectiveness and efficiency of the university’s programs. CSU campuses will also use this data to give faculty and staff a basis upon which to make decisions about graduation pathways and measure the success of academic and student success programs including high impact practices.



These six areas of proposed funding are directed at improving student success and completion. Improvements in graduation rates and the number of successful degree completions at the CSU have the potential for maximum effect across the state.

Information Technology Infrastructure Upgrade and Renewal, \$14,000,000

Under the 2015/16 budget plan, \$14.0 million of financing proceeds would be prioritized for information technology infrastructure to meet the most urgent needs for campus network upgrade and renewal. Specifically, these proceeds will be used to replace the data network equipment at each campus on a 4 to 5 year replacement cycle.

More than 13 years ago when the CSU Common Network Initiative was instituted, members of the campus communities accessed relatively few online resources from a handful of wired campus locations such as libraries and computer labs. Today students, faculty and staff wirelessly access a seemingly infinite set of data and information repositories located on campus and across the globe. They communicate via digital video and access an ever-expanding number of network-enabled devices locally and globally to aid teaching and learning and to conduct research. The result has been a 2,000 percent increase in network traffic, and zero-tolerance for operational disruption. In short, this infrastructure represents the “line” in online learning, and it is critical to the future mission of the CSU.

Unfortunately, while the criticality of this infrastructure has increased, financial resources to maintain and periodically replace obsolete components have been steadily reduced since 2010. Today, the CSU has a growing inventory of critical network equipment that is no longer supported by the vendor, rendering it effectively obsolete. Specifically, as of June 30, 2014, 86 out of 138 (62 percent) mission-critical core routers and 2,547 out of 4,044 (63 percent) network access switches across the CSU are obsolete. In addition, by December 2015, 7,523 out of 12,573 (60 percent) wireless devices also will be obsolete. This has resulted in diminished network reliability, and increased risk of information security breaches because vendors are no longer providing related software security patches.



Assuming an ongoing annual allocation, the requested funds will be used to replace the remaining obsolete switching and routing hardware, wireless access points and controllers, and network security devices at all campuses. After the initial refresh, funds will be used to refresh this equipment on 4 to 5 year cycles (4 to 6 campuses per year) to ensure that such obsolescence does not occur in the future.

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Center for California Studies, \$204,000

The Center for California Studies is a state-funded program within the CSU that promotes understanding of and effective participation in the political and policy processes that govern California. Included within the 2015/16 support budget is a 6 percent augmentation of \$204,000 for the Center. The Center's General Fund appropriation, a stand-alone appropriation in the state's annual budget bill (currently \$3.5 million), funds direct costs and administrative expenses for the Assembly, Senate, Executive, and Judicial Fellows programs and other programs consistent with the Center's mission. The proposed augmentation would help to alleviate mounting cost pressures that continue even after implementing operational efficiencies and cost saving measures. The proposed augmentation would be used to (1) cover anticipated increases in personnel costs due to systemwide collective bargaining agreements, (2) maintain financial access to the Fellows and other programs by modestly increasing stipends, and (3) fund other inflationary increases.

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Maintenance and Infrastructure Needs, \$25,000,000

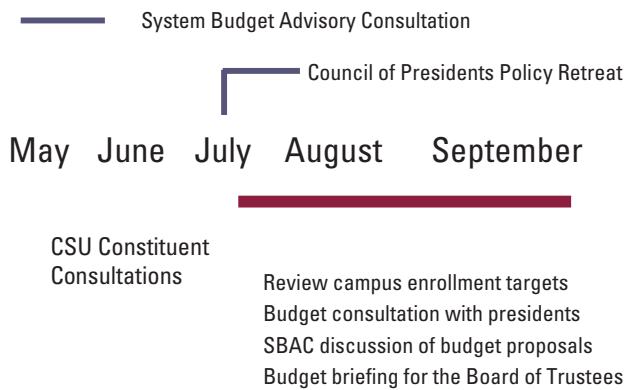
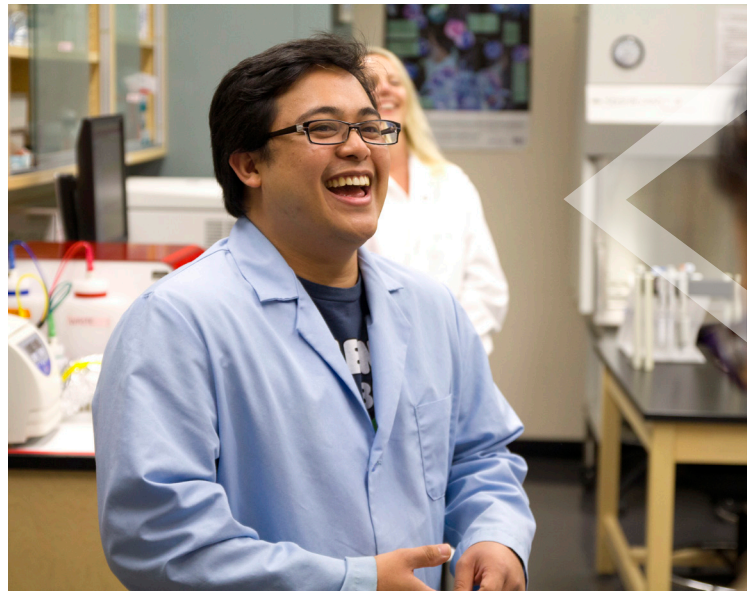
The 2015/16 budget plan includes \$25.0 million of funding to finance the CSU's most urgent facility maintenance and utilities infrastructure backlogs. The CSU's backlog of facility maintenance and infrastructure needs, even if restricted to the highest priority needs, is massive and growing. Even with the state statutorily changing the way it handles CSU academic-related infrastructure needs by providing the CSU with the autonomy to self-determine its capital program, the state did not provide sufficient funds for the CSU to capitalize the new program. Consequently, annual support budgets will not be able to retire significant portions of the \$1.8 billion maintenance backlog for many years without additional resources being allocated for this purpose. In light of the backlog of infrastructure renewal needs, the program continues to focus on needed improvements to our utilities, technology network and building infrastructure, and seismic upgrades, followed by major building replacements/renovations and new buildings to accommodate the growing student population. The Systemwide Infrastructure Improvements program is the highest priority for the use of CSU financing as the program provides funds across all campuses. \$25.0 million is needed to fund the facilities and infrastructure needs. These funds could be spent to pay for projects on a pay as you go basis or be used to finance projects.



The 2015/16 budget plan includes funding to address the CSU's most urgent maintenance needs. The deferral of CSU priority maintenance needs have accumulated annually due to insufficient funding to address scheduled maintenance requirements in CSU final budget appropriations. This lack of funding has resulted in a backlog of systems and facilities past their useful life. Funding in the 2015/16 support budget is necessary to address the most critical renewal and repair projects that are part of the priority deferred maintenance backlog, including health and safety concerns at each campus (e.g., fire protection, structural repairs, roofing, HVAC, and elevators) to avert building and campus shutdowns. Facilities shutdowns will interrupt education services to students and impede the CSU's ability to provide a clean and safe work environment for faculty and staff. Without funding to begin addressing this need, emergency failures will continue to drive up deferral costs and CSU critical renewal needs will multiply.

At many CSU campuses, the utilities infrastructure is obsolescent, dating back more than a half century and in need of upgrade or replacement. The cost of repairing this infrastructure is high as electrical, gas and water systems continue to age. Because the utilities infrastructure is a core system to the CSU and its ability to educate its students at functioning, reliable campuses, funding included in the 2015/16 support budget is imperative to address the most critical projects that are part of the infrastructure backlog, including electrical distribution, utility system retrofit, natural gas piping, storm/sewer drain line, and plumbing and water systems. Power or water service interruptions and failures impede the CSU's ability to provide education services in a safe environment for students, faculty and staff. Without funding, failures and potential building and campus shutdowns will occur producing additional costs and the potential for further damage to systems and infrastructure.

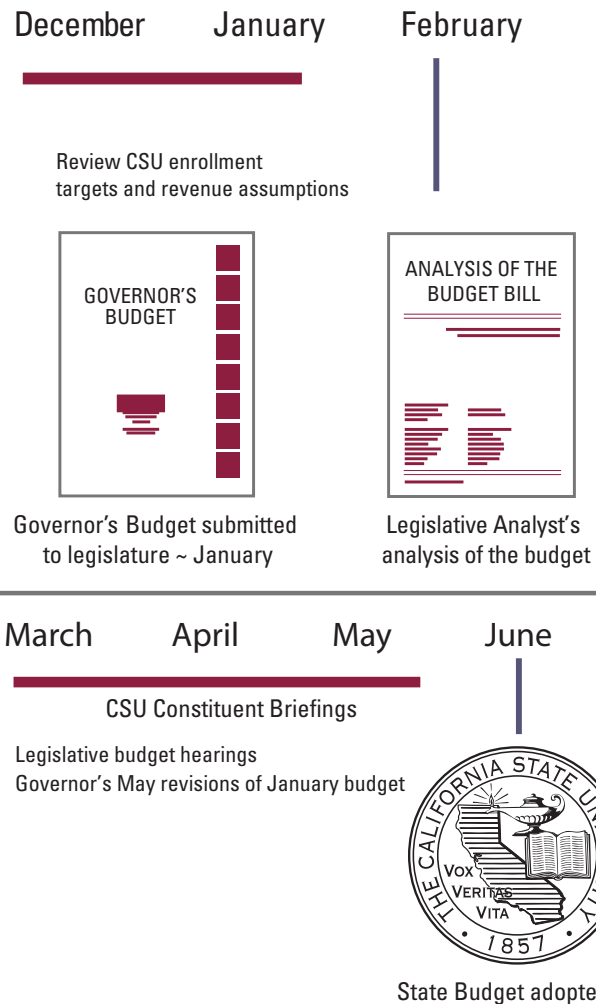
Budget Cycle



CSU Constituent Consultations

October/November

Trustees adopt Support Budget request



DRAFT for Board of Trustees Consideration

Reference further 2015/16 Support Budget, Supplemental Documentation at www.calstate.edu/budget

401 Golden Shore, 5th Floor, Long Beach, CA 90802-4210

COMMITTEE ON FINANCE

Approval of the 2015-2016 Lottery Revenue Budget

Presentation By

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Summary

The recommended 2015-2016 lottery revenue budget proposal is presented to the California State University (CSU) Board of Trustees as an action item. The board was presented with an information item on the lottery revenue budget proposal at its September 2014 meeting.

Background

On November 6, 1984, California voters approved Proposition 37, known as the California State Lottery Act of 1984. The Lottery Act is codified in Government Code Sections 8880-8880.72, and allows for expenditure of lottery dollars to supplement the total amount of money allocated for public education. The Act further stipulates legislative intent that allocated funds be used for the education of pupils and students, with no funds spent for the acquisition of property, construction of facilities, financing research, or any other non-instructional purpose. To date, CSU has received apportionments from the state on the basis of total full time equivalent students (FTES) cumulatively totaling \$1.03 billion, which equals approximately 4.5 percent of all lottery funds distributed for educational purposes. Recently, annual CSU Lottery Fund receipts have averaged around \$45 million per year.

Although the Lottery Act does not specifically define “education of pupil and students”, CSU has specified that lottery funds shall be used only for, and in support of, instruction or instructional-related purposes. In response to questions related to the use of lottery funds, the CSU adopted guidelines to ensure that lottery funds are used to improve instructional quality and academic environment.

Each year, the board is asked to adopt a systemwide lottery revenue budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The budget identifies expected lottery receipts that the CSU will receive in the budget year and the program areas for allocation of those receipts, including an expenditure allowance for general management of CSU Lottery Fund operations by Chancellor’s Office staff. Approximately 90 percent of anticipated lottery receipts are allocated directly to campuses for instructionally-related programs and activities, including

resources for campus management, program administration, and reporting requirements of CSU Lottery Fund operations. Remaining funds are allocated for CSU programs that assist student education, such as summer arts and doctoral incentive programs. Less than two percent of budgeted lottery resources are used by the Chancellor's Office to manage CSU Lottery Fund operations. CSU allows for the carry forward of 80 percent of lottery allocations by the campuses to address long-range educational programs, instructional equipment purchases, or instructional program development that crosses several years. The CSU chief financial officer reviews campuses' lottery carry forward balances to ensure appropriateness and approves planned use of campuses' balances in excess of policy guidelines. The board has delegated authority to the chancellor for management of actual CSU Lottery Fund receipts, which are to be used to supplement the total amount of money allocated to CSU for public education in accordance with state statute. The state receives a formal report on actual lottery expenditures each May and the board receives a report on actual expenditures at its September and November meetings.

Discussion

The lottery revenue projection for 2015-2016 is \$49.1 million. The lottery revenue budget proposal reflects an increase in projected support from the prior year as a result of higher trends in lottery receipts with the recent addition of Powerball to the list of California Lottery offerings. After setting aside \$5 million for CSU's systemwide reserve, \$44.1 million is available for allocation. The proposed budget includes a \$3.1 million augmentation to fund expansion of the Early Start financial aid and Pre-Doctoral programs. The chancellor, as the chief executive officer of the CSU, is delegated authority for development and oversight of the lottery budget and for the deposit, control, investment, and expenditure of lottery funds received.

Beginning CSU lottery reserves of \$5 million are used to assist with cash flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. CSU Lottery Fund interest earnings and increases in annual receipts are managed by the Chancellor's Office to supplement fiscal year operating budget needs in accordance with CSU Lottery Fund guidelines and CSU Revenue Management Program procedures.

Recommended 2015-2016 Lottery Budget

After setting aside \$5 million for beginning reserves, the \$44.1 million 2015-2016 lottery budget proposal remains principally designated for campus-based programs and three system-designated programs that have traditionally received annual lottery funding support. Of the \$44.1 million available for expenditure, \$4.5 million would be allocated to the three system-designated programs and systemwide administration as follows: the Chancellor's Doctoral Incentive Program (\$2 million) which provides financial assistance to graduate students to complete

doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program (\$814,000) which supports students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; the CSU Summer Arts Program (\$1.2 million) which offers academic credit courses in the visual, performing, and literary arts; and general management of CSU Lottery Fund operations (\$544,000).

The remaining \$39.5 million in 2015-2016 lottery funds would continue to be used for campus based programs (\$31.5 million) and to provide financial aid for the board-approved Early Start Program (\$8 million). Campus-based program funding is undesignated and allows presidents considerable flexibility in meeting unique campus needs. Traditionally, projects receiving campus-based funds have included replacement and purchase of new instructional equipment, curriculum development, and scholarships. Early Start Program funds reimburse need-based fee waivers provided by campuses to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first time freshman students who are deficient in math and English skills through remedial instruction during the summer term prior to matriculation at CSU campuses. Campuses are reimbursed for financial aid tuition waivers based on actual student enrollment following the end of the summer program.

In fiscal year 2013-2014, similar to years prior, the majority of lottery allocations were spent on instructional and instructionally-related programs and services to supplement the CSU operating budget. The following table summarizes how lottery funds allocated for the 2013-2014 fiscal year were expended.

2013-14 Lottery Expenditure Report		
(in 000s)		
Program Support Area	Expenditures	Percentage of Total Expenditures
Academic	\$ 16,580	45.9%
Library Services	10,455	28.9%
Student Services	1,891	5.2%
Admin. & Program Costs	2,801	7.8%
Financial Aid	4,422	12.2%
Total Expenditures	\$ 36,149	100.0%

Note: The amount included in the table for lottery administration & program expenditures in 2013-14 includes both Chancellor's Office and campus costs.

The CSU lottery revenue budget recommended for 2015-2016 is as follows:

2015-16 Proposed Lottery Revenue Budget		
	2014-15 Adopted Budget	2015-16 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Receipts	41,000,000	44,100,000
Total Revenues	\$ 46,000,000	\$ 49,100,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 41,000,000	\$ 44,100,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	714,000	814,000
CSU Summer Arts Program	1,200,000	1,200,000
	\$ 3,914,000	\$ 4,014,000
<i>Campus-Based Programs</i>		
Campus Programs	\$ 31,542,000	\$ 31,542,000
Campus Early Start Financial Aid	5,000,000	8,000,000
	\$ 36,542,000	\$ 39,542,000
<i>Chancellor's Office Admin. & Program Costs</i>	<i>\$ 544,000</i>	<i>\$ 544,000</i>
Total Uses of Funds	\$ 41,000,000	\$ 44,100,000

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2015-2016 lottery revenue budget totaling \$49.1 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery revenue budget and to phase expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that a portion of campus-based program allocations be used to support student financial aid for the trustee-approved Early Start program; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2015-2016 lottery revenue budget approved by the Board of Trustees to the extent that receipts are greater or lesser than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2015-2016 lottery revenue budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California Polytechnic State University, San Luis Obispo

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for revenue-generating projects of the California State University such as student housing, parking, student union, health center, continuing education facilities, and certain auxiliary projects. Revenues from these programs are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has improved the CSU's credit ratings and reduced its cost of capital. Prior to issuance of bonds, projects are funded through bond anticipation notes (BANs) issued by the CSU in support of the CSU's commercial paper (CP) program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide financing flexibility and lower short-term borrowing costs. Proceeds from the issuance of bonds are used to retire outstanding CP and provide any additional funding not previously covered by CP.

Summary

This item requests the CSU Board of Trustees authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed \$299,045,000 to provide financing for two campus projects. The board is being asked to approve resolutions related to these financings. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

The financing projects are as follows:

1. California State University Channel Islands Student Housing Phase III

The California State University Channel Islands Student Housing Phase III project is being presented to the board for the amendment of the Non-State Capital Outlay program and schematics during the November 2014 Committee on Campus Planning, Buildings and Grounds meeting. The project consists of approximately 600 beds, community living rooms and kitchens, study rooms, administrative office space, and a village courtyard environment. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in September 2014.

The not-to-exceed par value of the proposed bonds is \$64,350,000 and is based on a total project budget of \$58,399,000 with a program reserve contribution of \$2,500,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$8,451,000), are to be funded from bond proceeds. The project is scheduled to start construction in February 2015 with completion in July 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$64,350,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$4,412,140
Projected debt service coverage including the new project: Net revenue – Channel Islands pledged revenue programs: ¹	1.42
Net revenue – Projected for the campus housing program:	1.37

1. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2017-2018 operations of the project with expected full debt service. Does not include any debt, revenues or expenses related to the Channel Islands Site Authority.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.74 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects housing program net revenue debt service coverage of 1.37 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.42, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

2. California Polytechnic State University, San Luis Obispo Student Housing South

The California Polytechnic State University, San Luis Obispo Student Housing South project was approved by the board as an amendment to the Non-State Capital Outlay program in May 2014 and will be presented to the board for schematic approval during the November 2014 Committee on Campus Planning, Building and Grounds meeting. The project consists of approximately 1,475 beds in seven residence halls totaling approximately 384,000 gross square feet. The project also includes a 483 space parking structure configured to a maximum of four stories, with one to two stories below grade, and incorporates complementary functions such as student gathering spaces, and housing and residential life staff offices. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in March 2014.

The not-to-exceed par value of the proposed bonds is \$234,695,000 and is based on a total project budget of \$198,863,000 with a program reserve contribution of \$10,000,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$45,832,000), are to be funded from bond proceeds. The project is scheduled to start construction in February 2016 with completion in July 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$234,695,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$16,151,375
Projected debt service coverage including the new project: Net revenue – San Luis Obispo pledged revenue programs: ¹ Net revenue – Projected for the campus student housing program:	1.58 1.10

1. Based on campus projections of 2019-2020 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.76 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects housing program net revenue debt service coverage of 1.10 in 2019-2020, the first full year of operations, rising thereafter to exceed the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net

revenue debt service coverage for the first full year of operations is projected to be 1.58, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the projects described in this agenda. 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/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$299,045,000 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 acting deputy assistant vice chancellor, Financing, Treasury, and Risk Management; 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 projects as described in this Agenda Item 3 of the Committee on Finance at the November 12-13, 2014, meeting of the CSU Board of Trustees is recommended for:

California State University Channel Islands Student Housing Phase III

California Polytechnic State University, San Luis Obispo Student Housing South

COMMITTEE ON FINANCE

Real Property Development Project at California State Polytechnic University, Pomona for Innovation Village Phase V, Commercial Office and Research Facility for Southern California Edison Company

Presentation By

J. Michael Ortiz
President
California State Polytechnic University, Pomona

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This agenda item requests approval of a public-private partnership for a 123,000 square foot commercial office and research building at California State Polytechnic University, Pomona. This development would be the fifth phase of the Innovation Village public-private partnership project.

Background

Innovation Village was approved by the California State University Board of Trustees in 1999 as a 960,000 square foot public/private development with multiple projects on 65 acres at California State Polytechnic University, Pomona and incorporated into the campus master plan at the July 2000 Board of Trustees meeting.

Innovation Village promotes and supports the transfer of technology, student and faculty professional advance and employment, and economic development. Significant benefits from the first four phases at Innovation Village include:

- Innovation Village tenant companies have developed collaborative relationships and research partnerships with the Colleges of Science and Engineering.
- The economic impact of Innovation Village as of 2011 has been estimated to be \$700 million annually to the local economy and is projected to be \$1.2 billion at full build-out of the project pursuant to an independent analysis by Stanley R. Hoffman Associates.

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- The long-term ground sub-leases ensure that Innovation Village is self-supporting and will return economic benefits to the university for many years.
- The infrastructure developed for Innovation Village has facilitated traffic circulation around campus through the extensions of Kellogg Drive and South Campus Drive, improved the walkable environment in this corridor of the campus and provided improvements to the campus potable water system.

The Board of Trustees has approved the following phases of development at Innovation Village:

- The Phase I project, approved in 2000 and opened in 2001, included a 52,000 square foot Center for Training, Technology and Incubation (CTTi). The CTTi project was financed in partnership with NASA, the Economic Development Administration, the California Technology, Trade and Commerce Agency, the College of Extended University, and the Cal Poly Pomona Foundation.
- The Phase II project, approved in 2003 included a 201,000 square foot blood processing facility for American Red Cross. The project was financed entirely by the American Red Cross and serves the Southern California Blood Services region.
- The Phase III project, approved in 2005 and opened in 2008 included a 123,000 square foot class "A" commercial office and research building financed entirely by Trammell Crow Company and subsequently purchased and occupied by the Southern California Edison Company for its Transmission and Distribution Business Unit.
- The Phase IV project, approved in 2006, included a 123,000 square foot office and research building. In this phase, Southern California Edison built its second building within Innovation Village.

Project Description

This project is the fifth development within the approved 65 acre site of Innovation Village and consists of a 123,000 square foot commercial office and research building, as well as 446 parking stalls on approximately 6.94 acres. The project will be located across Innovation Way and oriented toward Kellogg Drive. Construction is planned to commence in 2015. Trammell Crow will manage the development of the property on behalf of Southern California Edison.

The project will be financed entirely by Southern California Edison, which will have sole responsibility for the cost of construction and any ancillary costs associated with its development within Innovation Village. No state or trustee financing will be required and the project will not incur debt of any kind and will not be reflected on the CSU financial statements.

Summary of Agreement Terms

It is proposed that CSU enter into a ground lease with the Cal Poly Pomona Foundation, Inc., a recognized auxiliary organization. The Foundation will then sublease the land to Southern California Edison Company. The basic terms of the sublease agreement are as follows:

- The term of the lease will be for 75 years, with an option for one 15-year extension.
- Southern California Edison will finance and construct the project on approximately 6.94 acres of land.
- Base rent has been established at \$1.05 per square foot of gross land area (\$317,527/year at full base rent for the initial 5-year period).
- Rent escalation will occur every five years and is tied to the Consumer Price Index (CPI).
- Rent may increase by up to 20% in years 1-30 and 25% in years 31-75. The CPI increase can be as low as 0%, but cannot result in a reduction of rent from a previous period. If the 15-year option is exercised, the rental rate will be adjusted according to a new land appraisal and the new market rate will be discounted by 5%.
- Cal Poly Pomona (through the Foundation) will establish a reserve to pay for the demolition or renovation of the project, as necessary.
- All improvements revert to Cal Poly Pomona upon expiration of the ground lease and any exercised option.
- During the term of the ground sublease and any extensions thereof, if the improvements are sold or transferred, the Lessee will pay the Foundation a Transfer Fee.

Educational Benefits

This project holds significant benefits for the students and faculty at Cal Poly Pomona. Southern California Edison has historically been supportive of the mission of the university and a valuable partner in educational efforts for many years. Through its involvement on campus within the College of Engineering, Southern California Edison has provided opportunities for students to intern, hired graduates from the program, and provided financial support to the College. Southern California Edison has most recently given \$100,000 to support and encourage women in the field of engineering. Finally, Southern California Edison has engaged with the campus through two grants since January 2010 for a total of \$929,996 for a test battery energy storage system called the Tehachapi Wind Energy Storage project, and the second for upgraded HVAC facilities in the College of Engineering to include an advanced hands-on lab and educational training curriculum for educating engineering students in the design of efficient HVAC systems.

Recommendation

The following resolution is presented for approval:

RESOLVED, By the Board of Trustees of the California State University that the Trustees approve the development of the Innovation Village Phase V Commercial Office and Research Facility at California State Polytechnic University, Pomona as described in Agenda Item 4 of the Committee on Finance at the November 12-13, 2014 and delegate to the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, and their designees' the authority to execute agreements necessary to implement the plan for this project.

COMMITTEE ON FINANCE

2014-2015 Student Fee Report

Presentation By

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Summary

As required by California State University Fee Policy, the CSU Board of Trustees is presented with an annual campus fee report to consider the level and range of campus-based mandatory fees charged to CSU students.

2014-2015 CSU Student Fee Report

Campus-based mandatory fees are charged to all students in order to enroll at a particular university campus. In addition, campuses charge miscellaneous course fees for some courses in order to add materials or experiences that enhance the basic course offerings. Campuses also charge fees for self-support programs, such as parking, housing, and student unions. As required by the CSU Fee Policy, this annual report focuses primarily on the campus-based mandatory fees.

The table on the following page displays the 2014-2015 academic year Category II campus-based mandatory fee rates by campus and by fee category. While student success fees are traditionally included in the Materials, Services, and Facilities (MSF) fee category, they are separately identified in this report to add an increased layer of transparency and accountability.

2014-2015 Category II Campus-Based Mandatory Fee Rates								
	Health Facilities	Health Services	Instruction- ally Related Activities	Materials Services & Facilities	Student Success Fee	Student Body Association	Student Body Center	Total Campus Fees
Bakersfield	\$6	\$285	\$162	\$57	\$0	\$363	\$447	\$1,320
Channel Islands	6	190	250	135	0	144	324	1,049
Chico	6	266	276	82	0	130	770	1,530
Dominguez Hills	6	150	10	5	35	135	326	667
East Bay	6	225	129	3	240	129	360	1,092
Fresno	6	216	264	46	0	69	226	827
Fullerton	6	156	72	72	121	148	268	843
Humboldt	6	408	674	311	0	114	186	1,699
Long Beach	6	90	50	10	346	120	358	980
Los Angeles	6	165	123	5	248	54	275	876
Maritime Academy	14	680	130	30	0	210	0	1,064
Monterey Bay	0	126	60	165	0	96	44	491
Northridge	6	118	30	5	216	176	526	1,077
Pomona	6	243	48	15	306	124	690	1,432
Sacramento	32	234	354	0	0	128	428	1,176
San Bernardino	39	221	146	15	162	123	372	1,078
San Diego	50	300	350	50	100	70	474	1,394
San Francisco	6	298	236	184	0	108	164	996
San Jose	113	276	0	30	590	172	670	1,851
San Luis Obispo	9	295	294	1,110	780	301	657	3,446
San Marcos	50	288	80	249	300	100	630	1,697
Sonoma	32	368	446	32	0	198	728	1,804
Stanislaus	16	354	300	268	0	120	156	1,214

The following table shows total campus-based mandatory fees by campus for the 2013-2014 and 2014-2015 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by \$64, or 5 percent, from \$1,223 in 2013-2014 to \$1,287 in 2014-2015. Increases in these fees occurred for various reasons and some are notable. Some campuses have authorized annual incremental increases for certain fees that are tied to either the California Consumer Price Index or Higher Education Price Index. More specifically, new student success fees went into effect at Dominguez Hills, Fullerton, and San Diego (these fees were adopted in 2013-2014 before the state's moratorium went into effect). Additionally, the Student Body Center fee was increased through student referendum at Pomona to construct a new student center, which accounts for the sizeable increase at that campus. While less common, fees may occasionally decrease from one year to the next. San Jose's student success fee decreased as the campus revised its administrative methodology for its student success fee.

2013-2014 and 2014-2015 Category II Campus-Based Mandatory Fee Rates			
Campus	2013-14	2014-15	Increase
Bakersfield	\$1,305	\$1,320	\$15
Channel Islands	1,001	1,049	48
Chico	1,500	1,530	30
Dominguez Hills	632	667	35
East Bay	1,077	1,092	15
Fresno	815	827	12
Fullerton	714	843	129
Humboldt	1,672	1,699	27
Long Beach	869	980	111
Los Angeles	872	876	4
Maritime Academy	1,064	1,064	0
Monterey Bay	491	491	0
Northridge	1,053	1,077	24
Pomona	883	1,432	549
Sacramento	1,156	1,176	20
San Bernardino	1,078	1,078	0
San Diego	1,294	1,394	100
San Francisco	978	996	18
San Jose	1,871	1,851	-20
San Luis Obispo	3,252	3,446	194
San Marcos	1,597	1,697	100
Sonoma	1,762	1,804	42
Stanislaus	1,192	1,214	22
Average	\$1,223	\$1,287	\$64

2014-2015 CSU Comparison Institution Tuition and Fees

The 2014-2015 academic year is the fourth consecutive year with unchanged tuition rates in effect at CSU. Although not required by the CSU Fee Policy, prior annual student fee reports have included comparisons of CSU tuition and fee rates with other institutions, based on a list of institutions developed over twenty years ago by the former California Postsecondary Education Commission (CPEC). The tables that follow outline the systemwide average tuition and campus-based mandatory fees at the CSU as compared with other institutions' tuition and mandatory fees.

2014-2015 CSU Fees Benchmark

The 2014-2015 CSU comparison institution academic year *resident undergraduate*, student tuition and fees are provided below. The total of the CSU's tuition and average campus-based fees is lower than all but one of the 15 comparison public institutions selected by the former CPEC. The 2014-2015 comparison institution tuition and fee average is \$10,126, and the CSU tuition and fee average is \$6,759, or 33 percent below the comparison average. The following table lists the 2013-2014 tuition and fee rates with a comparison to 2014-2015 rates:

2014/15 Comparison Institution Academic Year – Undergraduate Resident Tuition and Fees				
Campus	2013/14	2014/15	Increase	
Rutgers University (Newark, NJ)	\$13,499	\$13,813	\$314	2.3%
Illinois State University (Normal, IL)	\$13,009	\$13,296	\$287	2.2%
University of Connecticut (Storrs, CT)	\$12,022	\$12,700	\$678	5.6%
Wayne State University (Detroit, MI)	\$12,014	\$12,396	\$382	3.2%
George Mason University (Fairfax, VA)	\$9,908	\$10,657	\$749	7.6%
University of Maryland, Baltimore County	\$10,068	\$10,384	\$316	3.1%
Georgia State University at Atlanta	\$9,928	\$10,240	\$312	3.1%
Arizona State University at Tempe	\$10,002	\$10,157	\$155	1.5%
Comparison Average	\$9,726	\$10,126	\$400	4.1%
Cleveland State University	\$9,448	\$9,636	\$188	2.0%
University of Colorado at Denver	\$7,658	\$9,510	\$1,852	24.2%
University of Wisconsin at Milwaukee	\$9,300	\$9,391	\$91	1.0%
State University of New York at Albany	\$9,230	\$9,260	\$30	0.3%
University of Texas at Arlington	\$8,878	\$8,878	\$0	0.0%
North Carolina State University	\$8,206	\$8,296	\$90	1.1%
California State University	\$6,695	\$6,759	\$64	1.0%
University of Nevada at Reno	\$5,745	\$6,639	\$894	15.6%

The 2014-2015 CSU comparison institution *resident graduate* tuition and fees are listed in the table below. The CSU has the lowest *resident graduate* tuition and fee rates among the 15 comparison institutions. The 2014-2015 comparison institution tuition and fee average is \$12,121, and the CSU tuition and fee average is \$8,025, or 34 percent below the comparison average. The following table lists the 2013-2014 tuition and fee rates with a comparison to 2014-2015 rates:

2014/15 Comparison Institution Academic Year – Graduate Resident Tuition and Fees				
Campus	2013/14	2014/15	Increase	
Rutgers University (Newark, NJ)	\$14,596	\$18,747	\$4,151	28.4%
University of Maryland, Baltimore County	\$15,576	\$16,296	\$720	4.6%
Wayne State University (Detroit, MI)	\$14,848	\$15,352	\$504	3.4%
University of Connecticut (Storrs, CT)	\$13,662	\$14,472	\$810	5.9%
Cleveland State University	\$13,544	\$13,816	\$272	2.0%
George Mason University (Fairfax, VA)	\$12,038	\$12,414	\$376	3.1%
Comparison Average	\$11,053	\$12,121	\$1,068	9.7%
State University of New York at Albany	\$11,295	\$11,920	\$625	5.5%
University of Wisconsin at Milwaukee	\$11,596	\$11,686	\$90	0.8%
North Carolina State University	\$9,352	\$11,496	\$2,144	22.9%
Arizona State University at Tempe	\$10,818	\$11,303	\$485	4.5%
Georgia State University at Atlanta	\$10,480	\$10,814	\$334	3.2%
University of Colorado at Denver	\$9,432	\$10,452	\$1,020	10.8%
University of Texas at Arlington	\$10,200	\$10,200	\$0	0.0%
University of Nevada at Reno	\$6,958	\$8,584	\$1,626	23.4%
Illinois State University (Normal, IL)	\$8,034	\$8,362	\$328	4.1%
California State University	\$7,961	\$8,025	\$64	0.8%

CSU ranked among the bottom quartile for *nonresident undergraduate* tuition and fees of the CSU's public peer comparison institutions. CSU nonresident undergraduate tuition (which includes the systemwide tuition charge) and fee is \$17,919 per academic year in 2014-2015. This is approximately 25 percent below the comparison average rate of \$23,883.

2014/15 Comparison Institution Academic Year – Undergraduate Non-Resident Tuition and Fees				
Campus	2013/14	2014/15	Increase	
University of Connecticut (Storrs, CT)	\$30,970	\$32,880	\$1,910	6.2%
George Mason University (Fairfax, VA)	\$28,592	\$30,235	\$1,643	5.7%
Rutgers University (Newark, NJ)	\$27,523	\$28,591	\$1,068	3.9%
Georgia State University at Atlanta	\$28,138	\$28,450	\$312	1.1%
University of Colorado at Denver	\$21,781	\$27,030	\$5,249	24.1%
Wayne State University (Detroit, MI)	\$25,996	\$26,826	\$830	3.2%
Arizona State University at Tempe	\$23,654	\$24,503	\$849	3.6%
Comparison Average	\$22,082	\$23,883	\$1,801	8.2%
North Carolina State University	\$21,662	\$23,551	\$1,889	8.7%
University of Maryland, Baltimore County	\$21,642	\$22,682	\$1,040	4.8%
State University of New York at Albany	\$19,550	\$20,900	\$1,350	6.9%
Illinois State University (Normal, IL)	\$20,450	\$20,886	\$436	2.1%
University of Nevada at Reno	\$19,655	\$20,549	\$894	4.5%
University of Texas at Arlington	\$14,188	\$20,274	\$6,086	42.9%
University of Wisconsin at Milwaukee	\$19,028	\$19,119	\$91	0.5%
California State University	\$17,855	\$17,919	\$64	0.4%
Cleveland State University	\$12,628	\$17,738	\$5,110	40.5%

Conclusion

For the fourth straight academic year, the CSU systemwide tuition rate has not changed. Systemwide, campus-based mandatory fees increased between 2013-2014 and 2014-2015 by an average of \$64 per student. When compared to peer institutions, a CSU education is the most or second most affordable institution. Those already low rates, coupled with the many institutional financial aid programs offered at the CSU have made a CSU education an affordable option for students from all socio-economic backgrounds. To illustrate this, below are some statistical examples, based on currently available data:

- About 76 percent of all CSU students (319,000) received nearly \$3.8 billion in total financial assistance.
- 57 percent of undergraduates have their tuition fully covered by grants or waivers.
- 51 percent of CSU baccalaureate recipients graduated with zero education loan debt.
- Of the 49 percent who graduated with debt, the average loan debt of \$18,460 is lower than the California average of \$20,269 and well below the national average of \$29,400.

COMMITTEE ON FINANCE

Working Group on Category II Student Success Fee

Presentation By

Timothy P. White
Chancellor

Summary

In response to the charge of the chair of the California State University Board of Trustees and the requirements of Section 89712 of the California Education Code, the preliminary findings and recommendations of the Working Group on Category II Student Success Fee will be presented as an information item.

Working Group on Category II Student Success Fee Overview

In June 2014, the governor signed SB 860, Chapter 34, which amended the state Education Code to place a moratorium on approval of new California State University (CSU) student success fees until January 1, 2016. The legislation further required the chancellor to conduct a review of student success fees during fiscal year 2014-2015 and make recommendations to the trustees on changes to the fee policy. On June 20, 2014, the chair of the Board of Trustees formed a Working Group on Category II Student Success Fee to study the role, process, and enactment of category II campus-based mandatory student success fees.

The working group was charged with studying and presenting findings on the process and history of this fee including its notification, accountability, and outcome reporting processes; impact on student success and affordability; and the inequity of its application across the 23-campus CSU system. A preliminary report on the membership of the working group, its charge, and the initial review of the fee process at the 12 campuses that have enacted student success fees was presented to the board at its September 2014 meeting.

Preliminary Findings

Various category II fees, often called “success fees” which began in 2008, are required for students to enroll and attend at 12 of the CSU campuses. These fees have often been enacted in response to significant reductions in state financial support to the CSU and individual campus needs. As a result of these funding cuts, administrators have turned to these fees in their on-going good-faith efforts to provide the quality educational experiences students deserve. This working group applauds and supports the goals and intentions of the campus administrators in their efforts.

Success fees have been used in a number of ways, depending on each campus' decision. Some campuses have dedicated significant portions of the student success fee revenues for new technology, campus-wide WiFi, library hours, veteran services, career services, athletics and additional benefits for students that would otherwise be unfunded. At least one campus was very specific in rejecting any use of success fees for purposes that historically were sufficiently covered by tuition and state appropriation. Other campuses have used success-fee revenues to hire additional faculty, advisors, counselors and tutors, provide more courses and fund other educational needs traditionally supported in part by tuition and state appropriation.

In January 2011, Executive Order 1054 mandated fee structures and procedures that stated, "The policy presumes that a student fee referendum will be conducted before adjusting or establishing category II fees. The president, however, may waive the referendum requirement if he/she determines that a referendum is not the best mechanism to achieve appropriate and meaningful consultation."

Of the 12 campuses with success fees, 10 did not have student referendums. Two campuses had referendums that supported the fees, but one of those campuses allowed students to vote only if they had proof of attending alternative consultation meetings about the fee proposal. A third campus administration did not support a campus-wide referendum and a vote by the Student Fee Advisory Committee rejected the proposed fee. Despite the student rejection, the fee was imposed by the prior administration.

According to some administrators, "alternative consultation" meetings were used instead of student votes due to historically low turnout in campus voting. Other campuses relied on alternative consultation to educate and inform students as well as receive their input to finalize a recommendation to the president and chancellor.

Success fees have recently engendered controversy on some campuses, in the legislature (with the moratorium through 2015 on any new success fees), and among the public as exemplified by media coverage and negative editorial comments. Concerns have included increased fees being imposed on students who may already be struggling financially, lack of legitimacy in conducting student voting without restrictions, lack of transparency at some campuses regarding how funds from the success fees are allocated, and use of these funds for classroom purposes historically covered by tuition and state funding. Using success fees for classroom purposes historically covered by tuition and state funding may be cause for concern because a) decisions about the imposition of tuition are associated with category I fees and are decided by the Board of Trustees and not others, and b) the governor's four-year budget plan for the CSU is clearly linked to an understanding of a moratorium on tuition increases.

Preliminary Recommendations

The Working Group on Category II Student Success Fee therefore recommends a rigorous consultation process be undertaken to inform and educate students on the uses, impact, and cost of a proposed student success fee. Following consultation, a binding student vote shall be taken. All students who are eligible to vote in student government elections shall be eligible to vote on the student success fee proposal.

All success fee plans now in place shall remain unchanged, including any previously established increments. A campus that considers a net new addition to an existing fee shall proceed as described in the above paragraph. Any campus proposing a new fee or an increase to an existing fee not already scheduled will consult with the chancellor and must receive approval on the process before proceeding. Success fee proposals may not be brought before the student body more frequently than once per academic year.

If the proposed fees are accepted by a simple majority of the students voting, imposition of the fees shall still be contingent on approval by the campus president and chancellor.

The working group further recommends that each campus be required to have a transparent, online accountability protocol that clarifies the decision process and allocation of fees. All campuses shall be held to this standard for any existing and new student success fees imposed in the future. In addition, all campus advisory groups that recommend or make final decisions on fund allocations shall include majority student representation.

Remaining Discussion Items

The workgroup, while unanimously supportive of the above recommendations, did not reach consensus on the approval authority for category II fees if such fees are for classroom purposes and historically are covered by tuition and state funding. On one hand, workgroup members support the existing policy that the chancellor has authority. An alternative view is the Board of Trustees should be the approval authority.