

AGENDA

COMMITTEE ON FINANCE

Meeting: **1:00 p.m., Tuesday, January 22, 2019**
 Glenn S. Dumke Auditorium

John Nilon, Chair
Peter J. Taylor, Vice Chair
Jane W. Carney
Douglas Faigin
Emily Hinton
Jack McGrory
Hugo N. Morales
Lateefah Simon
Christopher Steinhauser

- Consent** 1. Approval of Minutes of the Meeting of November 13, 2018, *Action*
 2. 2019-2020 Lottery Budget and Report, *Action*
- Discussion** 3. 2019-2020 Operating Budget Update, *Information*

**MINUTES OF THE MEETING OF THE
COMMITTEE ON FINANCE**

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

November 13, 2018

Members Present

John Nilon, Chair
Peter J. Taylor, Vice Chair
Jane W. Carney
Douglas Faigin
Emily Hinton
Jack McGrory
Hugo N. Morales
Lateefah Simon
Christopher Steinhauser
Adam Day, Chairman of the Board
Timothy P. White, Chancellor

Trustee John Nilon called the meeting to order.

Public Comment

There were nine requests for public comment. A representative of Education Trust West expressed support for the \$15 million budget request for student basic needs. Several students commented on the need to increase inclusivity efforts and mental health resources on campuses. They also spoke in favor of ethnic and gender studies. Representatives of the California Faculty Association made comments about a budget that reflects true needs and the additional money received from the state for enrollment and tenure-track faculty hiring. Representatives of the CSU Employees Union expressed concern over the availability of student mental health service resources and the contracting out of other services.

Approval of Minutes

The minutes of the September 11, 2018 meeting of the Committee on Finance were approved as submitted.

2018-2019 Student Fee Report

Information about the CSU's systemwide tuition and fees and campus-based mandatory fees was provided. CSU tuition and fees remains below the comparison institutions' average. Additional information on affordability, including grants, financial aid, and student loan debt was also presented.

Following the presentation, the trustees spoke about student success fees and the true cost of attendance, which includes more than just tuition and fees. They discussed out-of-state tuition and requested that the task force assigned to review revenue opportunities consider changes to out-of-state tuition rates.

2017 Systemwide Hate Violence Report

Information about criminal and non-criminal acts of hate violence on CSU campuses was presented.

Following the presentation, the trustees asked questions about the difference between criminal and non-criminal acts, prior year reported instances, and how the CSU compares to other institutions. Chief George Hughes, of Cal Poly San Luis Obispo responded and clarified that only instances occurring on campus property were included in the CSU report and that incidents occurring off campus would be reported by the public agency with jurisdiction over that area. He added that generally the CSU trends with the State of California.

The trustees requested to hear more information during the next annual report from the campus presidents about how they deal with and prevent similar incidents. They also asked questions about the process for students to report incidents.

California State University Annual Investment Report

Information about the CSU's annual investments was reported.

Following the presentation, the trustees commented on the benefits of having increased investment authority and how the higher earnings will help reduce our deferred maintenance backlog.

Approval of the 2019-2020 Operating Budget Request

The 2019-2020 CSU Operating Budget Request was presented for approval. The request totals \$554.3 million of new funding, \$456 million from the state's general fund and \$98.3 million in new tuition revenue from a five percent enrollment growth. Individual components of the request include funding for year three of the Graduation Initiative 2025, five percent enrollment growth, employee compensation increases, academic facilities and infrastructure, and mandatory cost

increases. Given the state's ability to provide one-time money, the request also includes one-time funding requests of \$15 million for student basic needs partnerships and \$250 million for deferred maintenance.

Following the presentation, the trustees discussed the level of funding requested for deferred maintenance and basic needs. They also asked questions about enrollment growth and associated revenue, and requested information on student persistence and its possible effects on new enrollment.

The committee recommended approval of the proposed resolution (RCPBG 11-18-04).

Trustee Nilon adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

2019-2020 Lottery Budget and Report

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item requests that the California State University Board of Trustees approve the 2019-2020 lottery budget. In accordance with CSU lottery guidelines, this item also contains a report of actual lottery fund expenditures in 2017-2018.

Background

The Lottery Act allows for the expenditure of lottery receipts for public education. The Lottery Act requires that funds are “exclusively for the education of pupils and students” and the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research are not permissible uses of lottery funds.

To date, the CSU has received \$1.3 billion in lottery funds from the state. Over the past five years, annual CSU Lottery Fund receipts have averaged \$55.5 million. Approximately 84 percent of lottery resources are allocated directly to the campuses for instructionally-related programs and activities. Remaining funds are allocated to four systemwide programs; DREAM Loan program, Doctoral Incentive Program, Pre-Doctoral Program, and Summer Arts. The Chancellor’s Office uses approximately 1.4 percent of lottery resources to centrally manage lottery fund operations and meet reporting requirements.

Each year, the Board of Trustees adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates of CSU lottery receipts for the budget year and the program areas for allocation of those anticipated receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements.

The trustees have delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds.

2019-2020 Lottery Budget Proposal

The System Budget Office estimates total lottery receipts available to the CSU in 2019-2020 will be \$52.8 million. After setting aside \$5 million as a reserve to assist with cash-flow variations in quarterly lottery receipts and other economic uncertainties, the \$47.8 million 2019-2020 lottery budget proposal remains principally designated for campus-based programs and four systemwide programs that have traditionally received annual lottery funding support. The proposed budget includes a \$218,000 increase for the California Pre-Doctoral Program and a \$19,000 increase for administration of the Lottery Fund and administration of systemwide programs. The proposed budget also includes a \$3 million decrease to the campus Early Start Program for financial aid as the program changes priorities in light of changes in college readiness policy. The \$3 million decrease is offset in the budget with a \$3 million increase to campus-based programs.

Systemwide Programs

Under the proposed budget, approximately \$7.2 million would be allocated to the four systemwide programs and administration costs:

- DREAM Loan Program (\$2.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor's Doctoral Incentive Program (\$2.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program (\$1,038,000) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program (\$1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Administration of Lottery Fund and system programs (\$637,000) provides Lottery Fund and program administration functions.

Campus-Based Programs

The remaining \$40.6 million of anticipated 2019-2020 lottery receipts would be used to fund campus-based programs and the Early Start Program. \$35.6 million would be allocated directly to campuses, allowing presidents flexibility to meet unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of library materials and instructional equipment, curriculum development, and scholarships.

The proposed lottery budget would provide \$5 million to the Early Start Program for campus-based financial aid. An eligible student may receive a need-based fee waiver to ensure that financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first-time freshmen students who need additional college preparation in math or English and take courses during the summer term prior to matriculation at any of the CSU campuses.

As stated, the proposed budget sets aside \$5 million as a reserve to assist with cash-flow and economic uncertainties. If quarterly lottery receipts remain strong, the Chancellor's Office will work with campuses during 2019-2020 to allocate the \$5 million reserve for innovative campus-based programs that support Graduation Initiative 2025 efforts.

The CSU Lottery Budget proposed for 2019-2020 is as follows:

2018-2019 Adopted and 2019-2020 Proposed Lottery Budget		
	2018-2019 Adopted Budget	2019-2020 Proposed Budget
Sources of Funds		
Beginning Reserve	\$5,000,000	\$5,000,000
Receipts	47,576,000	47,819,000
Total Revenues	\$52,576,000	\$52,819,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$47,576,000	\$47,819,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$2,000,000	\$2,000,000
California Pre-Doctoral Program	814,000	1,038,000
CSU Summer Arts Program	1,500,000	1,500,000
DREAM Loan	2,000,000	2,000,000
	<u>\$6,314,000</u>	<u>\$6,538,000</u>
<i>Campus-Based Programs</i>		
Campus Programs	\$32,644,000	\$35,644,000
Campus Early Start Financial Aid	8,000,000	5,000,000
	<u>\$40,644,000</u>	<u>\$40,644,000</u>
<i>Lottery Fund & System Programs Administration</i>	<u>\$618,000</u>	<u>\$637,000</u>
Total Uses of Funds	\$47,576,000	\$47,819,000

Reporting Requirement

In accordance with the CSU lottery guidelines, the CSU annually reports past year actual lottery expenditures to the Board of Trustees. This section of the agenda item satisfies that requirement. In 2017-2018, similar to prior years, the majority of lottery funds were spent on instruction and instruction-related programs and services that supplement the CSU operating budget. The following table summarizes how available lottery revenues were spent in 2017-2018:

2017-18 Lottery Expenditures		
Program Support Area	Expenditures	Percentage of Total Expenditures
Doctoral Incentive Program	\$0	0.0%
California Pre-Doctoral Program	973,605	1.8%
DREAM Loan Program	0	0.0%
CSU Summer Arts Program	1,525,670	2.8%
Campus Programs	44,744,203	81.1%
Campus Early Start Financial Aid	7,245,339	13.1%
Lottery Fund & System Programs Admin.	671,467	1.2%
Total	\$55,160,284	100.0%

Note: The DREAM Loan Program was funded through a one-time state General Fund allocation of \$2 million, which came after \$1 million was budgeted.

Note: The Doctoral Incentive Program is a revolving educational loan program. The budget included \$2 million for any net increase in program participation, but funds were unnecessary as existing loan repayments supported the issuance of new loans to new participants.

Carry forward balances from prior years were also used in 2017-2018 to fund several systemwide and campus programs, such as library services, early assessment program support, and technology initiatives.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2019-2020 lottery budget totaling \$52.8 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2019-2020 lottery budget approved by the Board of Trustees to the extent that receipts are greater or less than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2019-2020 lottery budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

2019-2020 Operating Budget Update

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item informs the California State University Board of Trustees of the latest developments on the state and CSU budget plans for 2019-2020. In short, state tax revenue is expected to grow over the next two years, and the governor's budget proposes \$562 million of new investments that specifically align with the priorities of the 2019-2020 CSU budget request. The governor's administration proposed a \$300 million increase in recurring funding for Graduation Initiative 2025, new student enrollment, employee compensation, and mandatory costs and a \$262 million increase in one-time funding for deferred maintenance and basic needs partnerships. Governor Newsom's budget proposal is the single largest proposed investment by any governor in the history of the CSU.

The CSU is appreciative to Governor Newsom and his administration for the investments proposed for 2019-2020.

CSU Funding Progress since the Great Recession

Since the state began reinvesting in the CSU in 2013-2014, the CSU has been able to do more for students and the state by making improvements to many key student success areas. Graduation and retention rates, the number of graduates, average unit loads, and average time to degree are at record levels. Many students have taken advantage of increased offerings to save time and money by finishing their degrees a term earlier than would have been possible during the Great Recession. With their degrees in hand, students and CSU alumni benefit from greater earnings potential over the course of their professional careers. The state and the CSU investment of \$271 million (\$198 million recurring and \$73 million one-time funds) in student success and completion initiatives like the Graduation Initiative 2025 has been a primary factor. The CSU anticipates that more can be accomplished if the multi-year, recurring investment in the initiative continues.

Another example is additional student access. Since the economic recovery, the CSU has increased funded student enrollment by over 31,000 full-time equivalent students, which is equivalent to creating two new CSU campuses the size of CSU San Bernardino and CSU Chico. This increase helps California in at least two ways. First, as more students across California complete the A-G requirements for CSU and UC eligibility, and more transfer students complete the Associate Degree for Transfer, the CSU can serve more of these Californians who have the goal of attending a four-year university. Second, additional student access translates to more Californians with degrees—a critical need of the state, as suggested in the Public Policy Institute of California’s anticipated 1.1 million degree drought.

One final example is faculty and staff salary enhancements. Since 2013-2014, CSU has regularly provided annual salary increases to all employees. This helps employees deal with the effects of inflation, improves morale and retention, and aids in recruitment of qualified faculty and staff who teach, support, and care for students. Between 2008-2009 and 2012-2013 this was not possible. No salary increases occurred during that stretch and in 2009-2010 all employees were furloughed two days per month, equivalent to a ten percent salary reduction.

California’s Fiscal Outlook

CSU’s progress since the Great Recession has the potential to continue because the state’s fiscal outlook is positive for 2019 and 2020. Since the November 2018 Board of Trustees meeting, three reputable entities have published forecasts for California’s economy and the resulting effect on the state budget – the Legislative Analyst Office (LAO) California Fiscal Outlook in November 2018, the University of California, Los Angeles Anderson Forecast in December 2018, and the Department of Finance 2019-2020 Governor’s Budget in January 2019. All three forecasts conclude that economic growth will persist, but taper from now through 2020. These conclusions are due to a mix of factors, unemployment is low, there is steady personal income growth, job and housing growth is still positive, but recent stock market and international trade developments are a concern. Altogether, there is an expectation of greater tax receipts primarily in personal income taxes in 2019 and 2020, however all three reports caution that current growth rates will slow.

To illustrate the short-term positive fiscal trajectory, the LAO’s California Fiscal Outlook noted it is difficult to overstate how good the California budget is today, but the state’s fiscal condition can change quickly. The LAO estimates discretionary resources could grow \$5.7 billion, reaching \$14.8 billion in available new resources in 2019-2020 (most of which is one-time in nature). This projection is very high by historical standards. In a more cautious recession scenario, the economy begins to trend downward in the third quarter of 2020, leading to recommendations of caution on new investments in 2019-2020.

Similarly, the short-term fiscal trajectory provided by the Department of Finance in the release of the Governor's Budget reported revenue growth of \$8.1 billion since this past summer, reaching \$21.4 billion in available new resources in 2019-2020 (most of which is one-time in nature).

In May 2019, revisions to these revenue estimates will be updated, but it appears likely the state still will have a significant amount of new revenue at the end of the budget cycle to be used for discretionary purposes such as investments in the CSU. The university stands ready to build additional educational opportunities and capacity for California for the long run.

In past recessions the state had little or no reserves as it entered these economic downturns. For the next recession, whenever that comes, the state already has approximately \$13.8 billion in its rainy-day fund, which would grow to \$15.3 billion under the governor's latest proposal. This reserve should significantly soften the blow of the next recession.

Regardless of some differences in the economic forecasts today, the state is on track to receive more tax revenue in 2019 and 2020, a large surplus is at hand, and a substantive reserve is available to mitigate the risk of any challenging economic times. These conditions are likely to mean continued increases in state program expenditures, like the CSU.

Governor's Budget Proposal - State Overview

The Governor's Budget proposal anticipates a budget surplus of \$21.4 billion and proposes to dedicate \$16.6 billion to eliminate debts, build reserves (including more into the rainy-day fund) and pay down unfunded retirement liabilities for the state and K-12 schools. Overall, the governor's proposal reports dedicating 86 percent of the budget surplus for one-time uses and 14 percent to recurring purposes—a prudent approach for 2019-2020.

CSU Budget Plan and the Governor's Budget Proposal

The CSU 2019-2020 operating budget plan calls for continued and increased state investment in the CSU. This budget plan, which totals \$554.3 million in new resources, would address necessary new investments in the CSU and build on the momentum of recent years. The budget plan is comprised of a request of \$456.0 million in state general fund and \$98.3 million of tuition revenue from enrollment growth. The five areas of investment are:

- \$75 million for the third year of Graduation Initiative 2025;
- \$147.8 million for significant funding for compensation increases for all employee groups;
- \$206.1 million for enrollment growth of five percent, or 18,207 full-time equivalent students;
- \$80 million investment in critical infrastructure; and
- \$45.4 million for mandatory cost increases for health care, minimum wage and retirement.

Additionally, \$250 million of one-time funding for deferred maintenance and \$15 million of one-time funding for basic needs partnerships are included in the request.

Altogether, the budget request contains recurring and one-time state general fund investments that total \$721 million.

Through the budget proposal, the governor demonstrated his significant commitment to the university. Governor Newsom's January proposal for the CSU operating budget is the single largest proposed investment by any governor in the history of the CSU. The proposal totals \$562 million of recurring and one-time investments that align with the priorities of the CSU budget request. The below table includes the areas of investment and the governor's proposed increases in each area.

Investment Area	Funding (in millions)	Funding Type
Compensation Increases	148.0	Recurring
Mandatory Cost Increases	45.0	Recurring
Graduation Initiative	45.0	Recurring
2% Increase in Resident Enrollment	62.0	Recurring
Deferred Maintenance Backlog	247.0	One-Time
Basic Needs Partnerships	15.0	One-Time
Total	\$562.0	

Conclusion

Since the end of the Great Recession, the CSU has made significant gains in bolstering student success, improving time to degree, improving student access for first-year and community college students, providing faculty and staff with necessary and well-deserved salary increases, and addressing infrastructure needs and the deferred maintenance backlog.

According to economic forecasters, the state will continue on its positive fiscal trajectory in calendar years 2019 and 2020, but with increased caution over a looming recession. The Governor's Budget proposal affirms this and strikes a balance between eliminating debts, building reserves, and paying down unfunded retirement liabilities while also dedicating more state revenue to more mandatory and discretionary purposes for 2019-2020.

The governor's January proposal is an outstanding first step of this budget cycle and the CSU greatly appreciates the governor's trust in and commitment to CSU and its mission. CSU advocacy efforts with the state will consistently and effectively continue to make the case that an investment in the CSU is a wise investment in the future of California.

If, during the coming months, the legislature and governor choose to invest more recurring state funding in the graduation initiative, resident enrollment growth and academic facilities and infrastructure, the university stands ready to build those additional educational opportunities and capacity for California for the long run.