

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:15 p.m., Tuesday, March 14, 2006
Glenn S. Dumke Auditorium

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

Consent Item

Approval of Minutes of Meeting of January 31, 2006

Discussion Items

1. Report on the 2006-2007 Support Budget, *Information*

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

January 31, 2006

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Robert G. Foster
Murray L. Galinson, Chair of the Board
Corey Jackson
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig R. Smith

Approval of Minutes

The minutes of November 8, 2005 were approved.

Report on the 2006-2007 Support Budget

Mr. William Hauck introduced Mr. Patrick J. Lenz, Assistant Vice Chancellor, Budget Development, and asked him to present the item.

Mr. Lenz greeted the committee noting that from a state budget perspective; the year was beginning on a positive note for the California State University.

With the aid of a PowerPoint slide presentation, Mr. Lenz provided a comprehensive review and analysis of recent changes in California's fiscal climate, the Governor's 2006/2007 state budget, and the 2006/2007 CSU budget.

The Governor's budget brought many welcome surprises in addition to relief for students with the buy-out of the student fee increase. The Governor's proposed 2006/2007 CSU Budget provided an additional \$54.4 million from the state general fund to "buy-out" the proposed increase in undergraduate and graduate student fees in the 2006/2007 academic year.

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The Governor's budget also supports, with some modifications, the Trustees approved budget under the Higher Education Compact for mandatory costs, enrollment growth, financial aid, compensation, and long-term need.

An important development in the budget includes trailer bill language that would place student fee revenue in the CSU local trust fund rather than the state General Fund. CSU views this as a major benefit that will allow for streamlining the financial reporting process and improving management of CSU resources. Another positive change involved changes in the marginal cost funding formula that will result in an additional \$5 million for enrollment growth.

A less positive development revealed that the Administration deleted \$7 million from the university budget that is associated with campus outreach programs and systemwide academic preparation, and the University of California received a similarly proportional cut in this area. Mr. Lenz indicated the Senate Pro-Tem and the Speaker of the Assembly have already declared this issue a high priority for budget restoration.

Chair Galinson complimented Mr. Lenz on the excellent presentation and thanked all staff members involved in the budget development process for working so quietly and efficiently in getting the job done.

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

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Service, presented the item. Mr. Hordyk informed the committee that since printing of the agenda book, the item relating to Sacramento State had been revised and copies of the revised item had been distributed before the committee meeting. He explained the reason for the revision was due to the receipt of construction bids for the project that were not available when the agenda went to print.

Mr. Hordyk continued noting that the revised item requested authorization for the issuance of Systemwide revenue bonds and interim financing through the university's commercial paper program in an aggregate amount not-to-exceed \$61,510,000 to provide funding for two projects.

Channel Islands Student Housing, Phase 2

The first project was a request from the CSU, Channel Islands campus to approve financing for their Student Housing Phase 2 project. Mr. Hordyk explained the details of the project as set forth in the written agenda item.

Dr. Richard R. Rush, President, CSU, Channel Islands, addressed the committee and provided background on the significant need for on-campus housing at the campus. He informed the committee that because of existing law, it is unlikely that any property development could take

place in the surrounding county without a vote by the entire county. Therefore, the likelihood that affordable housing would ever be constructed proximate to the campus was doubtful.

Dr. Rush added that approval of the proposed on-campus housing project would support the strong desire of students to live on campus and experience the full benefit of living in a college community environment.

Sacramento University Enterprises Bookstore Project

Mr. Hordyk stated in July 2004, the board approved the financing for a new building to house the campus' bookstore. He reviewed the terms and details of the proposed project that would include retail and office space in addition to housing the campus bookstore.

The University Enterprises Inc. (Enterprises) will contribute \$5,000,000 to the project, with a not-to-exceed par value of the proposed bonds at \$19,485,000. At the time the agenda was initially prepared, the campus had not received construction bids and the total project cost was estimated to be \$22.5 million.

Subsequently, construction bids were received necessitating revision of the agenda item. Receipt of the bids caused the cost of the project to increase by approximately \$700,000. To offset this increase, the university union, (the auxiliary on campus that runs the bookstore) will contribute an additional \$1 million for a total of \$6 million

Mr. Hordyk added due to an existing operating agreement between the Enterprises and Follett Higher Education Group, Inc. a private entity, the bookstore operations portion of this facility does not qualify under IRS regulations for tax-exempt financing and therefore a portion of this project will be financed with taxable bonds.

Mr. Hordyk pointed out the debt service ratios for the project are very strong and with the committee's approval, the campus expects to move forward with construction and open the facility in Spring 2007.

The committee recommended approval of the proposed resolution (RFIN 01-06-01).

COMMITTEE ON FINANCE

Report on the 2006-2007 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The Governor's January 2006-07 budget provides an augmentation of \$215 million to the California State University that continues the fiscal recovery after three years of budget reductions totaling over \$524 million. The Board will be given a brief overview of the 2006-07 budget, the recommendations of the Legislative Analyst Office (LAO) and initial reactions from the presentation by Chancellor Reed to the Assembly Budget Subcommittee.

2006-07 Support Budget Overview

Initial reaction to the Governor's January budget proposal has been mixed. The Governor's budget proposes expenditures from general funds totaling \$97.9 billion, even though the state is only projected to take in \$91.5 billion during the fiscal year. \$6.4 billion in one-time money is available because revenue last year and in the current year is higher than anticipated.

Some legislators are concerned the Governor has not proposed enough cuts to stabilize state spending while others object to proposed cuts in spending on the state's neediest residents. Spending would be increased for education, transportation and prisons while assistance would be cut for welfare recipients and stipend increases for the aged, blind and disabled. The Governor chose to divert efforts to eliminate California's operating deficit and decided to increase spending in areas such as education and transportation.

A centerpiece of the Governor's long-range budget plan is the expenditure of \$222 billion, including \$68 billion in bonds, to improve the state's infrastructure over the next 10 years. He proposed building more highway lanes, schools and prisons and rehabilitating the state's levees. Deciding how to address the continuing \$6.4 billion budget gap and satisfy the Governor's budget priorities will present some challenging issues before the legislature. Moreover, a

downturn in the economy remains a major threat on the state's ability to balance the budget and provide additional funding to the CSU over the current Compact Agreement.

CSU Budget

The CSU assumes the 2006-07 budget will contain approximately \$2.8 billion from the state General Fund, \$1.2 billion from fee revenue, and \$49 million from Lottery revenue for general operating support of just under \$4.5 billion. The 2006-07 CSU support budget augmentation of \$215 million consists of \$189 million from the General Fund and \$26 million from student fee revenue resulting from targeted enrollment growth. CSU believes a technical correction will be made in the calculation of enrollment growth funding at May Revise and that, generally, the Governor's budget will remain consistent with the revenue and expenditure assumptions requested and approved by this Board last October. The Board-approved request included:

- Increasing enrollment growth by 2.5 percent to serve an additional 8,306 Full-Time Equivalent Students,
- A set-aside of one-third of fee revenue increases for student financial aid,
- \$33.6 million to cover CSU mandatory cost increases,
- A compensation pool of \$93.9 million that begins a five-year plan to address critical CSU salary gaps, and
- \$10 million for long-term needs including technology, libraries, and instructional equipment.

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

LAO Recommendations

The LAO analysis recognizes that California has benefited greatly from an over \$11 billion three-year revenue increase since the 2005-06 budget was enacted; yet, the Analyst suggests the Governor's budget plan would still leave the state with major structural budget shortfalls and a large amount of other financial obligations outstanding. The Analyst believes addressing what is still a formidable fiscal problem is particularly important at this time given the inherent uncertainties about how long the strong revenue performance the state has been experiencing will last. The Analyst recommends that the Legislature reduce the amount of ongoing spending

increases proposed in this budget, and either hold the revenues that this frees up in reserves or use them to pay down more of the still-formidable budgetary debt the state owes.

The Analyst recommends the Legislature disregard the Compact agreement and use Master Plan principles in determining appropriate funding levels for higher education. The Analyst feels there should be an identifiable link to a COLA that addresses inflationary increase on the spending power of dollars received. The Analyst does not believe the 2.5% enrollment growth level proposed in the Compact registers with State demographic projections or recent CSU enrollment trends. Based on campuses actual enrollments for Fall 2005 and campuses estimates for Spring 2006, the CSU will show approximately 3.3% over the budgeted 2.5% amount. Because the CSU was short of the targeted enrollment for 2004-05 by 2,781 students, actual growth between 2004-05 and 2005-06 will be approximately 4.2%.

The Analyst will propose an alternative budget for CSU that provides for only 2% enrollment growth above current year targets, a 3.3% increase to the CSU base General Fund and elimination of the student fee rate increase buyout, and a 3% increase in student fee rates. The Analyst calculates that these changes will save the State \$84.9 million in revenue proposed in the Governor's 2006-07 budget for CSU, \$60.9 million by reducing proposed General Fund appropriations and \$24 million by scoring proposed budget plan expenditures to revenue generated by increasing student fee rates by 3 percent. The Analyst also recommends withholding action on the \$7 million reduction in one-time funds provided in 2005-06 for CSU's outreach programs, pending review of an evaluation of the programs to be submitted by CSU in April.

The Analyst recommends the State fund enrollment growth at \$6,407 per FTES rather than the \$6,792 based on the 2006/07 marginal cost methodology recommended by the Governor (which should increase to \$7,187 per FTES after a correction in the Governor's methodology is made at May revise). The reasons for the reduction are to correct problems in the Governor's proposed methodology that the Analyst believes does not recognize the contribution of student fees, creates over-budgeting for certain costs (principally faculty salaries), and limits legislative discretion over enrollment funding.

Conclusion

This is an information item, which will include a discussion of the California State University's response to the Analyst's budget recommendations.