

AGENDA

COMMITTEE ON FINANCE

Meeting: 8:30 a.m., Wednesday, November 16, 2011
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of September 21, 2011

Discussion Items

1. 2011-2012 Student Fee Report, *Information*
2. Report on the 2011-2012 Support Budget, *Information*
3. Approval of the 2012-2013 Support Budget, *Action*
4. Tuition Fee Increases—2012-2013 Academic Year, *Action*
5. 2012-2013 Lottery Revenue Budget, *Action*
6. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project, *Action*
7. California State University, Los Angeles University Development Corporation—Auxiliary Organization Dissolution Approval, *Action*
8. Cal Poly Pomona University Educational Trust—Auxiliary Organization Dissolution, *Action*

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

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

September 21, 2011

Members Present

William Hauck, Trustee
Lou Monville, Vice Trustee
Herbert L. Carter, Chair of the Board
Roberta Achtenberg
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Hsing Kung
Linda A. Lang
Bob Linscheid
Henry Mendoza
Glen O. Toney
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of July 12, 2011, were approved by consent as submitted.

Trustee Hauck noted that the agenda had been amended to remove item number 7 from consideration at this meeting.

Report on the 2011-2012 Support Budget

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, stated that the 2011-12 budget has been fraught with cuts and uncertainty. As he explained at the last board meeting, the budget was reduced by \$500 million earlier in the year with a possibility of an additional \$150 million reduction if certain taxes were not extended. In anticipation of the additional reduction, plans were developed to reduce the university budget to accommodate the additional \$150 million.

Dr. Quillian noted that the budget was eventually reduced by an additional \$150 million, and a recommendation was made to the board for a 12 percent tuition fee increase to cover that

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reduction. He explained that there is also a possibility of an additional \$100 million budget reduction if certain state revenue assumptions are not realized, commonly referred to as the “trigger.” If the CSU budget is reduced by an additional \$100 million, that would bring the 2011-12 budget reduction to three-quarters of a billion dollars. In talking with the campus business vice presidents, and many of the campus presidents, it is clear they are faced with real challenges due to these reductions and are working on managing them as best as possible while mitigating the impact on the CSU academic mission.

Mr. Robert Turnage, assistant vice chancellor for budget, was asked by Trustee Hauck to explain the “trigger” and its timing.

Mr. Turnage explained that one of the key elements of the final budget package that was approved by the legislature and Governor Brown was the inclusion of a mechanism they are calling the “trigger.” In order to close the final budget gap, an optimistic revenue assumption was made, based on receipts that the state received in the spring. The “trigger” has two tiers, the first tier involves the CSU as well as the UC, along with a few other entities. If the \$89 billion forecast were to fall short by a billion dollars or more, the first tier of automatic cuts are to take place. This will be determined by the director of finance in mid-December. The “trigger” legislation states that the CSU cut would be “up to” \$100 million, which allows for some discretion in judgment by the director of finance in determining what the final cuts will be.

Chancellor Reed added that one part of the “trigger” that people don’t realize is that the CSU has up to \$100 million, the UC has \$100 million, and the prison system has only \$20 million in cuts.

Mr. Turnage stated that he is hoping to get some advance indication from the Department of Finance on where things are headed on the “trigger.” Looking at the latest revenue and economic picture, it is not a very optimistic situation. At the moment, revenues are about \$600 million behind the \$89 billion forecast. Fortunately, the more important revenue receipt months lie ahead. Another development at the end of the legislative session was the issue involving online sales tax collections and the dispute with retailer Amazon, which resulted in a change in how the budget forecast resolution of that issue. As a result, there is about \$200 million of revenue in the 2012-13 budget that is not going to be collected in 2012-2013.

Trustee Fortune asked about the trigger for K-12.

Mr. Turnage responded that he didn’t have the exact amount but since K-12 is very large, the amount would probably be in the neighborhood of \$1 billion dollars. K-12 is considered in the second tier so revenues would have to be at least \$2 billion short of the \$89 billion forecast before K-12 is affected.

Planning for the 2012-2013 Support Budget

Dr. Quillian stated that planning for 2012-13 is difficult, given all of the current uncertainties, with the most significant being the dire fiscal condition of the state. In identifying budgetary needs for next fiscal year, these conservatively include restoration of an additional \$100 million if the “trigger” takes place, an increase in state support to cover, among other things, enrollment growth, maintenance needs, services for students and a compensation increase for CSU employees.

Mr. Turnage added that in this preliminary planning, despite the state’s fiscal condition, the CSU has legitimate increased funding needs that should be brought to the state’s attention. The preliminary number comes to about \$315 million in additional funding. Based on the state general fund and tuition fee revenue, it would be about an 8.2 percent year-to-year increase in resources, which is just a partial recovery of the cuts the CSU has taken. There are six items of need, the first of which is enrollment growth. A recommendation of a 5 percent increase in enrollment is being made at this point, which is a significant but achievable amount. Enrollment has been managed down for the past couple of years, and now enrollment is back on an upward trajectory. The demand from prospective students is great. The second item of need is mandatory costs (health and dental benefits, new space, energy). The third priority is an employee compensation increase of 3 percent. Most employees have gone four years without a general salary increase. The fourth item of need is funding for the student success in graduation initiatives, to which significance is given. The next item is urgent facility maintenance needs. There is a large backlog of infrastructure maintenance that has been building up. The final item is upgrade and renewal of the information technology infrastructure, which has been greatly neglected. This involves tremendously valuable state assets that must be protected and maintained to ensure technology infrastructure efficiency and effectiveness.

Chancellor Reed agreed with Mr. Turnage on potentially increasing the total amount for additional funding. Enrollment and admissions are hard to predict at this point. The CSU has managed enrollment down the past couple of years and then opened up enrollment this past spring. The chancellor reminded the board that it is not known if the \$100 million “trigger” will be treated as a recurring cut. It has been an enormous challenge to figure out ways to maintain quality and to serve as many students as fiscally possible.

Mr. Turnage was asked by Chancellor Reed to elaborate on recurring issues involving how much the CSU pays into the CalPERS retirement system as employer contributions. During the budget hearings, it had been asserted that the CSU had been given too much money by the state in 2009-10 to cover CSU employer contributions to CalPERS. The legislature rejected the proposal to cut the CSU budget by \$69.2 million for the alleged overage from 2009-10. More recently, another CalPERS issue was raised. In late August, the director of finance asked the CalPERS board to establish separate, higher employer contribution rates for the CSU versus other state agencies. The CSU in turn requested from the CalPERS board reassurance that the CSU budget would be kept whole and that the CSU would receive an augmentation to cover any rate increase,

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to which the CalPERS board affirmatively. The proposal to have separate contribution rates for the CSU versus other state agencies was deadlocked, and the status quo will stay in place until this issue can be brought before the CalPERS board again. If passed, the proposal for split rates is a \$50 million risk to the CSU budget.

Trustee Hauck asked how the adjustment rate was calculated.

Mr. Turnage responded that the Department of Finance was interested in a more accurate accounting on CalPERS costs. This was because the rest of the state government, with the exception of the legislature and the courts, had bargained increases in employee contribution rates that allowed employer contribution rates to go down.

Trustee Monville asked if the proposal on the 3 percent employee compensation pool is across all employee groups?

Mr. Turnage explained that specific compensation increases get negotiated with individual unions but in theory it is the amount of money that would allow a 3 percent compensation increase to every employee.

Trustee Linscheid commented that if a 5 percent enrollment growth represents about \$100 million, then a \$750 million cut represents a 37 percent cut in enrollment.

Chancellor Reed added that the CSU revenue from the state is the same as it was in 1997-1998, except that there are now 80,000 more students enrolled. That is one of the reasons why the CSU is considered one of the most efficient university systems in the country.

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

2012-2013 Lottery Revenue Budget

Robert Turnage stated that the lottery revenue is about 1 percent of the overall university budget, which is used to fund very useful programs. At the board's direction, in the last cycle the carry-over reserves were drawn down by \$2 million in order to devote that much more money to the academic programs support. Due to the draw-down, the carry-over reserve dropped from \$5 million to \$3 million in the proposed 2012-2013 budget. The Early Start Program will begin in summer 2012, and this proposal recommends that lottery resources be used to provide financial aid for students in that program. In order to segregate out \$5 million for financial aid for the Early Start Program, the amounts going to various campus programs are being reduced.

California State University Annual Investment Report

George Ashkar, assistant vice chancellor for financial services, provided a brief summary on the recent systemwide revenue bond sale. The bond sale starts with presentations to the rating

agencies. Moody's affirmed the CSU credit rating of AA-2 with an outlook of stable and Standard & Poors affirmed an A-plus credit rating with an outlook of improved. These excellent credit ratings helped tremendously in the sale.

Mr. Ashkar stated that the annual investment report indicates the Systemwide Investment Fund Trust (SWIFT) portfolio provided a return of 0.56 percent during the 12 months ended June 30, 2011. The Surplus Money Investment Fund (SMIF) as well as the Local Agency Investment Fund (LAIF) holds money to meet payroll and debt requirements. There had been a request to review the benchmark for the pool due to the volatility of the financial markets. A decision was made to keep the SWIFT portfolio. No changes were made to the existing benchmark, but the appropriateness will continue to be monitored. The SWIFT portfolio is split between two investment firms: US Bancorp Asset Management, represented by Mr. Thomas Moore, managing director with US Bancorp Asset Management; and Wells Capital Management, represented by Mr. Mike Rogers, managing director of institutional fixed income.

Mr. Rogers stated that both he and Mr. Moore were providing an update on the current fiscal environment and what the implications are for the CSU investment portfolio. Europe has taken center stage in the financial markets, which has created a lot of uncertainty and volatility. Investors are shunning risk and seeking safety, and the treasury market has been the beneficiary of that behavior. The Federal Reserve remains transparent and has committed and stated that it is going to remain highly accommodative through mid-2013. To preserve the capital of the CSU portfolio, necessary liquidity needed to operate and competitive rates of return will continue to be provided.

Mr. Moore affirmed that the primary driver of the market volatility right now is because of what's going on in Europe. The potential for Greece to default and the further potential of contagion to other periphery European countries is causing a volatile market. US Bancorp's view, consistent with Wells Capital's view, is that the U.S. is not headed into a double-dip recession but that the GDP growth in this country will continue to be slow. Since the Federal Reserve has said that it is going to anchor rates in the 0 to 25 basis point range through 2013, there are opportunities for the CSU to capture additional yield in some high-quality instruments. Both US Bancorp and Wells Capital are positioning the CSU portfolio accordingly. The most important message is to expect continued volatility for a while and to also expect more negative headlines for quite some time.

California State University Investment Policy

Dr. Quillian requested that a change in the university investment policy be made so that it is consistent with recent changes made in investment options authorized by the government code. The state legislature has created the State Agency Investment Fund (SAIF). It is a special fund in which the CSU and other state agencies may invest in and earn a higher rate of return versus other investment options that are available at the state level. The change in the university investment policy adds SAIF to the investment options offered by the state along with state of California warrant and notes. This change will merely align the CSU's investment policy with the government code.

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

California Polytechnic State University Cal Poly Housing Corporation-Auxiliary Organization Dissolution Approval

Dr. Quillian stated that President Armstrong would provide details underlying the dissolution request.

Dr. Jeffrey Armstrong, president of California Polytechnic State University, San Luis Obispo, explained that when the Cal Poly Housing Corporation was formed in 2011, the corporation and the foundation endowments were still together. In 2006, the foundation was formed and the endowments were pulled out. The original Cal Poly Housing Corporation was formed to acquire and develop faculty, staff housing and to keep it separate from the endowment. Under the original corporation, 69 condominiums were built. There are no plans for future development, so the corporation is no longer needed. This dissolution will save an estimated \$25,000 annually in preparation of financial reports, audits and tax return costs.

Trustee Linscheid commented that the CSU dissolved an auxiliary at CSU Sacramento last year and wondered if the CSU will be reducing the number of auxiliaries at any other campus.

Chancellor Reed responded that the CSU currently has 92 auxiliaries. He has asked the campus presidents to review their campus auxiliaries to see if money can be saved by dissolving some of them.

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

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

2011-2012 Student Fee Report

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As required by the California State University student fee policy, the Board of Trustees is presented with an annual campus student fee report to enable consideration of the fee level and range charged to CSU students. Summary tables in this report include the 2011-12 academic year resident, undergraduate student tuition fees and campus-based mandatory fees required to enroll in or attend the university, by campus, and a comparison of 2010-2011 to 2011-2012 summary fee levels by campus.

Also included are tables with fee levels at the CSU's current 15 public comparison institutions. Comparison of 2011-2012 academic year resident, undergraduate, graduate, and nonresident student tuition and fee levels are presented.

2011-2012 Student Fee Report

CSU 2011-2012 academic year resident, undergraduate student fees include the systemwide tuition fee and mandatory campus-based fees. Systemwide tuition fee and campus-based fees average \$6,519 per academic year. This is comprised of \$5,472 for undergraduate tuition fee (6.1 units or more) and \$1,047 for average campus-based fees that must be paid to enroll in, or attend the university. The 2011-2012 systemwide tuition fee increased by \$1,032 (23 percent) from the 2010-2011 fee rates. The average campus-based mandatory fees increased by \$97 (10 %) to \$1,047 from the prior year.

Executive Order 1054, issued in January 2011, categorized CSU tuition and fees as follows: *Category I* fees are systemwide mandatory tuition fees charged at the same rate on all campuses, and are under the authority of the Board of Trustees. *Category II* fees are campus-based mandatory fees charged to all students in order to enroll at a particular university campus. *Category III* fees include all miscellaneous course fees charged for state-support courses in order to add materials or experiences to enhance the basic concert of academic course offerings at a particular campus. *Category IV* fees are charged by a campus in exchange for materials, services, or the use of facilities provided by the university, or as fines or deposits for various university

programs. *Category V* includes all fees charged by campus self-support programs, including parking, housing and extended education. All fee rates are reported to the chancellor annually by each campus.

The per-unit Graduate Business Professional fee was increased in 2011-2012. The fee is charged for all courses required for graduation in an approved master's degree program in business. The rate for 2011-2012 increased by 10 percent to \$254/semester unit and \$169/quarter unit (an increase of \$23 and \$15 respectively).

Credential program and graduate/other postbaccalaureate systemwide tuition fee rates are greater than the undergraduate tuition fee. In 2011-2012, credential program tuition fee rates increased by 23 percent to \$6,348 for 6.1 units or more per academic year. Graduate and other postbaccalaureate tuition fee rates also increased by 23 percent to \$6,738 for 6.1 units or more per academic year. Nonresident students pay per unit non-resident tuition fee in addition to applicable systemwide tuition fee. The nonresident tuition rate did not increase in 2011-12, and remains at the rate set in 2009-10; \$372 per semester unit and \$248 per quarter unit.

The following table displays the 2011-12 academic year resident, undergraduate student tuition and fees by campus.

| 2011-12 California State University Tuition and Fee Rates | | | | | | | | | |
|--|---|---------------|-------------------|-----------------|------------------------------------|---------------------------------|--------------------------|---------------------|---------------------------|
| | Undergraduate Tuition Fee* | | Health Facilities | Health Services | Instructionally Related Activities | Materials Services & Facilities | Student Body Association | Student Body Center | Tuition Fee + Campus Fees |
| | Up to 6 units | Above 6 units | | | | | | | |
| Bakersfield | \$3,174 | \$5,472 | \$6 | \$264 | \$160 | \$12 | \$333 | \$435 | \$6,682 |
| Channel Islands | \$3,174 | \$5,472 | \$6 | \$120 | \$200 | \$70 | \$124 | \$324 | \$6,316 |
| Chico | \$3,174 | \$5,472 | \$6 | \$250 | \$258 | \$58 | \$122 | \$724 | \$6,890 |
| Dominguez Hills | \$3,174 | \$5,472 | \$6 | \$150 | \$10 | \$0 | \$135 | \$322 | \$6,095 |
| East Bay | \$3,174 | \$5,472 | \$6 | \$225 | \$153 | \$84 | \$129 | \$345 | \$6,414 |
| Fresno | \$3,174 | \$5,472 | \$6 | \$186 | \$264 | \$46 | \$69 | \$220 | \$6,263 |
| Fullerton | \$3,174 | \$5,472 | \$6 | \$90 | \$72 | \$64 | \$148 | \$268 | \$6,120 |
| Humboldt | \$3,174 | \$5,472 | \$6 | \$388 | \$620 | \$290 | \$101 | \$185 | \$7,062 |
| Long Beach | \$3,174 | \$5,472 | \$6 | \$90 | \$50 | \$198 | \$88 | \$336 | \$6,240 |
| Los Angeles | \$3,174 | \$5,472 | \$6 | \$165 | \$123 | \$0 | \$54 | \$275 | \$6,095 |
| Maritime Academy | \$3,174 | \$5,472 | \$14 | \$680 | \$130 | \$30 | \$210 | \$0 | \$6,536 |
| Monterey Bay | \$3,174 | \$5,472 | \$0 | \$0 | \$60 | \$291 | \$96 | \$44 | \$5,963 |
| Northridge | \$3,174 | \$5,472 | \$6 | \$112 | \$30 | \$204 | \$164 | \$500 | \$6,488 |
| Pomona | \$3,174 | \$5,472 | \$6 | \$230 | \$40 | \$0 | \$102 | \$256 | \$6,106 |
| Sacramento | \$3,174 | \$5,472 | \$30 | \$220 | \$308 | \$24 | \$120 | \$399 | \$6,573 |
| San Bernardino | \$3,174 | \$5,472 | \$39 | \$167 | \$146 | \$177 | \$81 | \$372 | \$6,453 |
| San Diego | \$3,174 | \$5,472 | \$50 | \$300 | \$350 | \$50 | \$70 | \$286 | \$6,578 |
| San Francisco | \$3,174 | \$5,472 | \$6 | \$222 | \$236 | \$4 | \$102 | \$234 | \$6,276 |
| San Jose | \$3,174 | \$5,472 | \$106 | \$219 | \$222 | \$30 | \$147 | \$632 | \$6,828 |
| San Luis Obispo | \$3,174 | \$5,472 | \$9 | \$279 | \$278 | \$1,042 | \$285 | \$546 | \$7,911 |
| San Marcos | \$3,174 | \$5,472 | \$50 | \$140 | \$80 | \$324 | \$100 | \$430 | \$6,596 |
| Sonoma | \$3,174 | \$5,472 | \$28 | \$344 | \$414 | \$28 | \$184 | \$392 | \$6,862 |
| Stanislaus | \$3,174 | \$5,472 | \$13 | \$324 | \$248 | \$267 | \$112 | \$146 | \$6,582 |
| Average | \$3,174 | \$5,472 | \$18 | \$225 | \$194 | \$143 | \$134 | \$334 | \$6,519 |
| Average Campus Mandatory Fees | | | | | | | | | \$1,047 |
| Credential Program Tuition Fee* | \$3,684 | \$6,348 | | | | | | | |
| Graduate/Post Baccalaureate Tuition Fee* | \$3,906 | \$6,738 | | | | | | | |
| Education Doctorate Tuition Fee* | \$10,500 | | | | | | | | |
| Graduate Business Professional Fee* | \$169/quarter unit, \$254/semester unit in addition to graduate tuition fee and non-resident tuition fee if applicable. | | | | | | | | |
| Non Resident Tuition Fee* | \$248/quarter unit or \$372/semester unit in addition to applicable tuition fee rates. | | | | | | | | |
| *The campus mandatory fees are paid in addition to the above tuition fees. | | | | | | | | | |

The following table shows the 2010-2011 versus 2011-2012 academic year fee rate total by CSU campus. Increases in campus mandatory fees in 2011-2012, excluding the \$1,032 increase in undergraduate tuition fee rates, were primarily the result of fees for: construction/expansion of new/existing student recreation centers or student union buildings, the consolidation of Category III miscellaneous course fees into a Category II mandatory fee, or implementation of mental health services fee per EO 1053 at some campuses. Some campuses also have authorized annual incremental increases for certain mandatory fees that are tied to the California Consumer Price Index.

| 2010-11 and 2011-12 Academic Year, Resident, Undergraduate Fee Rates | | | |
|---|----------------|----------------|-----------------|
| Campus | 2010-11 | 2011-12 | Increase |
| Bakersfield | \$5,524 | \$6,682 | \$1,158 |
| Channel Islands | \$5,280 | \$6,316 | \$1,036 |
| Chico | \$5,830 | \$6,890 | \$1,060 |
| Dominguez Hills | \$5,059 | \$6,095 | \$1,036 |
| East Bay | \$5,301 | \$6,414 | \$1,113 |
| Fresno | \$5,089 | \$6,263 | \$1,174 |
| Fullerton | \$5,068 | \$6,120 | \$1,052 |
| Humboldt | \$5,960 | \$7,062 | \$1,102 |
| Long Beach | \$5,020 | \$6,240 | \$1,220 |
| Los Angeles | \$5,058 | \$6,095 | \$1,037 |
| Maritime Academy | \$5,504 | \$6,536 | \$1,032 |
| Monterey Bay | \$4,931 | \$5,963 | \$1,032 |
| Northridge | \$5,286 | \$6,488 | \$1,202 |
| Pomona | \$5,017 | \$6,106 | \$1,089 |
| Sacramento | \$5,405 | \$6,573 | \$1,168 |
| San Bernardino | \$5,259 | \$6,453 | \$1,194 |
| San Diego | \$5,416 | \$6,578 | \$1,162 |
| San Francisco | \$5,224 | \$6,276 | \$1,052 |
| San Jose | \$5,580 | \$6,828 | \$1,248 |
| San Luis Obispo | \$6,682 | \$7,911 | \$1,229 |
| San Marcos | \$5,254 | \$6,596 | \$1,342 |
| Sonoma | \$5,718 | \$6,862 | \$1,144 |
| Stanislaus | \$5,512 | \$6,582 | \$1,070 |
| Average | \$5,390 | \$6,519 | \$1,129 |
| Systemwide Tuition Fee | \$4,440 | \$5,472 | \$1,032 |
| Average Campus-Based Fees | \$950 | \$1,047 | \$97 |
| Total | \$5,390 | \$6,519 | \$1,129 |

The 2011-2012 CSU comparison institution academic year *resident, undergraduate*, student fees are provided below. The CSU is ranked among the bottom one-fifth for undergraduate tuition and fees rates among the 15 comparison public institutions and has the second lowest rate among all comparison institutions. The 2011-2012 comparison institution student fee average is \$9,290, and the CSU student fee average is \$6,519, or 30 percent below the comparison average. The following table lists the 2011-2012 tuition and fee rates with a comparison to 2010-2011 rate:

| Comparison Institution Academic Year - Undergraduate Resident Tuition and Fees | | | | |
|---|----------------|----------------|-----------------|-------|
| Campus | 2010-11 | 2011-12 | Increase | |
| Rutgers University (Newark, NJ) | \$12,560 | \$12,755 | \$195 | 1.6% |
| Illinois State University (Normal, IL) | \$11,399 | \$12,031 | \$632 | 5.5% |
| University of Connecticut (Storrs, CT) | \$10,416 | \$10,670 | \$254 | 2.4% |
| Wayne State University (Detroit, MI) | \$9,733 | \$10,578 | \$846 | 8.7% |
| Arizona State University at Tempe | \$8,134 | \$9,720 | \$1,586 | 19.5% |
| University of Maryland, Baltimore County | \$9,171 | \$9,462 | \$291 | 3.2% |
| University of Wisconsin at Milwaukee | \$9,032 | \$9,419 | \$387 | 4.3% |
| Georgia State University at Atlanta | \$8,698 | \$9,410 | \$712 | 8.2% |
| Comparison Average | \$8,736 | \$9,290 | \$554 | 6.3% |
| George Mason University (Fairfax, VA) | \$8,684 | \$9,266 | \$582 | 6.7% |
| Cleveland State University | \$8,466 | \$8,952 | \$486 | 5.7% |
| University of Texas at Arlington | \$8,500 | \$8,878 | \$378 | 4.4% |
| University of Colorado at Denver | \$7,327 | \$7,648 | \$321 | 4.4% |
| State University of New York at Albany | \$6,830 | \$7,172 | \$342 | 5.0% |
| North Carolina State University | \$6,529 | \$7,018 | \$489 | 7.5% |
| California State University | \$5,390 | \$6,519 | \$1,129 | 20.9% |
| University of Nevada at Reno | \$5,561 | \$6,372 | \$811 | 14.6% |

The 2011-2012 CSU comparison institution *graduate resident* students tuition and fees are listed with prior-year tuition and fee levels in the tables that follow. The CSU is ranked among the bottom one-fifth for *graduate* tuition and fee rates among comparison institutions and has the second lowest rate among all comparison institutions. The 2011-2012 comparison institutions graduate tuition and fee average is \$11,891, and the CSU's graduate tuition and fee average is \$7,785, or roughly 35 percent below the comparison institutions' average rate.

| Comparison Institution Academic Year - Graduate Resident Tuition and Fees | | | | |
|--|----------------|----------------|-----------------|-------|
| Campus | 2010-11 | 2011-12 | Increase | |
| University of Maryland, Baltimore County | \$17,250 | \$18,408 | \$1,158 | 6.7% |
| Rutgers University (Newark, NJ) | \$16,294 | \$17,960 | \$1,666 | 10.2% |
| George Mason University (Fairfax, VA) | \$13,667 | \$14,350 | \$683 | 5.0% |
| Wayne State University (Detroit, MI) | \$12,725 | \$13,626 | \$900 | 7.1% |
| Cleveland State University | \$12,201 | \$12,831 | \$631 | 5.2% |
| Georgia State University at Atlanta | \$11,012 | \$12,232 | \$1,220 | 11.1% |
| University of Connecticut (Storrs, CT) | \$11,828 | \$12,130 | \$302 | 2.6% |
| Comparison Average | \$11,136 | \$11,891 | \$755 | 6.8% |
| University of Wisconsin at Milwaukee | \$11,329 | \$11,567 | \$238 | 2.1% |
| University of Colorado at Denver | \$11,103 | \$11,144 | \$41 | 0.4% |
| State University of New York at Albany | \$9,543 | \$10,464 | \$921 | 9.7% |
| Arizona State University at Tempe | \$8,850 | \$10,222 | \$1,372 | 15.5% |
| University of Texas at Arlington | \$9,800 | \$10,200 | \$400 | 4.1% |
| Illinois State University (Normal, IL) | \$7,974 | \$8,801 | \$827 | 10.4% |
| North Carolina State University | \$7,045 | \$7,834 | \$789 | 11.2% |
| California State University | \$6,442 | \$7,785 | \$1,343 | 20.8% |
| University of Nevada at Reno | \$6,419 | \$6,601 | \$182 | 2.8% |

California State University ranked among the bottom one-fifth for *nonresident undergraduate* of the CSU's public comparison institutions. CSU nonresident undergraduate tuition (which includes the systemwide tuition charge) is \$17,679 per academic year in 2011-2012.

| Comparison Institution Academic Year - Undergraduate Non-Resident Tuition and Fees | | | | |
|---|----------------|----------------|-----------------|-------|
| Campus | 2010-11 | 2011-12 | Increase | |
| Georgia State University at Atlanta | \$26,908 | \$27,620 | \$712 | 2.6% |
| University of Connecticut (Storrs, CT) | \$26,880 | \$27,566 | \$686 | 2.6% |
| George Mason University (Fairfax, VA) | \$25,448 | \$26,744 | \$1,296 | 5.1% |
| Rutgers University (Newark, NJ) | \$24,316 | \$25,417 | \$1,101 | 4.5% |
| University of Nevada at Reno | \$18,851 | \$23,473 | \$4,622 | 24.5% |
| Wayne State University (Detroit, MI) | \$20,887 | \$22,730 | \$1,843 | 8.8% |
| Arizona State University at Tempe | \$20,598 | \$22,320 | \$1,722 | 8.4% |
| Comparison Average | \$20,306 | \$21,488 | \$1,181 | 5.8% |
| University of Colorado at Denver | \$20,011 | \$20,052 | \$41 | 0.2% |
| University of Maryland, Baltimore County | \$19,108 | \$19,870 | \$762 | 4.0% |
| North Carolina State University | \$19,064 | \$19,853 | \$789 | 4.1% |
| University of Wisconsin at Milwaukee | \$18,762 | \$19,149 | \$387 | 2.1% |
| Illinois State University (Normal, IL) | \$17,957 | \$18,391 | \$434 | 2.4% |
| University of Texas at Arlington | \$17,800 | \$18,268 | \$468 | 2.6% |
| California State University | \$16,550 | \$17,679 | \$1,129 | 6.8% |
| State University of New York at Albany | \$15,240 | \$16,622 | \$1,382 | 9.1% |
| Cleveland State University | \$13,577 | \$14,240 | \$662 | 4.9% |

COMMITTEE ON FINANCE

Report on the 2011-2012 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Budget Status

On June 30, Governor Brown signed the 2011-12 budget act, which further reduced state support for the CSU by \$150 million. This means the total reduction in state support is \$650 million, or nearly one-fourth of state support in 2010-11, and reduces state support from roughly \$2.7 billion down to approximately \$2.1 billion. In addition, the enacted budget package includes the possibility of an additional cut of up to \$100 million, to be determined by the Director of the Department of Finance in December 2011 based on whether, and to what extent, state revenues fall short of budget act assumptions. If the full “trigger” reduction takes place, the one-year loss of state support would be 27 percent, and total state support to the CSU would be at its lowest point since 1997, despite inflation and despite the fact that the CSU is serving about 90,000 more students.

Summary

At the November meeting, the board will be provided with an update of developments regarding the 2011-12 support budget.

COMMITTEE ON FINANCE

Approval of the 2012-2013 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

At its September meeting, the board was provided with an overview of the state's fiscal condition and budget challenges for 2012-2013. The board also was presented with preliminary revenue and expenditure assumptions for purposes of crafting a support budget request. This item presents for the board's review and approval a recommended support budget request for 2012-2013 for the university.

State Budget Overview

The 2011-2012 budget act closed a \$26.6 billion general fund gap, relying heavily on spending reductions to a wide range of public programs. The budget assumes that general fund revenues for 2011-2012 will total \$88.5 billion, but includes provisions for "trigger" reductions in various appropriations if the director of the Department of Finance concludes by mid-December that revenues will fall short of forecast by at least \$1 billion. National and state economic recovery remains remarkably weak, and the condition of the state's general fund remains especially precarious. Even if the revenue forecast for 2011-2012 holds, the amount is well below the \$94.8 billion collected in 2010-2011. This, in large part, reflects the expiration of three temporary tax extensions (vehicle license, sales and income taxes) that had been authorized in February 2009. For general fund revenues in 2012-2013 to approach levels that would enable the state to (a) address its remaining structural deficit (at least \$5 billion) and (b) restore funding in critical program areas, will require some additional taxes. The governor has stated that he intends to seek voter approval in November 2012 of additional taxes, as well as various spending reforms, although many important details remain under development. It is evident, however, that the ultimate level of state revenues and spending for 2012-2013 will probably depend to a significant degree on decisions to be made by the voters in November 2012.

2012-2013 CSU Support Budget

Despite the state's fiscal condition, the CSU has legitimate funding needs in order to carry out its critically important missions for California. In this agenda item, we ask for the board's approval of a recommended support budget request for 2012-2013 for the university. This recommended plan has received input from campus and system leaders, including the Systemwide Budget Advisory Committee, which has broad representation from campus presidents, academic senate, alumni, labor, and students. The planning approach is tempered by recognition of the state's ongoing fiscal challenge, yet represents a credible statement of the university's key funding needs.

Expenditure Plan. The recommended expenditure plan, shown as increases to current spending from state funds, tuition and systemwide fees, is summarized below. These recommended items will require new ongoing revenues, either from the state or from tuition fee revenues.

| | |
|---|----------------------|
| • Mandatory costs (health benefits, new space, energy) | \$26,256,000 |
| • Compensation increase (3 percent "pool") | 84,978,000 |
| • Graduation Initiative/student success | 58,000,000 |
| • 5 % enrollment growth | 154,930,000 |
| • Urgent maintenance needs | 30,000,000 |
| • Information technology infrastructure upgrade/renewal | 20,000,000 |
| • Instructional equipment replacement | 22,609,000 |
| • Center for California Studies | 489,000 |
| <i>Total ongoing expenditure change</i> | <i>\$397,262,000</i> |

This expenditure plan would bring annual spending for support of the CSU to almost \$4.4 billion.

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

State General Fund Increase:

| | |
|---|---------------|
| • Enrollment growth, programs and operations | \$189,533,000 |
| • Financial aid (enacted legislation, AB 131) | 4,500,000 |
| • Buy-out of tuition fee increase | 138,348,000 |
| • Center for California Studies | 489,000 |
| Total state general fund increase | \$332,870,000 |

Tuition Fees Revenue Adjustments:

| | |
|--|--------------|
| • Net tuition fee revenue from enrollment growth | \$84,468,000 |
| • Change in enrollment patterns | (15,576,000) |
| • Revenue loss due to enacted AB 131 | (4,500,000) |
| Total tuition fee revenue increase | \$64,392,000 |

Total Revenue Increase *\$397,262,000*

This revenue plan strikes a balance in meeting the increased expenditure needs of the university between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition fees, given the severe fiscal challenges still faced by the state. This 2012-2013 budget request provides the governor and legislature with an achievable plan for reinvestment in the CSU for the sake of California’s economic and social future. It also provides the governor and legislature the opportunity to moderate the amount that otherwise is needed from tuition fees by proposing a state “buy-out” of a tuition fee increase of \$498 per academic year for full-time undergraduates (and proportional amounts for other categories of students).

The state’s 2011-2012 budget act authorizes the director of the Department of Finance to enact various “trigger” reductions—including a reduction to the CSU of up to \$100 million—if the director concludes that state revenues for 2011-2012 will fall below forecast by at least \$1 billion. This revenue and expenditure plan for 2012-2013 is based on an assumption that any “trigger” reduction applied to the CSU would affect only the 2011-2012 appropriation and would not affect CSU base funding for 2012-2013 and beyond. If this assumption does not hold, a revision to this budget plan would be necessary, including a possible recommendation for an additional tuition fee increase to offset lost ongoing revenue from the state.

The following resolution is recommended for adoption.

RESOLVED, by the Board of Trustees of the California State University that the 2012-13 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

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RESOLVED, that the chancellor is authorized to comply with requests of the Department of Finance and the legislature regarding establishment of priorities within this budget; 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.

COMMITTEE ON FINANCE

Tuition Fee Increases—2012-2013 Academic Year

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The board is presented with background and analysis on the 2012-2013 support budget and the advisability for an increase in tuition fees for the 2012-2013 academic year. The analysis indicates that an increase of \$498 for a full-time undergraduate (with proportional increases for other student categories) is a reasonable and moderate expected contribution toward the system's needs if the state is unable to provide funds for the fee "buy-out" proposed in the CSU 2012-2013 support budget request. In addition, assurance of at least a threshold level of new revenues is needed now, rather than waiting for the state's uncertain budget process, because the 23 campuses must make their admission and enrollment commitments now. Moreover, early action is justified in the interest of providing students and parents as much advance notice of a potential tuition fee increase as possible. Concurrently, the board is asked to increase the Education Doctorate Tuition Fee and the Doctor of Nursing Practice Tuition Fee to ensure sufficient funding is available to support these programs.

Background

The CSU Board of Trustees has the authority to establish, adjust, and abolish tuition fees. The board historically has relied on moderate increases in tuition fees in order to provide a reasonable share of the resources required to meet the instruction and support services needs of increasing student enrollments. In two of the last four fiscal years the board has been compelled by dramatic cuts in state funding to approve extraordinary tuition fee increases. Nevertheless, increases in tuition fee revenues—after providing for increased financial aid—have not kept pace with state funding cuts. For example, tuition fees were raised by \$1,032 for full-time undergraduates for the 2011-2012 academic year (with proportional increases for other categories of students). This action will raise approximately \$300 million of revenue, after provisions for financial aid, offsetting less than half of the state's \$650 million funding cut for the 2011-2012 fiscal year.

Tuition Fee Increase Analysis

In another agenda item, the board is asked to approve a support budget request for 2012-2013 that includes increased funding needs of approximately \$397 million. The plan requests the state to contribute almost \$333 million toward this total from the general fund, with approximately \$64 million to be contributed by tuition fee revenues associated with enrollment growth (at current tuition fee rates). The budget plan's spending priorities include enrollment growth (5 percent above the current state-supported level), the Graduation Initiative and related efforts to improve student success, and a "pool" for compensation increases following multiple years without general salary increases for faculty and staff. It should be noted that these growing enrollments are being driven not only by demographic forces but also by various state and university policy decisions to improve student retention, progress to degree, and community college transfers. Ultimately, the university's ability to graduate growing numbers of students is essential for the state's economic and social future. The spending priorities also include \$26.3 million for increased costs of health care benefits, energy and operating/maintaining newly constructed space—cost increases that are essentially unavoidable and that have real impact on campus resources.

Prior budget plans by the board have included requests for the state to "buy out" an assumed level of tuition fee increase. The 2012-2013 CSU plan includes such a request, accounting for \$138.3 million of the total \$333 million requested from the state. This amount corresponds to a tuition fee increase of \$498 for full-time undergraduates for the 2012-2013 academic year (with proportional increases for other categories of students). Our analysis indicates that an increase of this magnitude is a reasonable and moderate expected contribution toward the system's needs if the state is unable to provide funds for the fee "buy-out." Our analysis further indicates that the tuition decision should be made now rather than wait upon a prolonged and uncertain state budget process. The combination of the \$138.3 million of tuition fee increase (net of financial aid) and the net \$64 million of tuition fee revenue from enrollment growth would assure in advance that a threshold level of additional resources—slightly more than \$200 million—will be available to cover mandatory costs, basic needs for enrollment growth and some revised prioritization of other needs, even if the state is unable to provide any increase in state support for 2012-2013.

Early action on a tuition fee increase would enable campuses to make the decisions that are needed now to restore access, course sections and student services for the next academic year. In addition, early action is justified in the interest of providing students and parents as much advance notice of a potential tuition fee increase as possible.

The following table shows current tuition fee rates for undergraduate, teaching credential and most graduate students; fee rates for 2012-2013 if the state "buys-out" the rate increases or, alternatively, if it does not; and the consequent annual change in rates if the state does not buy-

out the increases. The “regular” designation applies to students taking more than 6 units per term and the “limited” designation applies to students taking 6 units or less per term. Nonresidents of California are subject to these rates and, in addition, pay a supplemental tuition of \$372 per semester unit (\$248 per quarter unit), resulting in total charges for nonresidents that are about three times the resident amounts.

| Student Level | 2011/12 Academic Year (AY) Tuition Fee Rates | 2012/13 AY Tuition Fee Rates with GF Buy-Out | 2012/13 AY Tuition Fee Rates without GF Buy-Out | 2012/13 AY Tuition Fee Increases without GF Buy-Out |
|--|--|--|---|---|
| UNDERGRADUATES | | | | |
| Regular | \$5,472 | \$5,472 | \$5,970 | \$498 |
| Limited | \$3,174 | \$3,174 | \$3,462 | \$288 |
| CREDENTIAL PROGRAM PARTICIPANTS | | | | |
| Regular | \$6,348 | \$6,348 | \$6,930 | \$582 |
| Limited | \$3,684 | \$3,684 | \$4,020 | \$336 |
| GRADUATE/POSTBACCALAUREATES | | | | |
| Regular | \$6,738 | \$6,738 | \$7,356 | \$618 |
| Limited | \$3,906 | \$3,906 | \$4,266 | \$360 |

Including the CSU average of campus-specific mandatory fees of \$1,047, total fees for a full-time undergraduate at the CSU average \$6,519 for the current academic year. This amount is lower than all but one of the 15 public institutions selected by the California Postsecondary Education Commission and historically used for fee comparisons. It is \$2,771 below the comparison average of \$9,290. Under the CSU budget plan and this agenda action, if the state declines the option of a buy-out the tuition fee for a CSU full-time undergraduate would increase by \$498 for the next academic year.

Significant amounts of available financial aid—including the continued practice of setting aside at least one-third of any increase for State University Grants—would assure that the tuition fee increase would not affect those students with most financial need. We estimate that roughly 45 percent of CSU undergraduate students would not pay the tuition fee increase, either due to State University Grants, Cal Grants or fee waivers. Since 2007-2008, annual financial aid to CSU students has increased nearly \$800 million, with grants, scholarships and waivers making up \$475 million of this total. For those students who would be subject to the increased tuition fee, the CSU rate would continue to be among the lowest of universities nationwide. In addition, for many students other forms of financial aid are available. The American Opportunity Tax Credit, for example, provides a federal tax credit of up to \$2,500 to offset tuition charges. This credit is

available to tax filers with up to \$180,000 in adjustable gross income. At the time this analysis was prepared, chancellor's office staff were actively reviewing options to more effectively "package" financial aid for CSU students, with the objective of delivering more grant aid to students of middle class incomes.

Doctorate Tuition Fee Increases

Senate Bill 724 (Jack Scott), signed into law in 2005, authorized the CSU to award the Doctor of Education degree (EdD). Pursuant to that legislation, new EdD programs have been established at eleven CSU campuses. The legislation directs that the CSU not charge its education doctorate students more than the tuition fee charged for state-supported doctoral degree programs at the University of California (UC).

The 2011-2012 academic year Education Doctorate Tuition Fee is \$5,250 per semester (\$3,500 per quarter), for an academic year total of \$10,500. For the same period UC's fee totals \$11,160 (excludes \$60 surcharge). The UC Regents have not yet set their Education Doctorate tuition fee for 2012-2013.

In order to assure adequate resources to meet increasing program costs we are recommending an increase of \$618 for the academic year. This would be equivalent to the increase for graduate students generally and would keep the new academic year total (\$11,118) below the current UC rate.

Last July the board established a Doctor of Nursing Practice (DNP) Tuition Fee. State law does not limit the tuition fees that may be assessed for CSU DNP programs. The currently authorized rate is \$6,552 per term for a five-term program that totals \$32,760. This rate was based on a program cost analysis and compares with DNP tuition at private institutions in California that range between \$35,792 and \$45,000 in 2011-2012. In order to assure adequate resources to meet increasing DNP program costs we are recommending an increase of \$618 per term, which would bring the five-term total tuition fee to \$35,850. This increase is proportional to the academic year increase for graduate students generally, will generate sufficient revenue to fund total program cost, and keep CSU DNP programs more affordably priced than most DNP programs in California.

Last July the board established the Doctor of Physical Therapy (DPT) Tuition Fee. The currently authorized rate is \$8,074 per term (\$24,222 per college year). Under state law, the amount that the CSU can charge for DPT programs is effectively capped by the amount charged by the DPT program that is jointly offered by UC San Francisco and San Francisco State University. This program currently charges only \$122 per term more than the currently authorized CSU rate. Given this small difference we recommend postponing action on CSU's DPT tuition fee rate, pending further analysis of program cost and any rate change that may be adopted for the joint degree program.

Finally, it should be noted that the budget plan “buy out” of tuition fee increases does not apply to the recommended tuition fee increases for the EdD and DNP programs.

In view of the above analysis, we recommend that the board adopt the following resolutions regarding tuition fees for the 2012-2013 academic year.

2012-2013 Tuition Fee Levels

RESOLVED, By the Board of Trustees of the California State University, that the following academic year schedule of tuition fees is approved effective fall term 2012 and until further amended:

Basic Tuition Fees

| <u>Units Per Term</u> | <u>Undergraduate</u> | <u>Credential Program Participants</u> | <u>Graduate and Other Post-Bac Students</u> |
|-----------------------|----------------------|--|---|
| 6.1 or more | \$5,970 | \$6,930 | \$7,356 |
| 0 to 6.0 | \$3,462 | \$4,020 | \$4,266 |

RESOLVED, further, that the supplemental Graduate Business Professional Fee be set at rates of \$278 per semester unit and \$185 per quarter unit.

The fees provided in the above table are for an academic year. The applicable per term fee schedules consistent with these academic year fees for campuses on semester, quarter and other calendars, for regular students (6.1 units or more per term) and part time students (up to 6.0 units per term), and for the academic year and summer terms are provided on the Budget Office website:

<http://www.calstate.edu/budget/student-fees/mandatory-fees/index.shtml>

And, be it further

RESOLVED, that the Chancellor may approve individual campus Tuition Fee rates that do not exceed the maximum fee rates established by this fee schedule.

2012-2013 Education Doctorate Tuition Fee

RESOLVED, by the Board of Trustees of the California State University, that the following academic year schedule of the Education Doctorate Tuition Fee is approved effective fall term 2012 and until further amended:

Per Semester: \$5,559
Per Quarter: \$3,706
Per Academic Year: \$11,118

RESOLVED, the chancellor is delegated authority to further adopt, amend, or repeal the CSU Education Doctorate Tuition Fee rate if such action is required by the budget act approved for 2012-2013, and that such changes made by the chancellor are communicated promptly to the trustees.

2012-2013 Doctor of Nursing Practice Tuition Fee

RESOLVED, that the tuition fee rate approved for the 2012-13 academic year and summer 2013 shall be a revised \$7,170 per semester campus term. Students will be assessed the DNP tuition fee rate each term, irrespective of the number of units taken. Students enrolled in DNP degree programs also shall be subject to campus-based mandatory fees; and be it further

RESOLVED, That recommended increases in the CSU Doctor of Nursing Practice Tuition Fee will be based on increased costs of the programs, and be it further

RESOLVED, That the chancellor is delegated authority to further adopt, amend, or repeal the CSU Doctor of Nursing Practice Tuition Fee rate if such action is required by the budget act, and that such changes made by the chancellor are communicated promptly to the trustees.

COMMITTEE ON FINANCE

2012-2013 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for fiscal year 2012-2013, which was presented as an information item in September, is now recommended for action. The lottery revenue projection for 2012-2013 is \$42 million. After setting aside \$3 million for the CSU's systemwide reserve, \$39 million is available for allocation. AB 142 was enacted in April 2010 with the intent to keep state lottery allocations to higher education constant or higher with each subsequent year. However, partly because quarterly lottery revenue receipts have been declining and principally because lottery revenues allotted to the CSU are based on enrollment actuals from the prior year, which in recent years have shown the managed enrollment decline, the actual amount of lottery revenue that will be allocated to the CSU in 2012-2013 is uncertain. Therefore, the 2012-2013 Lottery Revenue Budget request does not reflect an increase in projected support from fiscal year 2011-2012.

Beginning CSU lottery reserves are \$3 million. The CSU does not anticipate any additional carryforward funds in 2012-2013 above the planned \$3 million budget reserve. The \$3 million beginning reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. Campuses' interest earnings from lottery allocations are incorporated in the total revenue earnings achieved under the CSU Revenue Management Program.

2012-2013 Lottery Budget

After setting aside the \$3 million beginning reserve, the \$39 million 2012-2013 lottery budget proposal continues to be designated for campus-based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral Program, and CSU Summer Arts Program. Of this amount, \$3.9 million funds the Chancellor's Doctoral Incentive Program (\$2 million) for 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 (\$714,000) to support CSU students who aspire to earn doctoral degrees and who have experienced economic

and educational disadvantages; and the CSU Summer Arts Program (\$1.2 million) for academic credit courses in the visual, performing, and literary arts.

The remaining \$35.1 million in 2012-13 lottery funds will continue to be used for campus-based programs (\$34.6 million) and system program administration (\$503,000). The campus-based programs represent a significant source of funds that allow presidents maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships. Beginning with the 2012-13 fiscal year, a portion of campus-based program allocations will be used to support student financial aid for the trustee-approved Early Start Program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need. Campuses will receive funding based on actual student enrollment following the end of the summer program.

In the 2010-11 and 2011-12 fiscal years, \$2 million was taken from systemwide lottery reserves and given to the campuses for improvement in campus academic programs. Due to current fiscal exigencies resulting from state budget reductions, continuing to provide this additional \$2 million to the campuses would have to be contingent on unplanned carryforward balances that might occur at the end of the 2011-12 fiscal year, or funded through a reduction in one of the designated programs noted above.

In fiscal year 2010-11, 87 percent of lottery allocations were spent on supplemental programs and services for students and faculty (Academic, Student Services, Library Services, and Financial Aid). The following table summarizes how lottery funds allocated for the 2010-11 fiscal year were expended.

| 2010-11 Lottery Expenditure Report | | |
|---|----------------------|---------------------|
| Program Support Area | Expenditures | Expenditures |
| Academic | \$ 30,479,943 | 71.8% |
| Student Services | \$ 4,104,437 | 9.7% |
| Community Relations | \$ 3,240,939 | 7.6% |
| Administrative | \$ 1,974,814 | 4.7% |
| Library Services | \$ 1,227,016 | 2.9% |
| Financial Aid | \$ 1,028,444 | 2.4% |
| Classroom Maintenance | \$ 374,882 | 0.9% |
| Total Expenditures | \$ 42,430,475 | 100.0% |

The CSU lottery revenue budget recommended for 2012-2013 is as follows:

2012-13 Proposed Lottery Revenue Budget

| | 2011-12 Adopted Budget | 2012-13 Proposed Budget |
|---|---------------------------------------|--|
| Sources of Funds | | |
| Beginning Reserve | \$ 5,000,000 * | \$ 3,000,000 |
| Receipts | 39,000,000 | 39,000,000 |
| Total Revenues | \$ 44,000,000 | \$ 42,000,000 |
| <i>Less Systemwide Reserve</i> | <i>(3,000,000)</i> | <i>(3,000,000)</i> |
| Total Available for Allocation | \$ 41,000,000 | \$ 39,000,000 |
| Uses of Funds | | |
| <i>System Programs</i> | | |
| Academic Program Support | \$ 2,000,000 | \$ - ** |
| Chancellor's Doctoral Incentive Program | 2,000,000 | 2,000,000 |
| California Pre-Doctoral Program | 714,000 | 714,000 |
| CSU Summer Arts Program | 1,200,000 | 1,200,000 |
| Program Administration | 491,000 | 502,500 |
| | \$ 6,405,000 | \$ 4,416,500 |
| <i>Campus Based Programs</i> | | |
| Campus Programs | \$ 34,595,000 | \$ 29,583,500 |
| Campus Early Start Financial Aid | \$ - | \$ 5,000,000 |
| | \$ 34,595,000 | \$ 34,583,500 |
| Total Uses of Funds | \$ 41,000,000 | \$ 39,000,000 |

* Includes \$2 million year-end carry-over receipts from 2010-11.

** This program was funded in 2011-12 by reducing one-time lottery beginning reserves.

This item is an action item and the following resolution is recommended for adoption:

RESOLVED, by the Board of Trustees of the California State University, that the 2012-2013 lottery revenue budget totaling \$42 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 will be used to support student financial aid for the trustee-approved Early Start Program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need; and be it further,

RESOLVED, that the chancellor is hereby granted authority to adjust the 2012-2013 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 2012-2013 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 One Project

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the board to authorize the issuance of Systemwide Revenue Bonds (SRB) and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of \$60,570,000 to provide financing for a campus project. The board is being asked to approve resolutions related to the project. The 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 and Poor's Corporation as the existing Systemwide Revenue Bonds.

The project is as follows:

Sonoma University Center

In May 2008, the board approved the amendment of the non-state capital outlay program and schematics for the Sonoma University Center project. The project is considered the second phase of a campus plan to create a new center for campus life, supplementing the activities of the recently completed recreation center. The project will include: campus dining services, including residential dining and dining venues for all members of the campus community; a new bookstore; a ballroom with seating for over 1,000 people; meeting rooms; and a main lounge. The project is expected to directly benefit several campus programs, including the student housing program, by providing new programming space and improved dining facilities. Accordingly, the campus will bring together several campus partners to financially support the project, including the Sonoma State Housing program, Associated Students, Inc., Sonoma Student Union Corporation, and Sonoma State Enterprises, Inc. (The latter two entities are recognized auxiliaries in good standing.) The entities are primarily supported by student fees and revenue generated by their programs. In April 2011, a successful student referendum was passed that approved an increase of \$150 to the campus's existing student union fee, resulting in a total fee of \$344 commencing in fiscal year 2012-2013. After concerns were raised about the referendum process, the president charged the Fee Advisory Committee to engage the student

body in additional consultation. This additional consultation included: focus groups, open forums and consultation with various student organizations. At the time this agenda item was submitted, the campus was expecting the results of the consultation would be forwarded to the president on November 2, 2011, with a final decision by the president expected shortly thereafter and prior to the November Board of Trustees meeting. While this increase in the student union fee will be applied as a primary source of debt repayment, the campus housing program will have primary responsibility for the project and administering agreements and MOU's to ensure appropriate reimbursement by other campus programs for their use of the facility.

The not-to-exceed par value of the proposed bonds is \$60,570,000 and is based on an estimated total project cost of \$62,000,000 with program reserve contributions of \$8.97 million. Additional net financing costs (estimated at \$7.5 million) are to be funded from the bond proceeds. The campus received good construction bids in August 2011. The campus anticipates a construction start of December 2011 with construction completion in September 2013.

The following table summarizes key information about this financing transaction.

| | |
|---|-----------------------------------|
| Not-to-exceed amount | \$60,570,000 |
| Amortization | Approximately level over 30 years |
| Projected maximum annual debt service | \$4,227,608 |
| Projected debt service coverage including the new project: | |
| Net revenue – All Sonoma pledged revenue programs: ¹ | 1.27 |
| Net revenue – Projected for the campus housing program ² | 1.20 |

1. Combines 2010-11 information for all campus's pledged revenue programs and projected 2014-15 operations of the project with expected full debt service.
2. The housing program will have primary responsibility for the project and its administration.

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 5.87 percent, reflective of adjusted market conditions plus 100 basis points 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 a program net revenue debt service coverage of 1.20 in the first full year of operations in 2014-205, which exceeds the CSU benchmark of 1.10. When combining the project with 2010-11 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 1.27, which is below the CSU benchmark of 1.35. However, on a forecasted basis, all campus pledged revenue programs are expected to improve, and the campus will meet the 1.35 campus benchmark in 2014-15, with improving coverages thereafter due to reduced expenditures in the Continuing Education program. The

campus forecasts also have taken into account expected enrollment targets in the current budget environment.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in a not-to-exceed amount of \$60,570,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 6 of the Committee on Finance at the November 15-16, 2011 meeting of the CSU Board of Trustees is recommended for:

Sonoma University Center

COMMITTEE ON FINANCE

California State University, Los Angeles University Development Corporation – Auxiliary Organization Dissolution Approval

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

James M. Rosser
President
California State University, Los Angeles

Formation and History

The University Development Corporation (UDC) was incorporated on March 4, 2008, as an auxiliary organization of California State University, Los Angeles. Its purpose, pursuant to Section 42407 of the California Code of Regulations, Title 5, is for the:

1. Development, provision and maintenance of affordable workforce housing
2. Real property acquisition and development

The campus would have used this newly established auxiliary as the primary vehicle to identify and develop opportunities within the Los Angeles Basin to promote the goal of establishing affordable workforce housing for its faculty and staff.

Reason for Dissolution

The functions originally established for the UDC have been assumed by other existing auxiliary organizations on campus. The UDC was never fully formed; there is no board of directors, no established by-laws, and no employees.

There are no assets and liabilities since the UDC was never fully formed.

RESOLVED, that the Board of Trustees of the California State University approve the dissolution of the auxiliary organization known as the California State University Los Angeles University Development Corporation.

COMMITTEE ON FINANCE

Cal Poly Pomona University Educational Trust—Auxiliary Organization Dissolution

Presentation By

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Executive Vice Chancellor and
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President
California State Polytechnic University, Pomona

Formation and History

The Cal Poly Pomona Educational Trust (the “UET”) was incorporated in 1994 as an auxiliary organization of the California State Polytechnic University, Pomona (the “University”). The UET was organized exclusively as a California nonprofit, public benefit corporation within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986. Since July 2000, the sole purpose of the UET was the management of the university endowment funds. At present, the UET is a public charity because it receives broad support from the general public as defined in Section 509(a)(1) of the Internal Revenue Code.

In 2010, the W.K. Kellogg Foundation (“Kellogg Foundation”) awarded a significant grant to the university with the UET as the payee. Due to the disproportionately large size of the grant, as compared to other grants received by the UET, it was determined that the grant would cause the UET to involuntarily convert from a public charity to a private foundation (an entity that is a public charity pursuant to Code Section 509(a)(1) may lose its public charity status if it receives substantial contributions from one or a small number of donors). The UET converting from a public charity to a private foundation could, in turn, result in adverse tax consequences for the Kellogg Foundation, the UET and other current and potential donors.

In December 2010, the UET submitted an application to the IRS to change its status from a publicly supported charity described in Code Section 509(a)(1) to a functionally-integrated Type III-supporting organization described in Code Section 509(a)(3). If approved by the IRS, this change in status would have ensured that the UET could receive contributions from other charities, including private foundations (such as the Kellogg Foundation), regardless of the size of the contribution, without adverse tax consequences. However, based upon additional information requested by the IRS in response to the UET’s application, it appeared unlikely that the UET’s application for a change in status would be approved.

Reason for Dissolution

The university is in the midst of a \$150 million comprehensive capital fund raising campaign, and there are multiple requests and proposals for large gifts. The inability to change the status of the UET to accept large gifts without adverse tax consequences to potential donors will have a detrimental effect on the capital campaign. Therefore, it has been decided to wind up and dissolve the UET and distribute its assets to the Cal Poly Pomona Foundation, Inc. (the "CPPF"). The CPPF is a functionally-integrated Type III-supporting organization described in Code Section 509(a)(3). The CPPF was incorporated in 1966 and has been the primary provider of auxiliary functions, excluding student body programs and student union programs, as an auxiliary organization serving California State Polytechnic University, Pomona. CPPF is an auxiliary organization in good standing with net assets of \$112,313,332 and total revenues of \$74,187,887 as of June 30, 2011. As described earlier, until 2000 the CPPF managed endowment funds for the university's benefit until the transfer of the endowments to the UET. It is fully authorized under its current operating agreement and prepared to take appropriate actions to accept the net assets.

The UET has no employees and all administrative services are provided through an agreement with the CPPF. The costs of operating the UET include an annual financial audit and tax returns, preparation of annual financial statements, insurance, and a variety of administrative costs in support of board and subcommittee meetings, and compliance audits. Dissolution of the UET will reduce expenses by approximately \$75,000 annually. Dissolution of the UET and transfer of the assets to CPPF will improve the cost efficiency of campus auxiliary organizations.

Assignment of the UET's Assets and Liabilities

At the September 26, 2011 meeting, the UET Board of Directors approved a resolution authorizing and directing the wind up and dissolution of the Cal Poly Pomona University Educational Trust and the transfer of UET assets and liabilities to the Cal Poly Pomona Foundation, Inc. As of June 30, 2011, UET assets were \$78,933,897. There are no substantial liabilities for UET.

At the September 27, 2011 meeting, the CPPF Board of Directors approved a resolution to "(i) take all appropriate measures to receive the assets of the UET upon its dissolution, (ii) to enforce any restrictions placed on the use of any such assets, and (iii) take such other action as may be necessary or advisable in connection with the receipt of such assets, including making a good faith guarantee of the payment of certain liabilities of the UET (a) which are more readily ascertained subsequent to the UET's dissolution and (b) for which unrestricted assets will be received from the UET upon its dissolution in an amount sufficient to provide for the payment of such liabilities."

CPPF has the human and fiscal resources to properly assume and perform the UET's functions. Consolidating the assets and operations of both entities in the CPPF will eliminate the contribution issues that apply to the UET (and its donors) as described above. It should also allow for a more efficient administration of assets going forward. Therefore, it is requested that the Board of Trustees of the California State University approve the wind up and dissolution of Cal Poly Pomona

University Educational Trust and the transfer of its assets and liabilities to the Cal Poly Pomona Foundation, Inc.

RESOLVED, that the Board of Trustees of the California State University approve the wind up and dissolution of the auxiliary organization known as the Cal Poly Pomona University Educational Trust at California State Polytechnic University, Pomona and the transfer of all assets to the auxiliary organization known as the Cal Poly Pomona Foundation, Inc. at California State Polytechnic University, Pomona.