AGENDA

COMMITTEE ON FINANCE

Meeting: **12:30 p.m., Tuesday, January 26, 2016**
Glenn S. Dumke Auditorium

Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
Lupe C. Garcia
Lillian Kimbell

Consent Item

Approval of Minutes of the Meeting of November 17, 2015

Discussion Items

1. Sustainable Financial Model Task Force Draft Report, *Information*
2. Report on the 2016-2017 Support Budget, *Information*
3. 2015-2016 Student Fee Report, *Information*

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

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

November 17, 2015

Members Present
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Lupe Garcia
Lillian Kimbell

Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order.

Public Comments

There were five public speakers. Ms. Denise Fernandez, a Sacramento State student urged the board to request funding increases from the state; Mr. Pablo Garnica, a CSU East Bay student encouraged the board and presidents to work with all groups, especially students, in advocating for money for the CSU; Ms. Melissa Bardo spoke of the severity and urgency of the deferred maintenance on campuses; Mr. Richard Francisco, a San Jose State psychologist, stressed the importance of addressing student mental health and increased demands on mental health services; Jennifer Eagen, California Faculty Association president, spoke about faculty compensation.

Approval of Minutes

The minutes of the September 8, 2015 meeting were approved as submitted.

2016-2017 Lottery Revenue Budget

Trustee Taylor presented agenda item 1 as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-15-09).

Conceptual Approval of a Public/Public Partnership Charter School at California State University, Monterey Bay

Trustee Taylor presented agenda item 2 as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-15-10).

Approval of the 2016-2017 Support Budget Request, *Action*

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer stated that this item requests board approval of the 2016-2017 CSU Support Budget request. As previously discussed, there is a gap between the amounts expected to be in the governor's January budget plan and the amount necessary to achieve the CSU's goals for the year.

Mr. Ryan Storm, Assistant Vice Chancellor for Budget gave an overview of the cost components in the budget request, stating that the expenditure plan would bring annual spending for the CSU to approximately $5.5 billion, including systemwide tuition revenues, net of financial aid. The state has restored about $600 million of the close to $1 billion dollars cut during the last recession.

The proposed plan includes a 3% increase in funded student enrollment; $50 million for a variety of efforts and strategies to facilitate degree completion and student success; a 2% increase in the compensation pool for 2016-2017 (the final installment of the board's commitment to increase the compensation pool by 7% over a 3-year period for all CSU faculty and staff); and $25 million to finance approximately $325 million of $2.6 billion in facility maintenance and infrastructure projects. The remaining $297.6 million is for mandatory costs that have already been determined by state law, CSU policy, and operational needs, such as pension and health care. The prosed plan would require additional new ongoing revenues of $102 million from the state.

Trustee Rebecca Eisen inquired about the number of CSU eligible students that are being turned away and further asked if the CSU would ever be able to serve all eligible students at this rate. Mr. Storm responded that the number of eligible students coming from community colleges and high schools are growing at a faster rate than the CSU is able to accommodate. Chancellor Timothy White added that in a report from the Public Policy Institute of California it indicated that by the year 2030 there will be a shortage of 1.1 million baccalaureate degrees in California and that the CSU will need to help address this with its Graduation Initiative.

Chair Lou Monville thanked Mr. Storm, Mr. Relyea, and their team for their diligent work in putting the request together and added that he is also mindful of the comments received to continue to invest in faculty, students, and their success. He expressed his support of the proposed budget and encouraged the committee, chancellor, and staff to continue to look for ways to increase the compensation pool for employees in continued partnership with the state legislature.

Trustee Taylor asked how the $110 million for enrollment growth is being used. Mr. Storm responded it is up to each campus based on their priorities and needs. Generally speaking $10,000 is spent per new, additional student, with 60% historically used for instruction and 40% for other areas like academic support, student services, institutional support, etc.

Trustee Lupe Garcia expressed that, if the request is not fully funded, it would be a disservice to students if they are admitted but cannot complete their degree in a timely manner or do not receive the quality education the CSU has committed to provide. She suggested possibly shifting the distribution from enrollment to student success and completion efforts that will help students get the tools, resources, and classes they need, as well as focus on compensation to make sure faculty and staff are there to deliver services to students. She encouraged the board to entertain these suggestions in the future if the request is not fully funded by the state. Dr. White commented that if the board were to engage in such conversation, it is important to consider the CSU's application and admission cycle. Campuses are currently setting fall 2016 enrollment levels.

Dr. White next asked the presidents to comment on what they have done with entry level courses and bottlenecks. President Joseph Shelley commented that at CSU Stanislaus there has been communication between the provosts and deans about addressing bottlenecks and core major requirements and that they have been exceptionally attentive to the general education lower division requirements to make sure CSU Stanislaus entering students start off on the right path. He shared that a challenge is when a percentage of transfer students coming to the CSU have not completed their general education requirements, especially in the sciences.

Interim President Susan Martin shared that at San Jose State they have put together a plan to tackle this problem and plan to proceed with it next fall. The plan would add classes and capacity because the campus currently is at record enrollment of 32,775 students. She stated that they have 10,000 students who have over 90 credits and are trying to get the classes needed to graduate.

President Horace Mitchell said that at CSU Bakersfield the campus is converting their academic calendars from quarters to semesters. In that process they have paid great attention to the needs of students, offering a very robust summer term for those wanting to finish before the conversion happens, including the hiring of part-time faculty to teach additional sections that are necessary. Another issue is that most classrooms on the campus were designed to be small, with capacity ranging from 30-40 students per class with only about three classrooms able to accommodate more than 150 students. The campus is also proposing the addition of two classroom buildings which would allow for larger classes and reduce the need for more instructors and class sections.

Trustee Kelsey Brewer concurred with Trustee Garcia's remarks stating that the CSU wants to serve and meet the needs of California but also has an obligation to serve and prepare the students that are currently enrolled in the system. Trustee Garcia asked for clarification on whether the committee is approving the budget as presented without amendment. Trustee Taylor confirmed that was the case. Also, Trustee Taylor added that Trustee Garcia's interest in further discussions on the allocation of budget resources should happen sooner rather than later. More specifically, the board will have to see how things play out in May and June and have a conversation at the July and September meetings. Trustee Garcia suggested bringing some options to the board about making changes to the support budget prioritization that may impact fall 2017 admissions. Chair Monville responded he would consult with Executive Vice Chancellors Relyea and Blanchard.

The committee recommended approval of the 2016-2017 Support Budget Request, (RFIN 11-15-11).

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for the 2015-2016 Infrastructure Improvements and Capital Outlay Projects, *Action*

Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management stated this item requests financing approval for a variety of capital projects through the CSU's Systemwide Revenue Bond (SRB) and commercial paper programs in an amount not to exceed $461,675,000. This request represents the second financing to take advantage of the CSU's new capital financing authorities. The annual debt service on the long term financing for these projects would be met with the $25 million earmarked for deferred maintenance and critical infrastructure approved by the board in the final CSU 2015-2016 Support Budget Request. The projects to be financed would be selected from 2015-2016 Capital Outlay Program and financing approval would be supported by the existing pledge of SRB gross revenues, as well as the addition of CSU operating funds. As of June 30, 2014, pledged revenues of the SRB program totaled approximately $1.6 billion, and based on preliminary data may increase modestly to about $1.7 billion for the fiscal year ended June 30, 2015. He stated that with the addition of approximately $5.3 billion in operating revenue (2015-2016 general fund and estimated student tuition), total SRB pledged revenues would increase to approximately $7 billion and based upon the preliminary data for the fiscal year ended June 30, 2015, systemwide debt service coverage would be 1.68 compared to the systemwide benchmark of 1.45.

The committee recommended Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for the 2015-2016 Infrastructure Improvements and Capital Outlay Projects, (RFIN 11-15-12).

Conceptual Approval of the California State University, Channel Islands Site Authority Apartments Sale Project, *Action*

President Richard Rush provided a brief recap of how the sale of the 328 existing apartments fits into the campus’ strategic planning efforts (CI 2025). He added that the CI 2025 economic plan will provide alternative funding to support proposed enrollment growth over the next decade and alleviate financial constraints for the campus and its Site Authority. As part of the campus' comprehensive outreach to the communities they serve, Channel Islands has facilitated multiple forums with the community to discuss the campus goals and the CI 2025 plan.

Mr. Eaton next described University Glen, the Site Authority’s housing community, which currently includes 658 total units, comprised of single family homes and rental units. Under this proposal, the Site Authority would enter into an agreement to sell its main block of 328 apartments and ground lease the land under the apartments to a third party. The proceeds from the sale would be used to retire all of the $53 million in outstanding Systemwide Revenue Bond (SRB) debt associated with the apartments and may have some left over to apply to other debt. He further added the Site Authority has an aggregate total of $192.5 million in outstanding SRB debt, issued for the University Glen housing development and for the construction of the Broome Library.

Approval of this item will allow the campus, the Chancellor's Office, and the Site Authority to seek a qualified developer through a competitive bid process and enter into negotiations with that developer for the sale of the 328 apartments and underlying ground lease. Prior to the execution of any commitments for the sale and use of the assets, key financial terms associated with the sale would be presented to the board for final approval at a future meeting. In response to a questions by Trustee Garcia, President Rush stated that the sale of the 328 apartments would not cause displacement.

The committee recommended Conceptual Approval of the California State University, Channel Islands Site Authority Apartments Sale Project (RFIN 11-15-13).

Conceptual Approval of a Public/Private Partnership Hotel Development Project at California State University, Northridge, *Action*

Executive Vice Chancellor Relyea introduced the item requesting conceptual approval to pursue a public-private partnership plan for the development of a full service hotel on the California State University, Northridge campus.

President Harrison spoke of how this project fits into the campus mission. The lack of quality hotels within proximity to the campus has limited the University's ability to serve students as well as the region. A market study commissioned by the campus as well as a peer review of that study support the need for hotel space in the area. The pursuit of this development directly supports the University's mission for student success and could be achieved without capital funding from the University and possibly drive additional revenue to the campus.

Mr. Eaton stated the hotel would include amenities common to a full service or hybrid select service hotel. The campus anticipates entering into a ground lease with The University Corporation, a campus auxiliary, which would sublease the land to a private developer. No campus or auxiliary funds would be committed to the project or its facilities maintenance. The developer would be fully responsible for the financing, construction, and management of the project during the term of the sublease and would be responsible for all costs associated with the environmental and entitlement processes in accordance with CSU requirements. The ground lease and sublease would be structured to ensure that the campus receives rents based upon the fair market value of the site. The campus would ensure that the facility is well maintained and adequately funded by maintenance reserves funded by the developer throughout the life of the agreement. Prior to execution of any commitments for development and use of the property, all appropriate related actions and documents would be presented at future meetings for final approval by the board.

In response to questions raised by Trustee Faigin and Trustee Eisen, President Harrison said that the hotel would be used by both university visitors and the general public, and that the request for proposal will include sustainability requirements.

The committee recommended Conceptual Approval of a Public-Private Partnership Hotel Development Project at California State University, Northridge (RFIN 11-15-14).

State Public Works Board Bond Debt Restructuring, *Information*

Mr. Relyea reminded the board that the State of California shifted the responsibility for funding the university's capital program to the university last year. The legislation also provided CSU with the ability to refinance the approximately $1 billion in State Public Works Board bond debt on existing university facilities. This proposal would refinance and restructure the debt to match the term of the projected lives of the buildings, generating cash flow savings over the next decade that could be used to reduce the need for debt financing for critical infrastructure and deferred maintenance projects.

Mr. Eaton added that the basic goal of refinancing and restructuring the CSU's State Public Works Board (SPWB) bond debt with CSU State Revenue Bond (SRB) debt would generate savings and reduce the amount of debt service to be paid, thereby freeing up cash flow to meet other system needs. These savings could be achieved in two ways, the first is refinancing debt at lower interest rates than what is currently being paid on the outstanding debt. The second way is by restructuring and extending the amortization of the debt to generate cash flow savings in the near term.

He stated that refinancing and restructuring would also seek to meet the following objectives: refinance all or almost all of the existing SPWB bond debt; utilize a structure that combines a prudent mix of long term debt and variable rate or shorter term debt; and finally, target net present value savings that are neutral or better on a total transaction basis.

Mr. Eaton stated that staff would continue evaluating possible options with the intent of returning to the board for action on issuing SRB debt to refinance and restructure the CSU's SPWB bond debt. At that time, staff would outline structuring options and parameters in greater detail, including the projected benefits to the system, and present resolutions and a not-to-exceed amount for the board's consideration and approval. Upon approval, staff would look to complete the transaction shortly thereafter, perhaps sometime in early 2016.

Trustee Taylor stated that he was involved in this process at the University of California and it is a win-win situation.

California State University Investment Authority, Policy, and Portfolio Review Initiative, *Information*

Mr. Relyea stated that when the University received new authority last year to finance and build capital projects, that authority did not come with any funding from the State for new projects or critical deferred maintenance projects. Therefore, staff proposed a number of measures to increase CSU's revenue streams for capital projects and more optimally manage financial resources. He added that a key tool of a number of universities is the ability to carve out a portion of capital building reserves that are not needed for immediate liquidity, and use the interest on those funds to invest in high priority capital projects. Unfortunately, CSU's earnings have been unusually low, typically less than 1% annually. Therefore, staff has proposed to the State that CSU be given the authority to invest a portion of its reserves in a balanced portfolio that would provide a reasonable return on that investment.

Mr. Eaton commented that for more than a year, staff has been working with the CSU's key partners in Sacramento to evaluate options, address questions and concerns, and develop legislative language that would expand the CSU's investment authority. He added that by August 2015, such proposed bill language was ready for consideration by the legislature. He stated the legislation seeks to expand the types of investments CSU can make, the most notable of which would be the ability to invest in equity mutual funds and real estate investment trusts. He stated that in order to move at a measured, conservative pace and provide ample opportunity to monitor the CSU's use of the new investment authorities, the amount of funds that could be placed in the new investment options would be phased in by $200 million per year for the first three years and then capped at 30% of total CSU investments thereafter.

Mr. Eaton added the legislation would require the board to establish an advisory committee in order to determine the new investment options. The committee would include a majority of independent members with investment expertise and the State Treasurer would have the option of serving, or appointing a designee to serve as a member of the committee. It would add quarterly reports to the board and an annual report to the legislature. The legislation would codify certain items that are already included in the annual report to the board, such as investment returns, comparisons to benchmarks, portfolio holdings and market values, and add new reporting requirements such as investment management fees. He added that due to the importance of this legislation in meeting the CSU's capital needs, and to insulate CSU's operations from investment volatility, earnings from the new investments would be used for deferred maintenance and capital funding only. He added that similarly, the CSU would be prohibited from citing any losses associated with the new investments as justification for increases in student tuition or fees, and would be prohibited from seeking State general fund appropriation dollars to offset any losses associated with the new investments.

The proposed legislation was presented to the Assembly and Senate Budget committees in late August 2015. The Assembly Budget Committee approved the proposed legislation, but it was held over in the Senate Budget committee until the 2016 legislative session. This will provide staff with time to address specific concerns of some of the committee members. Staff will continue to work with the CSU's key partners in Sacramento to address the concerns raised during the Budget Committee hearings with the goal of passing the legislation in 2016.

In the meantime, staff will begin working on implementing some of the provisions of the proposed legislation, notably the establishment of an investment advisory committee to the board and the new reporting provisions. He stated that moving toward the establishment of the committee and adoption of the new aspects of reporting would not only serve the CSU well as we work to get the legislation passed in 2016, but would also serve the CSU well with respect to its existing investment structure.

Trustee Kimbell asked if private equity or hedge fund investments would be considered, Mr. Eaton stated that a stipulation of the new authority is that CSU only invest in mutual funds registered with the Securities and Exchange Commission (SEC). Private equity or hedge funds are typically not registered with the SEC.

Trustee Norton asked what concerns held up the proposal in the Senate. Mr. Eaton responded that some concerns were related to data driven information and that CSU staff will work with individual senators to provide additional information to address those concerns.

Trustee Taylor shared that he is convinced the proposed strategy is conservative and thoughtful.

Trustee Day adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Sustainable Financial Model Task Force Draft Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Elliot Hirshman
President
San Diego State University

Leroy Morishita
President
California State University, East Bay

Summary

This item presents a summary of recommendations contained in the draft report of the Sustainable Financial Model for the California State University Task Force. The presentation of the draft report included as Attachment A to this agenda item is intended to provide an opportunity for the Committee on Finance to consider the draft recommendations during the course of a comprehensive consultation process initiated in early September 2015. The consultation process involves meetings with a broad range of colleagues and stakeholders including faculty, students, legislative and governmental representatives, as well making the report available to the general public.

Background

The task force was established in October 2014 by Chancellor Timothy White, and is co-chaired by two campus presidents and the executive vice chancellor and chief financial officer. The charge to the task force was to propose a sustainable financial plan for the university, recognizing the changes in state funding of higher education, our inability to meet demand by qualified students, and critical faculty and facility needs for instruction and support.

Membership of the task force included the student trustee and the chair of the California State Student Association, the faculty trustee, the Chair of the Academic Senate, two campus provosts, three campus chief financial officers, and a campus vice president for student affairs.

The task force met regularly over the year and considered several major areas including resource allocation, administrative effectiveness, managing costs, and revenue generation all in the context of supporting a quality education. For each area, the draft report includes a brief review of the background challenges, provides a conceptual proposal to address the challenges, summarizes the rationale for the proposal, and describes specific recommendations.

Consultation

The draft report has been presented to the Academic Senate, the California State Student Association, the Academic Council (campus provosts and vice presidents for Student Affairs), and the campus vice presidents for Administration and Finance. In addition, meetings to review the draft report have taken place with the Systemwide Budget Advisory Committee, representatives from the state legislature and the Department of Finance, as well as the Council of Presidents. To ensure the broadest possible review the draft report has also been published on the CSU website at www.calstate.edu/financial-future/phases/, allowing an opportunity for public feedback.

In general, comments received on the draft report have focused on the need to emphasize directly the need for the state to provide funding sufficient to meet the growing student demand, the consequences on affordability of increasing student fees, the risks associated with pursuing philanthropic support, and greater emphasis on the need to enhance the quality of educational experiences for students.

Next Steps

Following the January 2016 presentation of the final report, the chancellor will convene subject-matter experts to address those recommendations that require further analysis and consideration with the goal of initiating required policy, regulatory, and statutory changes in June 2016.

A Financial Model to Support the Future of The California State University

Draft Report of the Chancellor's Task Force for a Sustainable Financial Model for the CSU

CSU The California State University

LETTER TO CHANCELLOR FROM THE CO-CHAIRS

The California State University (CSU) educates over 460,000 and graduates over 100,000 students each year and contributes significantly to California's economic strength and educated citizenry. The system receives over 400,000 new applications annually; students with a dream could be threatened by limited resources available to support the 23 campuses. While the legislature and governor were able to fully fund the Board of Trustees' budget request in 2015-16, K-12 education and community college funding requirements under Proposition 98, the state's new rainy day savings requirement, and growth in health and human services programs requires the CSU and the state to consider new approaches to funding the university. State general fund support should remain a primary source of revenue for the university but we must find supplemental resources and tools to address our operating and infrastructure needs.

This report proposes a series of possible actions and new tools beyond increases in general fund appropriations to support the university into the future. It is our belief that the current financial model is not sustainable in the long run and now threatens access to the high-quality education offered by CSU campuses. California's future is tied to having a well-educated workforce, and as an institution we must make sure we are fulfilling our obligation to the state and those who should have access to a college education. Even if all of the recommendations in this report are adopted, it is critical that the State of California increase its investment in the University over the next ten years to maintain educational quality, provide authentic student access, and maintain an affordable cost to students..

Over the past year, the task force has reviewed several interrelated elements that affect how our institution acquires and allocates its resources in an effort to provide current and prospective students a quality education. The report reflects our commitment to do all that we can to serve students today and tomorrow. However, it is clear that we cannot do it alone; we will continue to need ongoing investment from the state as well as policymakers' support to explore and implement other approaches and serve as partners in making sure that the future remains bright for students and the state for decades to come.

On behalf of the Task Force for a Sustainable Financial Model, we respectfully submit to you the proposed findings and recommendations that are designed to ensure access to a high quality education for Californians.

Sincerely,

Elliot Hirshman	Leroy Morishita	Steve Relyea
President	President	Executive Vice Chancellor/CFO
San Diego State University	California State University, East Bay	California State University

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SUMMARY

The California State University has existed as a single publicly-funded, publicly-minded system for 55 years. In that time, more than 3 million alumni have earned a quality CSU degree – a degree of high academic standards and applied demonstration of learning. The university system empowered people from every region and community of this state. These alumni have gone on to drive one of the world's most dynamic innovation economies, while breaking cycles of poverty and producing generations of civic leaders.

Between 2008 and 2011, the CSU faced an existential threat. Within a four-year period, the state cut public funding to CSU by $1 billion – or a third. As a result, the university was forced to take drastic actions, including furloughs, administrative and staff layoffs, deferred repairs and replacement of building and equipment, and tuition increases. Even as the university became more cost efficient and effective to soften the burden, these four years radically realigned the role of the state and students in funding higher education.

The CSU has continued to serve a growing student population even in the face of the dramatic reductions in state support. During fiscal year 2008, before the most recent budget cuts arising from the recession, the CSU served 368,424 full-time equivalent students and received $2,970,515,000 from the state for operations. In fiscal year 2015, the level of state support was $2,762,018,000 or $208,497,000 below the level provided in 2008 even though the CSU served 382,231 full-time equivalent students—an increase of 13,807 FTES. Compared to 2008 the CSU served four percent more FTES annually while state support remained seven percent lower in 2015 than in 2008. Greater and greater student access with less and less state support is not a sustainable approach for the CSU or California.

Today, we continue to see the traditional role of the state change. Most notably, the burden for facilities repair and replacement has shifted from the state to the university. And the CSU continues to face a $2.6 billion backlog of deferred maintenance as a result of past funding constraints. Simultaneously, experts at the Public Policy Institute of California (PPIC) project a shortfall for the state of 1.1 million educated workers with bachelor's degree by 2030.

The state took an important step toward the future by fully funding the trustees' requested budget for 2015-2016, which will begin to slowly increase state support per full-time equivalent student, even while CSU funding levels remain well below historic levels. The CSU will continue to work with the governor and legislature to build on this investment. Yet, state funding alone is not likely to meet the need identified by the PPIC with appropriate quality and adequate/safe facilities. This report presents options – perhaps best viewed as a menu of prompts for further development – to sustain the CSU as it meets the demand of California's economy and society, while preparing for the possibility of unstable state resources in the future. However, it is important to stress that even if all of the recommendations in this report were adopted, it remains critical that the state invest more resources in the CSU than it is investing today. To do otherwise will lead to untenable conditions of decreasing access and educational quality, and increasing costs to students.

The tables below summarize recommendations presented in this report to sustain the CSU into the future.

Supporting a Quality Education	**Administrative Effectiveness**	**Resource Allocation**
• Expand research funding • Advance English and mathematics preparation • Formalize applicant redirection • Continue to build data-driven decision making capacity • Consider alternative scheduling to use facilities more effectively	• Partner to revise regulations and policies to remove barriers • Improve support and infrastructure systems • Consider funding year-round operations • Pursue public-private partnerships where appropriate	• Create a direct and transparent campus allocation process • Develop allocation factors that consider student success • Implement financing authority, restructure debt, build reserves

Managing Costs	**Revenue**
• Review structure and cost of health benefit and pension programs for long-term viability • Enhance the State University Grant program • Pursue funding to replace tuition discounts with direct grants	• Expand CSU's investment authority • Increase investment and expand philanthropic giving • Consider moving from intermittent large spikes in tuition to planned small increments over time • Consider adjusting non-resident tuition rates by campus, with controls that do not displace residents • Strengthen advocacy effectiveness regarding our state appropriation

SUPPORTING A QUALITY EDUCATION

Many of the recommendations of this report, if implemented, will provide additional resources from cost savings and new revenue that can be used to enhance the quality of the educational services provided to students. Other recommendations, such as those regarding capital financing, will help improve critical infrastructure, including facility renovations, to further enhance educational quality.

The task force also considered several issues that more directly support the quality of education, including student success and the expansion of research and grants activity.

STUDENT ACCESS

There continues to be strong demand for a CSU education from high school students and community college transfers. To meet this demand and prepare the state's future workforce, we must manage our enrollment within our human and fiscal resources to ensure access to quality and affordable educational opportunities for students.

Background

California's higher education institutions face four inter-related challenges; 1) enrollment demand exceeds enrollment capacity at many public universities, 2) K-12 schools and community colleges are preparing more graduates seeking access to postsecondary education, 3) many eligible students enrolling at universities are not adequately prepared and require additional college preparatory coursework in math and English to ensure their success, and 4) public policy analyses indicate that robust economic growth will require a significant increase in the number of college graduates in California.

CSU should also remain cognizant of the need for families, students, policymakers, and our segmental partners to understand CSU enrollment policies including local admission areas, priority students (i.e. associate degree transfer students), and supplemental admission criteria.

Proposal

The CSU should support creative efforts designed to enhance preparation for college and, to the extent possible, implement a comprehensive admission redirection program to broaden admission opportunities for eligible students at one or more of the 23 CSU campuses.

Rationale

The importance of student access to success is the cornerstone of the CSU. Efforts should facilitate students' access and support their efforts to make academic progress and graduate. It is critical to explore opportunities that make student access to success the focus of CSU campuses rather than just meeting enrollment targets.

Recommendations

The task force recommends that a “CSU access and student success” workgroup be created to specify tactics to address the following:

First, build on current efforts to reduce the need for additional English and mathematics preparation for entering freshmen, within the context of the new Common Core State Standards and new K-12 assessments. The workgroup should also explore new intersegmental strategies to further reduce the numbers of admitted students who are not ready for college level work to enhance systemwide implementation of best practices, such as current Summer Bridge and Early Start Programs, and to increase the number of students completing their college preparation work prior to beginning their coursework in the fall.

Second, develop a robust process that provides options for students who are CSU-eligible but unable to attend campuses that are at enrollment capacity. A CSU admissions redirection program would provide denied eligible students, who find their preferred campus is at capacity, with options to attend another CSU campus. The task force recognizes that many students are place-bound and it may be difficult to attend another CSU campus. A review of regional demand and local service area policies will facilitate the conversation about where and when to redirect applications and help balance enrollment demand and capacity across the system

Third, identify a set of best practices for campuses to adopt in using technology and data-driven decision making to enhance student retention and progress to degree. These new techniques can support early identification of problems, enhance advising strategies, and support students who are facing challenges.

Fourth, identify scheduling approaches that maximize the use of our facilities given campus facility capacity limitations. Analysis should be done to determine to what extent these problems could be alleviated by alternative scheduling (e.g., extending the instructional week, offering a full summer term). Consideration of alternative scheduling approaches should take into account the costs and benefits of space utilization, faculty and administrative staffing, utilities, infrastructure, and maintenance needs.

RESEARCH AND GRANTS

Background

The CSU generates over $500 million of federal, state, local, and nongovernmental grants and contracts each year to support faculty who conduct substantial research, scholarship, and creative activities, often in collaboration with students and in support of the CSU undergraduate and graduate instructional mission. Undergraduate research is a key "high-impact" educational practice, and is a growing part of CSU undergraduate education programs. CSU faculty members are outstanding scholars in their disciplines, and provide significant mentorship to support the research, scholarship, and creative activities they undertake with their students. Much of the undergraduate research conducted at the CSU is focused on regional and community needs, supports students' professional advancement, and constitutes an important driver for curriculum renewal and innovation.

Proposal

Opportunities exist to increase funding available for research and in particular directed research, which is a critical aspect of the CSU's mission. CSU campuses should be encouraged to continue to pursue research, scholarship, and creative activities responsibly and consistent with campus mission and goals, taking into consideration the support costs and requirements of these programs, through sharing of best practices, further investment in critical infrastructure, faculty development, and inter-segmental partnerships, among others.

Rationale

The expansion of opportunities to engage in research, scholarship, and creative activities will generate additional resources to enhance academic quality, student engagement, and promote new knowledge.

Recommendations

The task force recommends that the Office of Research Initiatives and Partnerships at the Chancellor's Office collaborate with campus Research and Sponsored Programs offices to identify and implement strategies designed to expand funding opportunities from federal, state, local, and private entities to support the CSU's mission regarding research, scholarship, and creative activities.

ADMINISTRATIVE EFFECTIVENESS

CSU campuses consistently rank among the nation's most effective higher education institutions thanks to the academic rigor applied by faculty and administrative efficiencies that have helped to save and avoid significant costs. However, in order to preserve the quality of education, CSU must consider alternative solutions to increase its effectiveness. It must pursue policy and regulatory changes that increase the institution's financial flexibility, evaluate advancements in tools and software for its administrative functions, make better use of facilities to maximize enrollment capacity, and consider increased use of public-private partnerships to advance its capital program and mission.

POLICIES AND PROCEDURES

Background

Over the past ten years the CSU has evolved significantly away from the state agency fiscal structure. Before this change, the Board of Trustees was limited in its authority to develop their own fiscal policies or establish financial management procedures. Since the implementation of the revenue management program in 2006 allowing the CSU to collect and retain student tuition, the CSU has a greater ability to respond to changing financial conditions, but additional improvements are required.

Proposal

Changes should be considered to the California Education Code, the California Code of Regulations, and CSU policy that currently constrain effective campus financial and operational management. Proposed changes should provide campus leadership with the tools and flexibility necessary to achieve the mission of their campus.

Rationale

To fulfill our mission of providing highly valued degrees to the top one-third of the state's high school graduates and transfer students, it is the CSU's obligation and desire to operate as effectively as possible. Accordingly, CSU must be provided the financial tools to achieve the educational objectives of the state.

Recommendations

The task force recommends that a workgroup be appointed to review California codes and regulations, as well as all CSU policies and procedures with a financial or operational impact and recommend changes to the chancellor for consideration. In some cases, proposed changes may require action by the Board of Trustees. A comprehensive evaluation is critical to assure that the resulting recommendations strive to remove bureaucratic regulations and impediments regarding all aspects of the CSU's financial and administrative operations.

IMPROVE ADMINISTRATIVE SYSTEMS

Background

Fifteen years ago the CSU set out to achieve a target administrative systems environment to improve its performance standard for administrative functions and to provide efficient and effective services to students, faculty, and staff. That environment was designed to perform administrative functions in concert with a common set of best practices, support administrative functions with a shared suite of application software, and operate the administrative software suite as a shared service.

Proposal

There have been significant improvements in application software support and hardware operating environments since the original vision 15 years ago. The time has come for the CSU to explore and evaluate advancements that will improve administrative services and manage the inevitable cost increases associated with the maintenance of the current software and hardware support.

Rationale

The CSU has implemented, maintained, and utilized the Common Management System (CMS) to manage its human resources, financial, and student information requirements as well as successfully operated CMS as a shared service. However, full achievement of best practices—the first and most important objective—has not been fully realized.

Recommendations

The task force recommends the chancellor charge separate workgroup(s) to evaluate and develop a set of recommendations on: existing and potential improvements in applications software and hardware support that can enable better administrative services while containing or reducing costs; cost reduction strategies in the areas of strategic procurement, multi-segment collaboration, and network infrastructure; current statutes and regulations that restrict efforts to reduce energy consumption and costs, and becoming more self-reliant with conventional and renewable energy sources; and, cost reduction strategies in the area of library management systems.

MAXIMIZE USE OF FACILITIES

Background

Summer session programs have been very successful at several CSU campuses, however other campuses struggle to offer a robust summer term using a traditional summer-session model. Currently, five campuses offer state-supported summer session programs, down from the all-time high of 19 campuses in 2003-04. There are many reasons for contraction of state-supported summer programs, but a common and significant reason was the loss of significant state resources during recent recessions. For those campuses evaluating a move toward year-round operations, the endeavor could be a responsible and effective approach to serving the CSU's mission to educate students in a timely manner.

Proposal

The CSU should seek additional state funding to increase enrollment generally and to further support those select campuses with demonstrated capacity that choose to explore implementing a fully state-supported year-round calendar.

Rationale

Significant efficiencies can be gained through year-round operations with the full utilization of facilities including housing, classrooms, labs, food service centers, and recreational facilities during the summer months. Furthermore, implementing full year-round operations on select campuses could become an important vehicle to expand enrollment, provide increased access, and promote timely progression to graduation. Benefits could include flexible scheduling options for students, increased year-round employment opportunities for students, faculty, and staff and the opportunity to serve greater numbers of students. The economic impact on the local communities would also be significantly enhanced.

Recommendations

The task force recommends that campuses and the system explore the viability of year-round operations on select campuses and address issues such as faculty hiring and deployment processes, the application and admission process, and financial aid across the full college year. In addition to operational considerations, campuses will need to re-envision campus culture and academic pathways to promote student success under the year-round model. Such change must be accomplished in partnership with faculty and within the framework of the collective bargaining environment. Year-round operations may be an optimal forward-looking path for some CSU campuses.

Enrollment growth achieved through year-round operations should not come at the expense of growth for other campuses following the traditional academic-year model and the state should provide supplemental enrollment growth funding to support expansion of the summer term.

PUBLIC PRIVATE PARTNERSHIPS (P3)

Background

Public-private partnerships often referred to as P3, have been employed successfully by the CSU for many years. As capital funding continues to present challenges, the use of public-private partnerships offer additional methods to provide necessary services, facilities, and opportunities to generate revenue. In concept, a public-private partnership represents a contractual arrangement between the CSU and a private sector entity. Through this agreement, the skills and assets of each sector, public and private, are shared in delivering a service or facility for use by the CSU. In addition to the sharing of resources, each party shares in the potential risks and rewards.

There are potential risks associated with public private partnerships including: the loss of flexibility and control, liability exposure, increased financing costs and developer fees, the need to achieve an expected rate of return on investment, increased transaction time for negotiation and development of legal documents, and greater possibility for unforeseen challenges. To minimize and mitigate these risks, Executive Order 747 provides important policy guidance regarding the process to consider, approve, and implement public-private partnership projects. In addition, campuses are responsible for ensuring that appropriate governance and consultation occurs to properly evaluate and consider benefits and risks associated with public-private partnership projects.

The use of public-private partnerships for the delivery of student housing, parking, research park, sport facility, retail, renewable energy, and recreation center projects has proven to be effective and beneficial on many campuses. Other projects have included a local municipality, which can enhance land utilization, or provide tax benefits from a public-public partnership.

Proposal

The various forms of public-private partnerships can offer campuses additional resources to deliver needed projects and generate revenue and should be pursued where the opportunity exists.

Rationale

Public-private partnerships offer many benefits to be considered as campuses evaluate a proposed project. Value for money is an important tool used to assess the relative costs and benefits of alternative options available for selection of a potential public project. The transfer of the financing risks for a project may also be beneficial by shifting the fluctuations in financing costs as well as estimated and actual inflation costs to the development partner. In addition, the inherent risks associated in a design and construction project may be mitigated with emerging project delivery models that may allow the transfer of risk during a building's entire life cycle.

In addition to capital project delivery, public-private partnerships can generate various revenue streams to support operations as well as financing opportunities. Ground leases can provide a stable income stream while retaining property ownership and may also include a monetization strategy to provide institutions with substantial cash infusions, improved balance sheet performance, or a needed campus asset. Private sector space leases in mixed-use university facilities provide another source of revenue and can help support fixed costs associated with capital development.

Recommendations

The task force endorses increased consideration and use of public-private partnerships to advance the CSU's mission, with careful attention to potential risks, meaningful consultation, and campus governance policies, as well as compliance with systemwide policies. In challenging times and with limited resources, public-private partnerships provide tested alternative tools to deliver facilities, generate revenue, and potentially transfer some project risks to private partners. The success of public-private partnerships depends upon a sound business plan with realizable revenues, a committed and knowledgeable team of personnel, and senior leadership to support its purpose in meeting institutional objectives.

While the task force reached general consensus on this recommendation, one member was cautious about the involvement of private profit-driven entities in campus development activities, which may conflict with the educational mission of the campus.

RESOURCE ALLOCATION

The CSU support budget has two primary funding sources: state general fund appropriation, which is provided by the state legislature and governor, and tuition and fees, which are paid by students and their families. With severe budget cuts in the past decade and tuition freezes in effect since 2011-12, the CSU must continue to creatively and strategically manage the allocation of all of its available resources.

INTERNAL ALLOCATIONS FOR ENROLLMENT

Background

The CSU is a large and complex organization. There are many and sometimes competing interests and obligations that must be balanced so that the system's overall contribution to the state and service to students is as valuable and responsive as possible. Consequently, the balanced allocation of internal resources to meet these needs is critical to CSU's success. The past budget allocation methodology for enrollment growth, while responsive to the environment in which it was developed, no longer adequately serves CSU's current financial imperatives.

Proposal

The internal resource allocation methodology should be modified to distinctly and directly address the funding of enrollment growth, and should focus on the allocation of new dollars for the express purpose of instructing and supporting a greater number of students.

Rationale

The new method should foster transparency and predictability regarding the revenue associated with enrollment growth. It should limit unexpected swings in budget allocations and provide appropriate incentives for campuses to generate additional revenue. The task force recognizes that enrollment growth is only one factor driving cost increases (others include compensation, student success, and mandatory costs), and that there will be a need for tailored budget adjustments among campuses (e.g., support for infrastructure growth at developing campuses) and that these adjustments may affect funding available for enrollment growth and other allocation categories.

Making such allocations separately and transparently will enhance predictability and campus planning. There are, of course, many additional issues associated with enrollment management, which are discussed elsewhere in this report.

Recommendations

The task force recommends that the chancellor modify the internal resource allocation methodology to address the funding of enrollment growth in a direct and transparent manner. Ideally, a fixed dollar amount should be allocated to campuses for every additional full-time equivalent student (FTES) and allocations for enrollment growth should not be reduced as campuses collect additional tuition revenue or as other revenue sources grow. As a separate part of the allocation methodology, the chancellor may allocate additional funds to support specific needs of campuses to address financial or physical infrastructure challenges.

CAPITAL FINANCING

Background

Until 2014, the state paid for CSU academic buildings and infrastructure, either directly or by issuing general obligation and State Public Works Board lease revenue bonds. State funding for academic and core infrastructure capital projects declined dramatically over the past decade and fundamentally changed with the legislature and governor's approval of new capital financing authorities for the CSU in June 2014. Specifically, responsibility to pay principal and interest on state general obligation and State Public Works Board bonds issued for past CSU capital projects shifted permanently from the state to the CSU. Although the state appropriated additional general funds to the CSU to fund the existing principal and interest payments, no additional funding was provided to deal with future capital costs. The state may provide additional capital support in the future, but currently there is no commitment to support what has historically been a responsibility of the general fund.

Going forward, costs associated with construction and renovation of academic buildings and infrastructure will be the responsibility of the CSU, similar to the CSU's responsibility for many decades to construct and renovate facilities such as student housing, student unions, parking, and other "self-support" activities that are not supported by the state general fund.

The CSU now has sole responsibility to prioritize, plan, finance, and construct facilities located on each of the 23 campuses using existing revenue sources to support capital debt financing. The CSU must develop ways to utilize existing state appropriation, tuition, or other revenue sources to address over $2.6 billion-worth of current deferred maintenance and approximately $6 billion-worth of key infrastructure projects already proposed.

The new capital financing authority provides the CSU with significant opportunities to control its own destiny. However, the new capital financing authorities depend on revenue streams that are already fully committed. While opportunities for revenue generation and resource redirection exist, these potential approaches will not provide the CSU with sufficient revenues to fund ongoing operations and meet all of its capital needs, at least not in the near to medium term.

Proposal

Debt capacity is a strategic resource and must be managed on a systemwide basis to ensure that the CSU is able to balance operating and capital demands to meet the most critical campus needs. The CSU has the opportunity to provide incentives to expand the number of projects funded by encouraging campuses to identify sources that have not previously been used to fund capital projects and use designated reserves to fund deferred maintenance components of major renovations or replacement projects. The CSU should communicate clearly the application of systemwide priorities to the long list of critical capital outlay needs so that we appropriately balance financial resources, debt capacity, and local capital project priorities

Rationale

In order to fully maximize the new authorities, the CSU must fundamentally change the way it thinks about, prioritizes, and allocates all of its available resources — especially those revenues that have historically only been used for operating purposes such as state general fund and tuition and fees.

Recommendations

The task force makes the following recommendations with regards to the CSU's operating budget and capital program needs.

1. CSU policy should acknowledge the new capital financing authorities and the impact on operating revenues by providing each campus with the flexibility and authority to allocate available resources to meet its operating and capital needs. CSU policy should allow each campus to establish the priority of its needs, within the broader mission priorities established by the Board of Trustees.

2. In consultation with key stakeholders including students, faculty, and the state, the CSU should pursue ongoing and one-time state funds, as well as future general obligation bonds with debt service provided by the state general fund. The task force deliberated on possible solutions in the event that additional state support is not provided for capital needs, including consideration of a capital facilities fee to sustain safe and adequate facilities. While additional capital funding is critical, as a result of consultation with faculty, students, and legislative representatives, the task force determined that the recommendation to consider a future capital facilities student fee was inconsistent with the principles of state-funded public higher education. Passing the cost along to students puts pressure on affordable access to a high quality education. The buildings that make up the CSU were built by the state and should be maintained by the state for future use by California students. As a result, the task force decided not to recommend further consideration of a capital facilities student fee.

3. CSU policy should require that each campus contribute funding towards the cost of campus capital projects in an amount at least equal to an established minimum percentage for each project, taking into consideration specific campus circumstances and project characteristics.

4. CSU policy should require that each campus set aside cash reserves annually, over and above the amount needed to meet debt service payments, to support such debt service payments in an amount at least equal to an established minimum percentage of annual debt service.

ALTERNATIVE MEASURES FOR ALLOCATION OF FUNDS

Background

Historically the state has partially funded the CSU, and the Chancellor's Office has made allocations to campuses, based in part on the number of full-time equivalent students CSU campuses enroll. More recently, however, drastic reductions in state general fund revenues have made it more difficult for the system to increase student access while maintaining quality. In addition, state and federal expectations regarding "outcomes", such as time-to-degree, are gaining attention.

Proposal

The CSU should consider alternative allocation methodologies in addition to enrollment growth. One proposed alternative is to allocate a small portion of the annual budget based on a set of student success and completion measures. Selected measures must take into account the context of the CSU mission, guidance from the Board of Trustees and the chancellor, and individual campus circumstances. If successful, over time a growing portion of the annual allocation could be allocated using the selected measures.

Rationale

Many higher education institutions across the country already allocate funds based on student success and completion measures. Federal and state demands for greater accountability as well as continued public interest in higher education outcomes suggest strongly that the CSU should more closely connect resource allocation and measures of achievement.

Recommendations

The task force recommends that the CSU consider additional measures for funding and that the chancellor commission a workgroup to further analyze and develop a set of potential student success and completion measures.

The workgroup should ensure appropriate faculty and student input and should consider the following:

1. Allowing campuses with different missions to be measured according to different standards and focus on improvement of selected measures rather than achievement of a systemwide standard.
2. Ways to support and encourage campuses that struggle with a measure.
3. Unintended consequences of measures that may steer the CSU from its core mission.
4. Including measures to incentivize institutions that graduate low-income and traditionally underrepresented student populations.
5. Supporting academic quality by incorporating student-learning measures.
6. The appropriate level of funding that should be committed each year to such measures.
7. Facilitating broader comparison by using Integrated Postsecondary Education Data System (IPEDS) data or other national sources.
8. Maintaining focus on the goal of improving college completion.
9. Enrolled time to degree as a better measure of student achievement while also quantifying in real terms the actual impact of students' attendance patterns.
10. An implementation timeline allowing for development, data gathering and analysis.

MANAGING COSTS

The state budget allocation to the CSU has increased over the past two years and we are making progress toward recovery from the dramatic reductions in state support resulting from the last recession. However, even with the increases in general fund support, discretionary resources are limited due to the rapid increase in mandatory costs. Paramount among these are health care premiums, pensions costs, and increases in the “cost” or foregone revenue of the State University Grant program.

HEALTH PREMIUMS AND PENSION BENEFIT COSTS

Background

Mandatory costs incorporated in the annual operating budget plan include employee benefits, which totaled over $1.5 billion in fiscal year 2014-15. Health care premiums and pension contributions paid by the CSU made up 80% of these costs accounting for over $1.2 billion. These costs are large, growing by 41% over the past three years representing a $350 million increase in operating expenses. Not only are costs increasing rapidly, beginning in 2014-15, the state stopped funding the full cost of CSU pension benefits, freezing the state’s obligation to adjust funding based on annual rates established by CalPERS at the level established in 2013-14 for pensionable payroll. Going forward, the CSU bears the full cost of pension benefits for employees hired after July 1, 2014, representing a significant departure from past practice.

Proposal

Costs associated with health care premiums and retirement contributions will continue to grow and reduce funding available for other critical needs. The CSU should evaluate the structure of these programs to ensure that adequate resources are available to fund costs over the long term.

Rationale

The state has shifted responsibility for aspects of the existing retirement program to the CSU and health care premiums are projected to continue to increase beyond expected growth in revenue.

Recommendations

The CSU should evaluate the structure and cost of health care and retirement programs with the intention to ensure the long-term viability of these programs relative to the overall financial condition of the CSU.

STATE UNIVERSITY GRANT ALLOCATION PROCEDURES

Background

The State University Grant program was designed to provide critical institutional financial aid to students with demonstrated financial need. Last year, over 131,000 or 30 percent of students enrolled in the California State University received State University Grants, representing over $644 million of foregone revenue across the 23-campus system. This institutional commitment to affordability represents an important tenet of the CSU and additional state support will be required in the future as demand for a high-quality CSU education increases.

The practice of tuition discounting—charging different students different prices for the same educational opportunities—is a long-standing technique of private and, more recently, public higher education institutions. Discounts to published tuition and fee rates are most often provided to students with the least ability to pay.

The CSU discounts state university tuition through the State University Grant program, which reduces tuition for students based on financial need determined by the federal financial aid methodology. The amount budgeted for tuition discounts represents tuition that will not be collected from students who receive State University Grants.

The cost of State University Grant tuition discounts has grown dramatically, based in large part on the tuition increases required to offset declining state support during the recession. For 2014-15, the program cost of over $644 million in tuition discounts was almost double the amount in 2008-09. This rate of growth is a significant financial commitment that reduces revenue available to the university and thus limits the CSU's ability to provide a higher quality of education.

This challenge is exacerbated by the current procedures for allocating State University Grant tuition discounts among campuses. The allocation formulae are complex; simultaneously incorporating enrollment growth, student financial need profiles, and tuition increases. This complexity makes it very difficult to identify the factors influencing the rate of growth of the State University Grant program and the year-over-year impact on campus budgets.

Proposal

The CSU should carefully review and revise the State University Grant tuition discount program to ensure that the methodology used is clear, understandable, and predictable. Furthermore, the CSU should consider the effectiveness of tuition discounts in meeting the increasing financial need of our students. The CSU and the state should also seek alternative funding to replace tuition discounts with direct grants-in-aid to students, perhaps by expanding the Cal Grant program by making additional need-based grants available to students enrolled in California public universities.

Rationale

To address this issue, the task force created models using separate calculations of the allocation of State University Grants associated with enrollment growth, changes in campuses' student financial need profiles, and tuition increases. These simplified models are fully consistent with all relevant board policy and statute. The models demonstrate that the State University Grant allocations rely on discretionary parameters that affect the rate of growth of the State University Grant systemwide pool. Examples of these parameters include the rate used to allocate tuition discounts for enrollment growth and the total amount of state appropriation to be re-allocated among campuses. Currently, these parameters are set, implicitly or explicitly, by staff in the Chancellor's Office.

The short term changes recommended below should produce greater financial stability, make the State University Grant allocation process more transparent, and may slow the rate of growth of unfunded tuition discounts. The long-term recommendations envision additional approaches that will allow the CSU to enhance its financial stability while maintaining its commitment to helping financially needy students.

Recommendations

SHORT-TERM RECOMMENDATIONS

The task force recommends that the chancellor or his designee set the discretionary parameters for the State University Grant program as part of the budget allocation process that allows campuses, at a minimum, to continue to meet existing student financial need.

LONG-TERM RECOMMENDATIONS

The task force recommends the Chancellor's Office monitor the rate of growth of tuition discounts from 2015-16 to 2017-18. During this period, the Chancellor's Office should review and consider approaches for identifying funding sources for the program, including expansion of the Cal Grant Program to provide additional need-based grants to students. If such sources cannot be identified and the rate of growth of tuition discounts is not slowed, more significant changes in the program, possibly requiring changes in Board of Trustees' policy, should be considered, including renaming the program to more accurately describe the use of tuition discounts rather than grants-in-aid.

REVENUE

Student tuition revenue and philanthropic giving now comprise a significant portion of the total operating budget. As a result, the management of this revenue has become more important to the financial stability of the CSU.

EXPAND CSU'S INVESTMENT AUTHORITY

Background

As described earlier in this report, responsibility for the annual principal and interest on state general obligation and State Public Works Board bonds that have been issued on behalf of the CSU have been shifted from the state to the CSU on a permanent basis beginning with 2014-15. Although the state increased the CSU's support budget to address this shift, the augmentation is not sufficient to support new capital funding to address the CSU's deferred maintenance, critical infrastructure, renovation, and new construction needs. In order to appropriately address capital requirements, the CSU must find new revenues to support new capital funding. Investment earnings are one potential source of revenue.

Currently, the CSU may only invest funds in fixed-income securities authorized by the California Government Code, which have historically generated lower investment returns compared to the returns of balanced portfolios that diversifying investment risk over a broader array of asset types.

In addition, recent developments regarding environmental, social, and governance criteria applicable to institutional investment policies and CSU's leadership role regarding the advancement of these principles as they apply to CSU investment policies would benefit from additional flexibility regarding investment opportunities beyond that provided by the California Government Code.

Proposal

The CSU should consider options to expand authority to prudently invest funds in a manner that allows the CSU to generate additional revenues that can be used to help reduce deferred maintenance and meet critical infrastructure needs.

Rationale

The CSU can generate additional investment revenues to help meet capital needs, and reduce the amount that may be sought from the state or students. This broader authority is consistent with the goal of giving the CSU greater autonomy and responsibility in making decisions on how best to utilize its limited resources and manage risks in meeting its educational mission.

Recommendations

The task force recommends the CSU seek legislative changes that will expand its investment authority, establish an investment advisory committee to the board and enhance investment performance reporting. Furthermore, the task force recommends that the CSU incorporate environmental, social, and governance principles as part of its investment policy structure and consider material environmental, social, and governance criteria when constructing investment portfolios and making investment decisions under the expanded investment authority.

While the task force reached a strong consensus on the recommendation to expand CSU's investment authority, one member expressed concern that broadening investment options may result in a loss of principal and expose the CSU to inappropriate market risk.

THE CRITICAL ROLE OF PHILANTHROPY

Background

Philanthropic support is not a replacement for state support. The state provides critical base funding for permanent core operations. However, philanthropy provides significant resources that enhance quality and expand opportunity. These include funds for academic innovation, cross-system collaboration, statewide expansion of best practices, exploration of scientific frontiers, the application of discovery across disciplines, and scholarship.

The CSU should also be poised to realize high-value philanthropic gifts connected to capital opportunities made possible through expanded financing authority. Yet, CSU advancement staffing and infrastructure lag many private non-profit institutions and the University of California. Investment continues to be necessary to grow philanthropic support that benefits students, alumni, faculty, staff, and the community.

Proposal

CSU campuses should further invest in university advancement, alumni engagement, and community relations in order to increase philanthropic support for the CSU mission.

Rationale

The return on investment in philanthropic infrastructure and cultivation activity is substantial. Every dollar invested in CSU advancement returns six dollars in new funds. In 2014-2015, the CSU received more than $314 million in gifts that included support for student scholarships, academic enrichment, research, capital improvement, public service programs, athletics, and other priorities. Comparisons with other educational systems and non-profit institutions suggest that campuses could expand their philanthropic productivity. Making this point, several CSU campuses have achieved successive fundraising records in recent years as a result of increased sophistication in their advancement programs.

It is critical that the CSU reinforce its efforts to develop closer relationships with students, before they arrive on campus, while they are in school, and after they graduate. As the CSU succeeds in its completion efforts, the number of alumni will grow at an increasing rate. This presents both an opportunity for engagement and an increased demand for alumni services. To be effective at cultivating alumni relationships, the CSU must develop multiple strategies that are segmented to provide value to alumni of different age groups and at different stages in their careers.

Additionally, philanthropic activities require identifying educational, civic, and business leaders who are committed to the CSU mission and interested in addressing regional needs. The CSU can also add value by providing tools, facilitating the adoption of best practices, and sponsoring training at the system level.

Recommendations

The task force recommends that the CSU develop strategies to increase its investment in alumni, corporate and foundation relations; to focus on the support of quality programs and facilities; and to increase applied learning opportunities.

TUITION MODEL

Background

Creating a sustainable approach to tuition in California has been a significant challenge. Historically, there have been many years in which tuition did not increase. For example, fiscal year 2016-17 will be the fifth consecutive year without a tuition increase in the CSU. Conversely, there have been years in which tuition has increased dramatically, by as much as 40 percent. Both approaches are problematic.

Extended periods without tuition increases are not sustainable without increases in state appropriation to support operations including mandatory costs, enrollment growth, and now capital outlay needs. This is because the university faces inflationary cost increases each year such as health care, retirement, facility and construction, library materials, energy, salary, and others.

While the university continually strives to increase productivity and reduce costs, most inflationary costs are set by third parties or through contractual negotiations with represented employees and are outside the university's full control. Given limitations in state funding, the impact of inflation means that the university's costs will significantly exceed its revenues without tuition increases. This financial instability, over time, results in reductions in quality and large, unexpected tuition increases.

Dramatic and unexpected tuition increases are especially problematic and make it impossible for students and their families to financially plan for college expenses. This also creates affordability inequities when similarly situated students pay dramatically different tuition amounts based on state fiscal conditions in place at the time they attend college.

Proposal

In consultation with stakeholders including students, faculty, and the state, the CSU should consider predictable and incremental adjustments to tuition and fees that maintain purchasing power in the face of inflationary increases over time. The task force focused on systemwide tuition and fees in the development of this proposal and did not consider campus-based mandatory fees, including student success fees, which were addressed in an earlier report and resolutions by the Board of Trustees at the January 27-28, 2015 meeting.

Rationale

When combined with increases in state general fund, modest tuition increases ensure the CSU's academic quality and fiscal stability. Small, planned tuition increases will allow students and their families to budget appropriately. The State University Grant tuition discount program will continue to ensure affordability and minimize impact on financially needy students. This additional revenue combined with annual increases in state general fund will contribute to the CSU's financial sustainability, supporting quality educational opportunities and predictable expenses for students and their families.

Recommendations

The task force recommends that the Board of Trustees consider enacting small, annual systemwide tuition increases tied to the rate of inflation designed to maintain the purchasing power of the revenue collected and mitigate future large, unplanned tuition increases in response to state budget reductions in the face of economic uncertainty. Coupled with significantly increased general fund investment by the state, inflationary increases in tuition will improve the ability of the CSU to provide affordable access to a high-quality education for a growing number of students.

MARKET BASED NON-RESIDENT TUITION RATES

Background

CSU campuses can best serve students when they have the resources and flexibility to act on unique campus priorities and goals. In this context, CSU campuses must consider new sources of revenue, which could bolster educational offerings and experiences for students. CSU remains committed to serving Californians first but it is also true that nonresident and international students have been a small part of the CSU student body for decades. Additionally, non-resident domestic and international students add to the learning environment as CSU students and faculty gain a greater understanding of the global marketplace and society.

Proposal

The task force recommends that campuses be given the authority to propose market-based tuition rates for non-resident domestic and international students. Importantly, the CSU should continue to closely monitor enrollment of nonresident and international students to ensure their numbers do not increase disproportionately to California students.

Rationale

Revenue raised from this source will vary across campuses due to differing strategic non-resident domestic and international enrollment opportunities and goals. In addition, the tuition rates the market can bear will vary from campus to campus. Nevertheless, additional revenue from charging market based non-resident domestic and international tuition rates has the potential to strengthen campuses individually and the CSU system as a whole by providing new resources to support campus programs and services. An increase in non-resident tuition will provide additional revenue to increase California resident enrollment and enhance our ability to serve all students.

Recommendations

The task force recommends that the Board of Trustees and chancellor give CSU campuses the authority to propose campus-specific, market-based tuition for non-resident domestic and international students. The task force proposes that increases in these non-resident tuition rates apply to incoming students so that currently enrolled non-resident domestic and international students would not be impacted. The CSU should continue to closely monitor enrollment of nonresident and international students to ensure their numbers do not increase disproportionately to California students.

APPENDIX A. TASK FORCE CHARGE

Chancellor's Charge for the Task Force on

A Sustainable Financial Model for the California State University

October 21, 2014

Several interrelated elements influence the general fund acquisition and distribution for undergraduate and graduate instruction. These elements, viewed at a high level, include state appropriated funds, tuition fees collected, state university grants (revenue foregone), and budget allocations to campuses and the Chancellor's Office.

The current approach to budget and finance was developed over a number of years, based on the infamous "orange book" antecedent. While appropriate for the times, going forward it does not bode well for enabling the CSU to provide high quality programs with broad access by academically qualified students reflective of the spectrum of society, all at a moderate cost to students and the state of California.

The charge to this task force is to propose to the Chancellor in April 2015 a sustainable plan for the future with respect to budget allocation, revenue generation, enrollment management, and institutional financial aid policies. The system-wide recommendations are to:

- Be responsive to the mission of the CSU and to the needs of our students, California, and society in general.
- Reflect regional as well as campus specific enrollment and student needs and aspirations.
- Provide for flexibility across the system, recognizing diversity of campus educational offerings.
- Recognize special circumstances for new and/or small campuses.
- Identify revenue enhancement opportunities for some/all campuses, including national and international students.
- Modify SUG policy to create manageable 'skin-in-the-game' for all students.
- Create policies and practices on revenues including tuition that are predictable with minimal fluctuations in annual resource allocations that allow coherent planning.
- Create a phased transitional implementation plan that does no harm.

The committee will refine the work plan at its first meeting and determine if membership is adequate and if a third-party consultant is required. The task force will decide upon meeting venues (e.g., in person; video conference; teleconference; hybrid) and schedule. It will also suggest any modifications to the charge for Chancellor's approval. All necessary and reasonable costs (travel and lodging) will be borne by the Chancellor's Office.

The work of the Task Force shall commence in October 2014, and consist of two phases.

Phase one will begin by exploring the universe of issues at hand *writ large*, and if necessary refine the initial charge to a narrower, actionable focus that will lead to recommendations and an articulation of core values and operating principles. This refined charge will be reviewed by campus presidents, the statewide academic senate leadership, and leadership in the Chancellor's Office to ensure that it has broad understanding and acceptance. The Task Force membership will determine if its composition is suitable for the charge, including the possibility of retaining a third-party consultant, and if necessary make a compelling request to the Chancellor for adding an additional member or two to the Task Force.

During the second phase, the Task Force will carry out the final charge with an eye to having a draft report completed in April 2015. The draft report will be posted for broad input by any interested individuals in the CSU or from the communities we serve. The input will be reviewed by the Task Force for consideration, and the final report will be submitted thereafter.

The task force consists of colleagues across the state with demanding schedules. Consequently it is not feasible to meet in person on every occasion. And yet the work is important and will require constant attention and focus. The meeting schedule is being established by the task force convener to optimize participation of the task force members. The work of the task force is important, and I caution that progress not become paralyzed in the search of 'perfect' solutions.

The Task Force members are appointed by the Chancellor. Members will bring perspectives and experiences formed in their prior and current roles, yet they are not appointed as 'representative' *per se* of their current role and campus, but rather these colleagues are charged to serve the broad interests of the California State University.

APPENDIX B. GUIDING PRINCIPLES

The following principles articulate the framework for a new, sustainable financial model for the CSU that were developed by the task force to carry out the charge included in Appendix A.

1. Take advantage of all possible options to advance the university's financial position, consistent with the university's mission.

2. Look beyond the university's historical budget methodology.

3. Budget allocation methodology should follow the priorities of the University.

4. Budget allocations should incentivize campuses to reduce time-to-degree and achieve higher rates of degree completion.

5. The budget processes and regulatory practices should provide campuses with maximum flexibility to address each campus' highest priorities, leverage the heterogeneity of the campuses, and ensure the system has a subsidiary role to support the campuses.

6. The financial model should encourage campuses to increase funding from non-state sources such as philanthropy, third-party partnerships, auxiliaries, enterprises, grants, contracts, and other activities.

7. Recognize that all campuses must have a critical mass of size and resources to adequately serve their campus mission effectively.

8. Ensure that there is critical mass, available resources, and demonstrated need prior to consideration of opening any new campuses.

9. Grow enrollment appropriately to the extent that there are adequate resources available to support student achievement, success, and graduation.

10. Changes to the allocation methodology should be phased-in so that campuses' base budgets are not significantly reduced.

11. The financial model should minimize dramatic swings in resource allocation from year-to-year, be predictable, transparent, and allow campuses to engage in longer-term planning.

12. Financial aid policies should be examined to determine whether all students should pay a portion of the cost of their education as an incentive to make timely academic progress towards their degrees.

13. The financial model should recognize that all campuses have to support and contribute to the system as a whole.

APPENDIX C. SUMMARY OF COMMENTS

This report incorporates comments from a wide variety of faculty, students, staff, and other key stakeholders. Much of the input from briefing sessions were positive, and the comments that were critical of the draft report coalesced around four areas, which are summarized below. All of the comments and suggestions were considered by the Task Force and have been incorporated in this report.

An initial draft of Task Force report was distributed widely in September and several members of the Task Force consulted with key stakeholders within the California State University including the California State Student Association, the Statewide Academic Senate, the Council of Presidents, the Academic Council, the Chief Administrative and Business Officers, Vice President's for Student Affairs and Advancement, and others. Members of the Task Force also met with legislative staff and members as well as representatives from the Department of Finance to discuss the September 2015 draft report. In addition, the initial draft Task Force report was posted for public feedback and over 100 comments were received and considered by the Task Force.

Resource Allocation

Public comments and feedback from consultation meetings recommended that performance or outcome measures used to determine allocations should be considered carefully to ensure that they support the mission of the CSU. Some comments also warn against potential unintended consequences resulting from the use of these measures to determine campus allocations.

Capital Facilities Fee

Many of those who commented on the initial draft strongly opposed the establishment of a capital facilities fee. Opposition to a capital facilities fee was driven primarily by the view that state general fund support was the appropriate mechanism to maintain state buildings and that student fees should not be the source of funding for deferred maintenance resulting from inadequate state funding.

Financial Aid

Comments suggested that the draft report did not adequately consider the benefits of financial aid programs like the State University Grant to provide access to students who otherwise could not attend the CSU and that the draft report did not appropriately recognize the challenges faced by students who are unable to afford the cost of attendance.

Many individuals commented that one of the recommendations in the initial draft report to rename the State University Grant program would confuse students and their families.

State Support

Several comments suggested that the draft report should more emphatically express that the state should provide additional general fund support and that emphasizing savings from efficiencies and other revenue streams weakens the argument for additional state funding.

Many individuals indicated that the initial draft failed to appropriately call for substantial increased investment by the state in the CSU to improve the quality and maintain affordability of a CSU education. Comments also elaborated the point that the initial draft report failed to describe the significant reduction in state funding of the CSU representing a fundamental change in the nature of public education in California.

APPENDIX D. TASK FORCE MEMBERSHIP

Co-Chair
Elliot Hirshman
President
San Diego State University

Co-Chair
Leroy Morishita
President
CSU East Bay

Co-Chair
Steve Relyea
Executive Vice Chancellor & CFO
Chancellor's Office

Talar Alexanian
Student Trustee
CSU Northridge

Kelsey Brewer
Student Trustee
CSU Fullerton

Drew Calandrella
Vice President
Student Affairs
CSU Chico

Kathleen Enz Finken
Provost & Executive Vice President
Academic Affairs
Cal Poly San Luis Obispo

Steven Filling
Chair
Statewide Academic Senate

Larry Furukawa-Schlereth
Vice President
Administration & Finance
Sonoma State University

Harry Hellenbrand
Provost & Vice President
Academic Affairs
CSU Northridge

Taylor Herren
President
California State Student Association
CSU Chico

Steven Stepanek
Faculty Trustee & Professor of Computer Science
CSU Northridge

Mary Stephens
Vice President
Administration & Finance
CSU Long Beach

Ysabel Trinidad
Vice President
Business & Financial Affairs
CSU Channel Islands

***Ex-officio* Chancellor's Office support:**

Ryan Storm
Assistant Vice Chancellor
Budget

Rodney Rideau
Deputy Assistant Vice Chancellor
Budget

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury & Risk Management

Dean Kulju
Director
Student Financial Aid Services & Programs

Kara Perkins
Executive Director
Systemwide Budget

Brad Wells
Associate Vice Chancellor
Business and Finance

COMMITTEE ON FINANCE

Report on the 2016-2017 Support Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The fiscal outlook for the California economy and state government is positive. If current conditions hold, three separate forecasts conclude that the state's economy will continue to grow in calendar years 2016 and 2017. Additionally, it is anticipated that the major state tax revenues will also increase, allowing the state to make new investments, grow reserves to balance future economic uncertainty, and retire state debt.

The Governor's Budget identifies a $2.2 billion surplus for 2016-2017. This surplus is net of $5.1 billion in increased state expenditures between 2015-2016 and 2016-2017. Similar to last year's proposal, the budget plan applies large portions of the new revenue to aggressively retire state debt, increases the rainy day fund (as approved by voters via Proposition 2 in November 2014) and increases K-12 and community college program spending. Smaller portions of the projected surplus are for programmatic investments concentrated in health, social services, deferred maintenance, employee compensation, wildfire costs, and higher education programs.

The governor's budget provides a $140.4 million state general fund increase for the California State University (CSU) support budget. This amount slightly exceeds the governor's multi-year funding plan first proposed and adopted in 2013-2014. Additionally, the governor's budget includes one-time funding for deferred maintenance, energy efficiency, and renewable energy projects for the CSU. Lastly, the proposal would continue new initiatives begun last year that require the CSU to prepare and adopt an academic sustainability plan and would continue a basic skills partnership program between California Community Colleges and the CSU.

California Fiscal Outlook

Since the November 2015 meeting of the trustees, three reputable entities released forecasts for California's economy and the resulting effect on the state budget. The Legislative Analyst Office's (LAO) California Fiscal Outlook in November 2015, the University of California, Los Angeles Anderson Forecast in December 2015, and the Department of Finance's 2016-2017 Governor's Budget in January 2016. All conclude that the state's economy will continue to grow in calendar years 2016 and 2017. The associated growth in employment, real personal income, and other factors are expected to yield greater tax receipts primarily in personal income taxes. Little to no change is expected for the other two of the "big three" state revenue categories—sales taxes and corporate taxes. In turn, the higher personal income tax receipts would allow for increases in state program expenditures (like CSU), help pay down state debts, and help the state save for future economic uncertainty.

State Budget Overview

The state's budget outlook has markedly changed in recent years. Four years ago, the 2012-2013 Governor's Budget estimated a $9.2 billion budget shortfall and future annual budget deficits of up to $5 billion. Under the leadership of the governor, and with the assistance of many others, including the CSU and its stakeholders, voters approved Proposition 30 in November 2012. This temporarily increased sales and personal income tax through end of calendar year 2016 and 2018, respectively. Additionally, voters approved Proposition 2 in November 2014, which required the state to annually pay down debts and save more money in a "rainy day" fund. A growing state economy and resulting additional state revenue, debt reduction, stronger savings requirements, and significant and permanent expenditure reductions have transformed the fiscal fortunes of California.

To illustrate California's continuing positive fiscal trajectory, the LAO's California Fiscal Outlook anticipates state revenues outpacing planned expenditures, resulting in $2.1 billion state surplus in 2016-2017. Further, the LAO reports that an additional $1.2 billion of the state's rainy day fund already credited toward 2015-2016 could be used for any purpose in 2016-2017. Combining these figures and other budget adjustments, the legislative analyst concludes that as much as $4.3 billion could be used for any discretionary purpose, including CSU, if state leaders choose this approach.

The release of the 2016-2017 Governor's Budget on January 7, 2016, revealed that the Department of Finance independently calculated and reported a $2.2 billion surplus for 2016-2017. This surplus is net of $5.1 billion of increased state expenditures between 2015-2016 and 2016-2017. The governor's budget estimates future annual revenue growth of approximately 3.3 percent through 2019-2020.

The governor's budget proposal aligned the available additional revenues with the fiscal policy priorities of the governor's administration. The largest expenditure increases would pay down the state's debt, as required by Proposition 2, meet Proposition 98 funding requirements for K-12 and community colleges, and transfer $3.6 billion of revenues to the rainy day fund ($1.6 billion as mandated by Proposition 2 and $2.0 billion voluntarily transferred to the fund). Other notable expenditures include Medi-Cal cost increases, various social service program increases, state employee compensation, wildfire costs, a $2.0 billion statewide deferred maintenance investment (including CSU and UC), and continued investment in the multi-year funding plan for higher education.

2016-2017 CSU Support Budget

The governor's budget proposal continues to make higher education a priority, although not at the level requested in the CSU budget plan approved by the trustees in November 2015. Below are elements of the 2016-2017 Governor's Budget proposal that affect the CSU.

- ✓ *Appropriation Increase*

The governor's budget proposes a $140.4 million state general fund augmentation. Funding can be used for any CSU operational purpose and comes with the expectation that tuition rates will not change from 2011-2012 levels. The total consists of two pieces. First, $125.4 million that is aligned with the multi-year funding plan for higher education first implemented in 2013-2014. This is the fourth year of the funding commitment, which has been extended from four years to six years to align with the governor's term in office. Second, $15 million is available as a result of state changes to the Middle Class Scholarship program in 2015. The CSU appreciates the governor's fiscal commitment, his understanding that the CSU had to implement very difficult cuts during the challenging fiscal years, and the fiscal flexibility contained within the augmentation, that will allow the system to continue its recovery from prior reductions and address pressing needs.

However, the proposed funding is significantly short of the trustees' support budget request of $241.7 million state general fund—a $101.3 million difference that, if funded, would provide greater student access, quality, and achievement at the CSU.

- ✓ *Ongoing Capital Program Funding*

The funds that support debt service payments for all outstanding general obligation (GO) bond and State Public Works Board (SPWB) bond-funded CSU academic facility projects were folded into the CSU support budget in 2014-2015. The "fold-in" of $297 million for GO and SPWB debt service would be augmented by $7.9 million to cover new SPWB debt service costs that will begin in 2016-2017. The governor's administration committed to the CSU to ramp up funding over a three-year period for capital projects that had been approved by the state, but were not completed prior to the adoption of the new capital financing authority. The $7.6 million augmentation provided in 2015-2016 and the $7.9 million proposal for 2016-2017 would be cost neutral in the near term. As this debt is retired over time, the new capital financing authority provides the CSU the opportunity to retain the new $7.9 million indefinitely and to use more of those funds in future years for infrastructure or other capital needs.

- ✓ *One-Time Funding for Deferred Maintenance*

The governor's budget proposes one-time funding of $35 million for CSU to address facility maintenance and utility infrastructure needs. Similar proposals were made for many other state program areas. Last year, the governor's administration proposed, and the final state budget ultimately included, one-time funding of $25 million for CSU deferred maintenance projects.

- ✓ *One-Time Cap and Trade Funding for Energy Efficiency and Renewable Energy Project*

The governor's budget proposal includes a statewide cap and trade expenditure plan totaling $3.1 billion. The CSU share is proposed to be $35 million of one-time funding for energy efficiency and renewable energy projects on CSU campuses. In addition to these purposes, the proposed expenditure plan for the state would also aim to reduce climate pollutants, protect ecosystems, and support clean transportation.

- ✓ *Academic Sustainability Plan*

State law requires the CSU to report on a number of student achievement measures annually in March. Some examples include student enrollment, two-year and three-year graduation rates of community college transfer students, four and six year graduation rates for first time freshmen, and the number of degree completions. The budget acts of 2014 and 2015 required the CSU to prepare a multi-year plan that would establish annual goals for these student achievement measures and outline the way in which assumed revenues and expenditures would sustain the plan. The trustees approved these plans at their November 2014 and 2015 meetings. The 2016-2017 Governor's Budget would require the trustees to once again prepare and adopt an academic sustainability plan based on yet-to-be defined assumptions prescribed by the Department of Finance.

- ✓ *Basic Skills Partnership Program*

The governor's budget proposal builds upon last year's one-time investment to implement practices that increase student preparation for college-level English and mathematics. Specifically, the proposal would make a permanent allocation of $10 million of Proposition 98 funds to the California Community Colleges to partner with CSU campuses to increase the number of CSU students who start their freshman year academically ready for college-level work.

In some ways, the governor's budget provides similar treatment to the CSU and the UC. For each system, the budget would: (1) provide an augmentation of $125.4 million for support of each system; (2) presume tuition fee rates will remain at 2011-2012 levels for the fifth straight year; (3)

provide a one-time augmentation of $35 million for deferred maintenance projects; and (4) require both systems to prepare academic sustainability plans.

In other ways, the governor's budget differentiates between the two systems. For example, (1) CSU would receive a $15 million supplement to the $125.4 million support budget increase (bringing CSU's total to $140.4 million); (2) CSU would receive $10 million more than UC for cap and trade energy efficiency and renewable energy projects; and (3) UC would receive a one-time increase of $171 million to help pay down the UC retirement plan's unfunded liability.

Initial reactions to the governor's budget proposal by leaders in both houses of the state legislature expressed general support of the governor's proposed investments in education. It is, however, very early in the 2016-2017 state budget cycle and it will be several months before the Assembly and Senate craft their final budget proposals specific to CSU. Ahead are several months of legislative budget committee work that will include an evaluation of the CSU support budget request, the governor's revised May budget proposal, and a careful analysis of anticipated state revenues and balancing funding priorities for higher education with other areas of state government. While this is happening, the CSU administration along with students, faculty, and staff will visit state legislators and staff to continue to emphasize the importance of investing in higher education to power California's future economy.

Conclusion

If approved by the legislature, this budget proposal would allow the CSU to minimally invest in student enrollment increases, cover unavoidable mandatory CSU costs (such as employee health benefits), and fulfill commitments already made in collective bargaining. However, this scenario leaves very little fiscal flexibility to fund other significant trustee priorities such as student success and completion initiatives, facility maintenance and other infrastructure needs, and additional student access to meet the demand for a CSU education.

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

COMMITTEE ON FINANCE

2015-2016 Student Fee Report

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

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

2015-2016 CSU Student Fee Report

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

The table on the following page displays the 2015-2016 academic year campus-based mandatory fee rates by campus and by fee category. Student success fees are separately identified in this report for transparency and accountability.

2015-2016 Category II Campus-Based Mandatory Fee Rates								
	Health Facilities	Health Services	Instructionally Related Activities	Materials Services and Facilities	Student Success	Student Body Association	Student Body Center	**Total Campus-Based Mandatory Fees**
Bakersfield	$6	$291	$160	$57	$0	$369	$456	**$1,339**
Channel Islands	6	190	260	145	0	150	324	**1,075**
Chico	6	268	278	90	0	132	776	**1,550**
Dominguez Hills	6	150	10	5	105	135	330	**741**
East Bay	6	225	129	3	240	129	360	**1,092**
Fresno	6	226	264	46	0	69	228	**839**
Fullerton	6	160	72	72	239	148	268	**965**
Humboldt	6	420	674	321	0	117	185	**1,723**
Long Beach	6	90	50	10	346	120	358	**980**
Los Angeles	6	165	123	5	255	54	275	**883**
Maritime Academy	21	680	130	45	0	210	0	**1,086**
Monterey Bay	0	126	60	165	0	96	200	**647**
Northridge	6	120	30	5	220	180	536	**1,097**
Pomona	6	249	48	15	387	128	711	**1,544**
Sacramento	33	239	360	0	0	130	638	**1,400**
San Bernardino	40	227	150	15	167	123	383	**1,105**
San Diego	50	300	360	50	200	70	474	**1,504**
San Francisco	6	306	236	184	0	108	164	**1,004**
San Jose	116	284	0	30	608	178	690	**1,906**
San Luis Obispo	10	301	300	1,134	797	308	679	**3,529**
San Marcos	50	288	80	249	400	100	630	**1,797**
Sonoma	32	378	458	32	0	210	748	**1,858**
Stanislaus	17	365	301	271	0	121	157	**1,232**

The following table shows total campus-based mandatory fees by campus for the 2014-2015 and 2015-2016 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by $56, or 4.4 percent, from $1,287 in 2014-2015 to $1,343 in 2015-2016. Increases in these fees occurred for various reasons. Some campuses have authorized annual incremental increases for certain fees that keep pace with inflation such as the California Consumer Price Index or Higher Education Price Index. Student success fee increases programmed before the state's moratorium went into effect account for a large part of the increase at Dominguez Hills, Fullerton, Pomona, San Diego, and San Marcos. Additionally, the Student Body Center fees were increased at Monterey Bay to expand the student union and at Sacramento to expand the student union and wellness center.

2014-2015 and 2015-2016 Category II Campus-Based Mandatory Fee Rates

Campus	**2014-15**	**2015-16**	**Increase**
Bakersfield	$1,320	$1,339	$19
Channel Islands	1,049	1,075	26
Chico	1,530	1,550	20
Dominguez Hills	667	741	74
East Bay	1,092	1,092	0
Fresno	827	839	12
Fullerton	843	965	122
Humboldt	1,699	1,723	24
Long Beach	980	980	0
Los Angeles	876	883	7
Maritime Academy	1,064	1,086	22
Monterey Bay	491	647	156
Northridge	1,077	1,097	20
Pomona	1,432	1,544	112
Sacramento	1,176	1,400	224
San Bernardino	1,078	1,105	27
San Diego	1,394	1,504	110
San Francisco	996	1,004	8
San Jose	1,851	1,906	55
San Luis Obispo	3,446	3,529	83
San Marcos	1,697	1,797	100
Sonoma	1,804	1,858	54
Stanislaus	1,214	1,232	18
Average	**$1,287**	**$1,343**	**$56**

New Student Success Fee Website

A new informational Student Success Fee website has been developed for students, the CSU community, state officials, and the general public to access useful information related to student success fees. The site contains the Board of Trustees' policy statement, the resulting state law governing these fees, and media and information from the working group and the Board of Trustees. Links to individual campus fee websites provide additional information such as fee rates, revenues, and how campuses are using student success fee revenue. It also details the process to create, revise, or repeal a student success fee. This and other relevant information may be found at www.calstate.edu/studentsuccessfees or through the www.calstate.edu homepage.

Conclusion

For the fourth straight academic year, the CSU systemwide tuition rate has not changed. Systemwide, campus-based mandatory fees increased between 2014-2015 and 2015-2016 by an average of $56 per student. Those already low tuition and fee rates, coupled with the many institutional financial aid programs offered at the CSU have made a CSU education an affordable option for students from all socio-economic backgrounds. Overall:

- About 77 percent of all CSU students (336,000) received nearly $3.9 billion in total financial assistance.
- 60 percent of undergraduates have their tuition fully covered by grants or waivers.
- 52 percent of CSU baccalaureate recipients graduated with zero education loan debt.
- Of the 48 percent who graduated with debt, the average loan debt of $15,657 is lower than the California average of $20,340 and well below the national average of $28,400.