

## **September 8-9, 2015 CSU Board of Trustees Meeting Faculty Trustee's Report**

### **Steven Stepanek**

During the full Board and standing committee meetings on September 8-9, 2015, the following items were discussed:

1. The status of pending litigation and collective bargaining issues were discussed in closed session during the morning of September 8<sup>th</sup>.
2. The Committee on Governmental Relations received an update on the status of various legislative bills of interest to the CSU.
3. The Committee on Audit convened to receive a status report on current and follow-up internal audit assignments. This is a routine report given at nearly every Board meeting.
4. The Committee on Organization and Rules received the proposal calendar of Board meetings for the calendar year 2017. The formal vote on the meeting calendar will occur during the November 2015 Board meeting.
5. The Committee on Finance heard public comments from CFA on salary issues and then heard reports on the CSU annual investment return, the proposed 2016-2017 lottery revenue budget, updates on systemwide revenue bond issuance, an update on Governmental Accounting Standards Board (GASB) Statement No. 68 on accounting and financial reporting for pensions, and planning for the 2016-2017 state support budget request from the CSU.

For the annual investment return report, it was reported that the CSU has approximately \$90 million in reserves in what the State Treasurer refers to as a Surplus Money Investment Fund (SMIF); the State Treasurer manages the investment of these funds in CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities and U.S. Government Agencies. As one might assume, the annualized returns on such investments was a low 0.25% for FYE 06/30/15. Current state law requires the CSU to keep its reserve funds in financial portfolios such as SMIF. The Board is supporting efforts to permit the CSU to have the same level of flexibility the UC has with the investment of these funds.

Regarding lottery funds, the CSU received \$44,100,000 in 2015-2016 and is expecting about the same, \$44,163,000, in 2016-2017 which will follow an allocation plan identical to 2015-2016.

Under the CSU's new capital financing authorities, Systemwide Revenue Bonds (SRB) were issued in two bond series, 2015A and 2015B, in August 2015, totaling \$1,063,675,000 of which \$1,034,370,000 was tax-exempt and \$29,305,000 was taxable. Of the total bond issuance, \$684,710,000 will fund infrastructure improvement projects and commercial paper payoff at an interest cost of 3.95%; \$378,965,000 was issued to refinance existing debt producing a net value savings of \$57,000,000.

The GASB Statement No. 68 is a recent federal requirement that each governmental employer participating in a pension plan recognize a proportionate share of the collective net pension liability on the face of the employer's financial statements. For the CSU, CalPERS and the State Controller's Office calculates the CSU's proportionate share. As of June, 30, 2015, this net pension liability was approximately \$5.9 billion. The nation's financial institutions are aware of this reporting requirement by all governmental agencies so the liability statements are not a surprise to them.

In preparation of the CSU support budget request for the 2016-2017 Governor's Budget, the Board was present with preliminary thinking on the amounts to be requested. To recap agreements with the governor's administration, the following "permanent" funding increases were proposed:

\$125.1 million in 2013-2014 (provided by the state)  
 \$142.2 million in 2014-2015 (provided by the state)  
 \$119.5 million in 2015-2016 (\$216.5 million provided by the state)  
 \$139.4 million in 2016-2017  
 \$155.4 million in 2017-2018  
 \$134.6 million in 2018-2019  
 Cumulative, potential increase in funding = \$816.2 million

At this time the CSU anticipates receiving the \$139.4 million increase proposed for 2016-2017. Knowing the we really need more than this proposed increase to carry out our responsibilities to the citizens of the state, how much more should we request and in what funding areas? As a point of reference, our current base budget is just over \$5 billion. In the preliminary proposal presented to the Board, it is proposed that the following incremental increases in expenditures be requested:

Mandatory Costs (health benefits, pensions, & new space maintenance)	\$46.0 million
2% Compensation Pool	\$68.0 million
3% Funded Enrollment Growth	\$106.0 million
Student Success and Completion Initiatives	\$50.0 million
Facilities and Infrastructure Needs	\$25.0 million
<b>Total Ongoing Expenditure Increase</b>	<b>\$295.0 million</b>
Sources of New Revenue	
General Fund Revenue from Governor's Multi-Year Plan and Middle Class Scholarship Redirected Funds	\$139.4 million
Net Tuition from 3% Funded Enrollment Growth	\$54.6 million
<b>Preliminary Board of Trustees Additional Request</b>	<b>\$101.0 million</b>
<b>Total Additional Revenue Needed</b>	<b>\$295.0 million</b>

The proposal is that the CSU request additional funding in the areas of enrollment growth (3% vs. the Governor's proposed 1%), student success and completion initiatives, and infrastructure support. The 2% compensation pool is based on "the current agreements reached through the collective bargaining process" and remains unchanged from the agreement with the Governor even though issues of salary compression and inversion were recognized during Board discussions. I proposed during the Board meeting that consideration be given to requesting a compensation pool greater than 2% specifically to address salary issues. (See Committee on University and Faculty Personnel report below for more details.)

6. The Committee on Educational Policy heard a request to fast-track approval of a proposed bachelor of science degree program in environmental science and management at San Francisco State University planned for fall 2016 implementation; the request was approved.

The committee also heard recommendations to amend Title 5 to be compliant with AB 2000 and Title IX training requirements. AB 2000 provides nonresident tuition exemption to California high school graduates. The Title IX training issue is to amend Title 5 so campus presidents can

authorize the withholding of enrollment services for students who have not completed Title IX training.

7. A joint meeting of the Committees on Educational Policy and Finance occurred to hear the report on Academic Performance Measures (also known as the Academic Sustainability Plan.) By state law, the CSU must report on 16 performance measures, described by law, each year to the Department of Finance.
8. The Committee on Campus Planning, Buildings and Grounds approved recommendations for amendments to the 2015-2016 Capital Outlay Program for Pomona, Sacramento and San Diego to proceed with various smaller capital improvement projects. A draft 2016-2017 Capital Outlay Program was also presented, identifying \$653 million in startup costs for academic and self-support capital improvement projects from all 23 campuses; with an estimate of approximately \$966 million in additional funding required to complete all of these projects.
9. The last agenda item for September 8<sup>th</sup> was a meeting of the Committee on Institutional Advancement to approve the naming at San Diego State of the Cymer Plaza, William E. Leonhard Entrepreneurial Center Floor, and the Zahn Innovation Platform. The designation of the California Maritime Academy as a Purple Heart University was approved in recognition of the generations of Cal Maritime graduates who have served with distinction in both the armed forces and the Merchant Marine. The meeting closed with the presentation of the 2015-2016 California State University Trustees' Awards for Outstanding Achievement; one student from each of the 23 campuses was recognized for outstanding achievement:

Charmaine Parubrub  
California State University, Bakersfield

Gabriel Guillén  
California State University Channel Islands

Courtney Sage Silver  
California State University, Chico

Dominique Dalanni  
California State University, Dominguez Hills

Patrick Michael Sorgaard  
California State University, East Bay

April Booth  
California State University, Fresno

Todd Callahan  
California State University, Fullerton

Shayne Sines  
Humboldt State University

Heather Valenova Dayag  
California State University, Long Beach

Samantha Lorenz  
California State University, Los Angeles

Devin Schumacher  
California Maritime Academy

Jason Rodriguez  
California State University, Monterey Bay

Amanda Nuno  
California State University, Northridge

Tyler Kent Sullivan  
California State Polytechnic University, Pomona

Yuriy Dzyuba  
California State University, Sacramento

Alexander Soto  
California State University, San Bernardino

Edwin Perez  
San Diego State University

Christine D. Gonzalez  
San Francisco State University

Melissa Ortiz  
San José State University

Mario Alberto Viveros Espinoza  
California Polytechnic State University, San Luis Obispo

Maylin Caldwell  
California State University San Marcos

Danielle R. Hansen  
Sonoma State University

José Godínez  
California State University, Stanislaus

10. On the morning of September 9<sup>th</sup>, the Committee on University and Faculty Personnel met to hear as informational items an update regarding the Executive Transition Program for Dr. Mohammad Qayoumi, a preliminary report on compensation analysis for employee groups and potential changes to the Employee Compensation Policy with reexamination of the Policy on Presidential Compensation. All of these items contained controversial aspects.

Regarding the Executive Transition Program – On November 18, 1981, the Board of Trustees adopted the Trustee Professorship Program as a transition package for newly hired executives when they step down from their position. Existing executives at the time were grandfathered into this program.

On November 18, 1992, the Board of Trustees established the Executive Transition Program which enabled the university to continue to profit from an executive's accumulated experience and insights after the executive resigns. Through this program, former executives are given the opportunity to instruct in the classroom or perform highly specialized duties specific to their expertise to the benefit of the university for a period of one year. This program replaced the Trustee Professorship Program for new executive hires.

On November 14-15, 2006, the Board of Trustees established Executive Transition Program II for all new executive hires on or after November 15, 2006 with the right for executives under the previous two plans to change to this version of the program. Program II was a refinement of the 1992 program.

Dr. Qayoumi voluntarily resigned from the position of president of San Jose State University on August 17, 2015, making him eligible for the executive transition program effective August 18, 2015 through August 17, 2016. One of the conditions of this program is that he cannot accept employment for pay outside of the CSU.

The preliminary report on compensation analysis for employee groups raised more questions than it answered. The report can be found as Agenda Item 2 of the Committee on University and Faculty Personnel meeting on September 9, 2015.

The report states that 59% of the total CSU budget is spent on salaries/wages and associated fringe benefit costs.

[From the report:] “For illustrative purposes, a 1% compensation increase for all employee groups increases the cost to the system by approximately \$32.8 million. Below is the cost to increase each employee group by 1%:

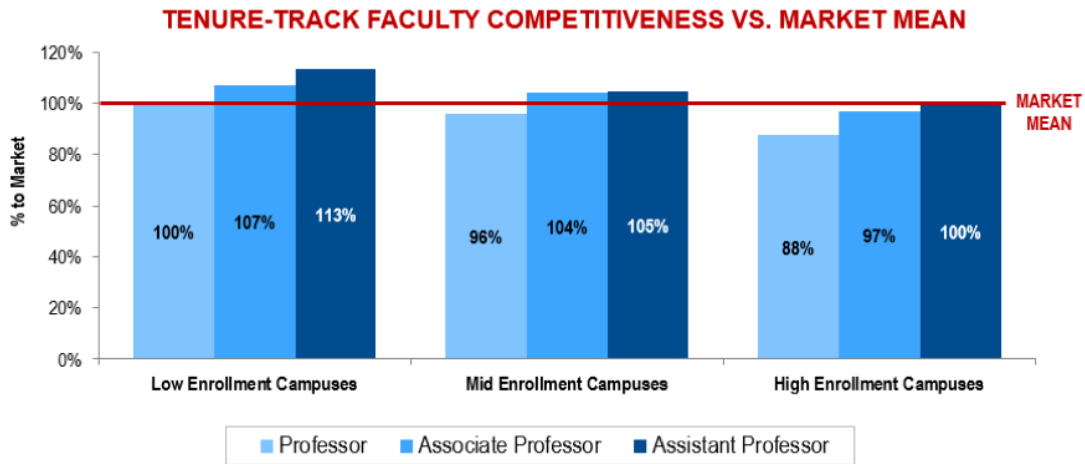
Faculty	\$16.5 million
Staff	\$11.8 million
Management	\$4.4 million
Executives	\$120 thousand”

“Despite salary increases in the past two-three years, the gap between CSU salaries and other relevant market means persists for several employee groups.”

“Market competitiveness of employee groups varies depending on the unit and circumstances.

- 1) Longer-serving employees are often further behind the market than recently-hired employees; and
- 2) Employees at the larger campuses are often further behind the market than those at smaller campuses.”

Regarding tenure-track position salaries, the following chart was provided:



AAUP comparator data and (Fall 2014) and CSU Faculty data (March 2015); data does not include Maritime Academy, librarians, or adjuncts.

(Source: Sibson Consulting)

Ignoring for the moment how the Market Mean line was calculated because it does not take into consideration location based living costs nor discipline based hiring issues, the chart clearly illustrates the severity of faculty salary compression and inversion.

This report was given in part to solicit input as the CSU moves forward in this study with the hiring of Sibson Consulting as compensation consultants and the preparation of a RFP for consulting services to conduct a comprehensive total compensation study.

Regarding employee compensation policy and reexamination of policy on presidential compensation, a warm and fuzzy statement was proposed as the policy governing compensation for all CSU employees:

**“Guiding Principles**

It is the continued intent of the Board of Trustees to compensate all CSU employees in a manner that is fair, reasonable, competitive, and fiscally prudent in respect to system budget and state funding. The goal of the CSU’s compensation philosophy is to attract, motivate, and retain the most highly qualified individuals to serve as faculty, staff, and executives, whose knowledge, experience, and contributions can advance the university’s mission.

The CSU adheres to compensation practices that are fair and equitable in design, application, and delivery.

**Implementation**

The CSU will continue to evaluate competitive and fair compensation for all employees based on periodic market comparison surveys and the depth of skill and experience of an individual employee. In addition, the CSU will maintain and update annually a tiered list of CSU comparison institutions for applicable employee groups. The list may take into account geographic location, enrollment, budget, research funding, and such other variables as deemed appropriate. Compensation will be guided by reference to the mean and/or median of the appropriate tier of comparison institutions, together with an individual’s skill set, and length, depth and effectiveness of applicable experience, and other meritorious achievement and contributions to the success of the California State University.

The compensation system for the California State University shall be (a) administered in a manner that complies with all applicable laws, and (b) consistent with applicable administrative policies, rules and collective bargaining agreements.”

It was then proposed that campus presidents no longer be governed by a separate compensation policy. The current presidential compensation policy was adopted by the Board in May 2012, temporarily prohibiting increases of state funds as part of presidential compensation and restricting the amount of foundation funds used to supplement a presidential compensation to no more than 10% of base salary. I and several other trustees voiced our concerns about a total removal of the current presidential compensation policy but agreed that, in light of the upcoming four presidential searches, a revised policy would be appropriate that prohibits more than about a 10% salary increase and would require that any such increase be state funded. This issue will be brought back to the Board in November 2015.

11. As a committee of the whole, the Board considered and approved a request by the California Maritime Academy, in part as recognition of their 20-year membership in the CSU, to change the name of the campus to California State University Maritime Academy. Congratulations to CSU Maritime Academy on their illustrious history!
12. During the public comment session of the full Board meeting on September 9<sup>th</sup>, representatives from both CFA and CSUEU expressed their concerns regarding the presidential compensation policy discussions that had occurred earlier that morning. During the Board Chair’s report, Lou Monville announced that four presidential searches were about to commence (Channel Islands,

Chico, San Jose and Sonoma) and the appointment of Board members serving on these committees; I will be on both the Chico and San Jose search committees. The Chancellor reported on the legacy of the campus presidents that will be departing this academic year; welcomed Dr. Susan Martin as San Jose's interim president; spoke to the incredible backgrounds of the students honored the evening before during the 2015-2016 California State University Trustees' Awards for Outstanding Achievement; and announced that nominations for the Wang Family Excellence Awards to faculty and staff are now open. In the ASCSU report, Steven Filling encouraged trustees to visit campuses, expressed his concerns regarding current issues before the Board and reported on recent ASCSU resolutions. The Alumni Council report included the announcement that nominations for the next Alumni Trustee were now being accepted.

13. After the close of the open session, the Board continued to meet in closed session to discuss executive personnel matters.