Response to Analysis of 2006/07 Budget Bill

The California State University
April 2006
Support Budget – Overview

The Analysis of the 2006/07 Budget Bill identifies three general areas for legislative discussion in reviewing and approving the Governor’s budget proposal to protect legislative priorities:

- Adjust Base Budget
- Determine New Higher Education Cost the Budget should accommodate
- Determine how cost should be covered

CSU Analysis:

The Higher Education Compact funding agreement currently used to develop the Governor’s annual budget submission is the third multi-year funding agreement that has been reached during the past three administrations (Wilson 1994-98, Davis 1999-2002, 2003/04. ; Schwarzenegger 2004-10). The intent behind these agreements is to provide year-to-year planning stability and predictability to higher education systems, given their academic calendars, admission cycles, faculty hiring practices, and the many other decisions that must be made before the State’s fiscal cycle begins.

Every year since higher education funding agreements have been negotiated between the public universities and the Administration, the Analyst argues that there is no direct link between these agreements and higher education needs under the Master Plan. The Analyst further argues that these agreements have not been agreed to by the Legislature and circumvent the Legislature’s ability to consider budgetary choices in a methodical straightforward manner. Neither argument is accurate.

First, the higher education funding agreements with the Administration identifies a reasonable commitment of revenue that can be made available to the public universities if the universities commit to achieving a specific set of outcome measures that are directly linked to their Master Plan missions.

Second, each university must prepare a budget plan tied to the funding agreement that specifies how the resources provided will be used to support activities that will help them achieve expected Master Plan outcomes. It is these budget plan priorities that the Legislature reviews each year in a methodical and straightforward manner to address the statewide higher education priorities that are ultimately authorized in the enacted budget plan.

The higher education funding agreements have been in place since the 1995/96 fiscal year, and, over the course of the 10 years since they were first introduced, the legislature has been able to review the California State University (CSU) budget plan proposals to set statewide priorities that:

- Eliminated structural deficiencies in regularly scheduled plant maintenance
- Increased Math/Science teacher recruitment and retention programs
- Accelerated the conversion of CSU campuses to year-round operations
- Addressed the growing backlog in deferred maintenance
- Established three new university campuses
- Promoted Community Service Learning, and
- Reduced fees paid by undergraduate and graduate students.
The Analyst is mistaken in arguing that the higher education funding agreements circumvent legislative oversight in the budget process. Circumventing legislative oversight has never been the intent of the agreements – neither overt nor implied; nor has circumvention of legislative oversight been the outcome of any State budget review process since the agreements have been in place.

**CSU Comment**

CSU welcomes legislature review of its annual budget plan, approved by its appointed Board of Trustees, and agrees with the Analyst that the Legislature should concentrate attention on any adjustments that may be required in the CSU budget base, determine new budgetary costs the budget should accommodate, and determine how best identified costs should be supported. These actions are consistent with actions taken by the Legislature in every budget cycle, and are actions that have always guided budget plan priorities identified by CSU each year.

The Legislature is able to do all of these actions, annually, during the State budget process. The funding agreements are an important tool for the university and its students because (1) it allows campuses to plan for demand and new program needs and (2) it provides students and their families a predictable basis for estimating the potential cost of entrance fees. The Legislature can then study in a more timely framework (January through March) whether planned funding commitments address higher education needs adequately, consider other variables affecting affordability such as the adequacy fee revenue set-asides and state-wide provision for financial aid, or require additional support for state-wide higher education priorities such as increasing the number of skilled nurses in California. It was through this long-range, multi-year view of higher education funding that the State was able to help the university address its backlog of on-going scheduled building maintenance in the late 1990s (by identifying a three-year path to erase structural deficiencies) and the university was able to adjust to the significant enrollment fluctuations that resulted from the economic downturn beginning in 2003. The time frame afforded by the higher education agreements allow for the progressive indication of adjustments that may be needed in the budget as the Legislature studies the issues, a progressive time frame for planning that is extremely important to the university as decisions are being finalized for an academic year that begins shortly after the budget has been enacted.

CSU believes the Analyst ignores in its recommendation the prevailing fact that the university cannot meet its Master Plan objectives if it must continually wait until the budget is enacted to ascertain the funding commitment the State will provide. The higher education funding agreements offer a resource framework from which the university can plan and the Legislature can study issues the university and Administration have identified as priorities for the budget year. The basic components of that resource commitment are known months before the college year begins.

The Administration has adhered to the basic tenets of the funding agreement each year it has been in place. When fiscal circumstances require modifications to the funding commitments, the university is aware of the changes in January – eight months before the fall term begins. The Analyst argues that the Legislature was not involved in the negotiation of the agreements. However, the Legislature has been aware since the agreements were established in 1994 that they offer a planning framework for the university. When the Legislature wanted to alter the enrollment assumptions of the funding agreement for the 2004/05 fiscal year, it included supplemental language to the 2003 Budget Act that instructed the Administration and university not to plan for any enrollment growth. While not directly involved in the agreement’s establishment, recognition of the Legislature’s oversight responsibility has been a prominent component of all agreements that have been reached.
Unlike the Analyst, CSU believes the Legislature is acutely aware of the planning framework the higher education funding agreements provide, and that actions taken by the Legislature generally conform to the funding commitments of the agreements. Arguing that the Legislature should change the funding assumptions of the agreements simply to establish authority over the budget process is unnecessary and would be irresponsible fiscal policy.

### Intersegmental and University Budget Plan Concerns

The Analyst identifies four areas of specific concern that the Legislature should address. Following an examination of the concerns raised, the Analyst makes recommendations for the Legislature to take actions as follow:

- Fund expected levels of enrollment growth
- Reject fee buyouts
- Fund base budget increases caused by inflation
- Redirect LAO identified savings to other important priorities not addressed in the Governor’s budget

### CSU Analysis

The concerns raised by the Analyst are consistent with concerns that have been raised in the past and previously addressed by the Legislature. Several of the issues raised reflect similar concerns raised by the Analyst in the Analysis of the 2005/06. Budget that the Legislature addressed last year.

**Enrollment.** The Analyst argues that CSU is not meeting enrollment targets, yet ignores that the predominant reasons for CSU missing its target by roughly 2,800 FTES in 2004/05 were the last-minute funding decisions that occurred during the State budget process and enrollment decisions that students made during the year that deviated from past trends. Specifically, the State asked CSU to enroll 5,953 FTES in July 2004 for the 2004/05 year. CSU agreed to try to accommodate the enrollment with the understanding that (1) Summer 2004 was already underway, and (2) Fall 2004 admission decisions had already been made based on a 5 percent reduction in CSU enrollment from the previous year based on funding decisions that prevailed through May Revise.

The fact that CSU missed its enrollment target offers a telling example of why funding decisions affecting enrollment access and university operations cannot wait until the budget is enacted. These late-term decisions cannot be properly planned within the limited timeframe for admissions and hiring decisions required to accomplish college-year goals. However, even though CSU missed this late term 2004/05 enrollment restoration target by 2,800 FTES, CSU was less than one percent below its overall funded enrollment target of 324,120 FTES for 2004/05 — well within the two percent enrollment leeway the state has traditionally sanctioned in the budget process, and still a remarkable recovery of budgeted enrollment loss given the availability of only the Spring 2005 term to make enrollment adjustments.

The Analyst further argues that CSU is not likely to meet its enrollment target for 2005/06, yet bases this analysis on Fall 2005 enrollment data. There is no recognition in the Analysis of the rebound that has occurred in CSU Summer 2005 enrollment levels (which is up roughly 60 percent above Summer 2004 enrollment and contributes to the university’s college year enrollment target) or actions influenced by the Fall report that are already underway at campuses for the Spring 2006 term. Based on the most recent information from CSU campus presidents (and as identified in the CSU Preliminary 2005/06 Enrollment Report published in
March), CSU 2005/06 enrollment should exceed the funded 332,223 FTES target by over 2,000 FTES.

The Analyst argued last year, as it does now, that CSU enrollment growth should be limited to 2 percent rather than the 2.5 percent growth identified in the Higher Education Compact. The Legislature rejected the Analyst’s argument and agreed with CSU that a predictable assumption for growth tied to the overarching State’s intent to promote access as provided by the Master Plan was directly linked to the 2.5 percent growth called for under the Compact agreement.

The Analyst’s source of data and conclusions regarding enrollment growth do not appreciate the knowledge that California demographers have gained over the last ten to fifteen years in informing the state about higher education enrollment projections. More than a decade ago, there were major disagreements among the Department of Finance’s Demographic Research Unit (DOF/DRU), the California Postsecondary Education Commission (CPEC), and the California State University (CSU) regarding enrollment projections for the California State University. The Legislature made it clear to all parties that the demographers needed to develop consensus on projection methodologies and projections, so the Legislature could focus its attention not on the fine points of methodology, but on the policy and budgetary issues involving higher education enrollment projections. To this end, all parties, the University of California (UC), the California Community Colleges (CCC), and the Association of Independent California Colleges and Universities (AICCU) met to discuss and attempt to reach agreement about data sources and methodologies.

Because California K-12 must report every fall regarding its students in every grade level, everyone agreed that the K-12 annual enrollment data provides the best baseline source of information for K-12 projections. It is the best available source of data because it includes the effects of in-migration and out-migration of California students (and their families) in annual real-time. It also includes the net effects of transitions from private to public schools around the eighth grade and of students dropping out of school when it is legal to do so. To project growth in kindergarten, DOF/DRU reviews and uses annual changes in birth rates.

The DOF/DRU K-12 projection of most concern to state policymakers and postsecondary demographers is the number of high school graduates, because it is from this pool that most first-time freshmen are drawn. DOF/DRU has annual real-time high school graduate figures and projects high school graduates in the future based on trends in grade-by-grade transitions from K-12 to graduation. There is consensus among demographers that using high school graduate projections provides the most appropriate freshman pool from which freshman participation can be projected. CSU, CPEC, and DOF/DRU – as well as other entities – all use this source of data for monitoring, reporting, and projecting freshman participation; it is much more sensitive to the relevant population growth and participation than college-aged based projections from the Census which are based on real-time figures only once every ten years.

Most importantly, demographers agree that the major factor in projecting higher education enrollments after participation at entry is retention and progression to degree (credential or certificate). It takes at least four years for freshmen, and at least two years for upper-division transfers, to make their way to degree. In the CSU where the State has asked the university to serve students who must juggle work, family, and other priorities, the progression to degree takes place at the pace the student requires. CPEC uses multiyear transition tables to model and project the continuing enrollment of students once they enter a postsecondary institution; this is the CSU preferred methodology (indeed, it is the methodology that CSU
developed to model the process by which students enter and make their way through and out of the university).

CSU does not concur with the Analyst’s population-based projection methodology, it’s argument that CSU is not meeting enrollment targets, or its conclusion calling for 2 percent enrollment growth. CSU recommends the Governor’s proposed enrollment growth for CSU of 2.5 percent.

**Marginal Cost.** The Analyst reports that the working group the Legislature requested be convened to review higher education funding for enrollment growth could not reach a compromise. CSU believes the Analyst’s account is incomplete. Two meetings were held with all participants, and a third scheduled meeting with all participants to finalize discussion and reach areas of compromise was never organized. The Analyst and the Department of Finance conducted separate meetings that did not include either of the universities, which CSU believes was to result in a framework for change in the marginal cost methodology that would have been discussed at the final meeting of the working group that never occurred. CSU does not understand the rationale behind the change in planned discussions. However, the marginal cost methodology recommended in the Governor’s Budget represents a compromised version of the CSU and University of California recommendations that sufficiently addresses the most critical problems that exist in the current funding methodology.

CSU disagrees with the Analyst’s argument that the proposed methodology makes arbitrary assumptions regarding General Fund support and ignores the contribution of student fees. To the contrary, the proposed methodology is based on a more analytical look at how actual General Fund revenues are distributed and expended by the universities for specific program costs related to the provision of student instruction, including demands on the physical plant. It also assumes that all student fee revenue for enrollment will remain with the university to fund enrollment related costs and student services. The current methodology simply assumes that a percentage of total actual costs for CSU marginal cost programs and an assumed cost for new faculty is funded with State University Fee revenue, and it subtracts that percentage share from gross costs to determine the State's General Fund cost share.

CSU also disagrees with the Analyst’s assumption regarding average faculty salary costs used in the proposed methodology. The Analyst argues that average salaries should not be used because they overstate the new hire salary rate. However, in the current methodology the new hire salary rate assumes a lower student faculty ratio than is implied in the average cost methodology proposed. Additionally, the proposed methodology adjusts out all fee revenue supporting CSU faculty salaries. The existing methodology only makes adjustment for CSU’s State University Fee revenue. Overall, the average cost approach recommended in the proposed methodology recognizes that the university has a tremendous amount of structural budget deficiency already reflected in its budget appropriation, incorporates base funding shortfalls already associated with CSU’s graduate full-time student enrollment unit load, and reflects the General Fund reductions in salary support that occurred during the budget cuts between 2002 and 2005. These budgetary actions make average cost funding under the proposed methodology in the Governor’s Budget consistent with the funding recommendations CSU proposed to address deficiencies in the current methodology.

CSU strongly disagrees with the assertion that the proposed methodology limits legislative budget discretion. Tying annual changes in the State share of enrollment funding to the percentage change for general operations support in the higher education funding agreement only establishes a simple, predictable mechanism for recognizing the minimum growth in

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enrollment costs. Forming a basis for annual increase in State costs does not in any manner diminish policy decisions the Legislature may choose to make regarding enrollment funding. The Analyst uses as an example the Legislature changing the student faculty ratio, yet does not explain how the proposed annual increase would shield the university from this policy change. The Governor’s Budget proposed just such a change in CSU base enrollment funding for 2003/04 and 2004/05. The Analyst attempted to apply this base budget action to the current enrollment funding methodology. If the methodology was not shielded from the Analyst’s recommendation in the 2003 and 2004 budget processes, why would the methodology be considered shielded from a similar recommendation from the Analyst under the Governor’s proposal? It is worth noting that although the SFR in the methodology was not shielded from the Analyst’s recommendation during the legislative budget process, the Legislature agreed with CSU to protect the existing ratio in the methodology and have the university absorb the base budget cuts related to the SFR change as unallocated budget reductions.

Finally, it should be pointed out that CSU and the University of California believes the methodology proposed by in the Governor’s Budget adheres to the general principles that were agreed upon by the entire working group. The segments believe it would have been beneficial to have the final meeting of the group and to work through any outstanding issues that were raised. However, both segments support the compromises reflected in the Governor’s proposed enrollment funding methodology and agree with the recommended annual change in the funding rate. This support of the proposed methodology does not prohibit any subsequent review that may be required to keep the enrollment funding methodology consistent with the Master Plan’s primary goal to provide higher education access to all eligible students.

**Year Round Operations.** The Analyst raises several concerns related to summer term enrollment at CSU, whether the State should pay to fully convert all remaining CSU campuses to year round operations, and how to encourage better utilization of the summer term. The Analyst concludes that CSU has sufficient funds in its base ($7 million) to fully convert all remaining campuses to year round operations and offers four suggestions for better utilizing the summer term.

The Analyst argues that CSU has $7 million available because neither CSU Fullerton nor CSU Chico served summer enrollments in 2004. The Analyst concludes the funding the State provided to serve that enrollment is available for future campus conversions. The State cut CSU’s budget operations by $126 million in 2004/05. CSU responded to this reduction by reducing enrollments by 4.2 percent, including summer term enrollment. For the Analyst to argue that $7 million in enrollment funding the State provided prior to the 2004/05 fiscal year remains in spite of this $126 million reduction is insupportable.

No supplemental funding requests above regular enrollment growth funding will be made to complete campus year round operations conversions. CSU has agreed to convert all campuses to year round operations within the 2.5 percent growth expectation provided by the higher education funding agreement. Campuses are recovering their summer operations (a 60% increase in enrollments for Summer 2005) and CSU plans to have all campuses fully converted to year round operations by 2008/09.

Additionally, CSU is already employing several of the suggestions the Analyst recommends to increase summer term enrollments. All actions to increase summer term utilization must bear in mind the uniqueness of the CSU student body population. The CSU summer term policy goal is to achieve 40 percent of academic term enrollments at urban campuses and 25 percent of academic term enrollment at non-urban campuses. It should be noted that CSU
plans capital projects with the assumption that these enrollment targets are being met for capacity purposes. A campus falling short of these targets is deemed to have available capacity, which affects funding made available for new building space.

**Student Fees.** The Analyst argues that the absence a State student fee policy results in volatile fee rates and generates considerable disparity among non-needy students. The Analyst’s argues that a shared-of-cost fee policy would eliminate these problems and recommends that student fee rates increase by 3 percent at CSU to maintain the current student fee revenue share-of-cost at current year levels.

The Governor’s Budget proposal is based on a student fee policy provision in the higher education funding agreement that is based on fee increases at CSU that are linked to a student-affordability index. The defined index for undergraduate students is linked to the change in California’s personal per capita income, and for graduate students to a phased transition to 150 percent of the undergraduate fee rate. The CSU budget plan proposed an 8 percent increase in undergraduate fees and a 10 percent increase in graduate fees based on this student fee policy. The Governor’s Budget bought out these fee increases at a cost of $54.4 million.

Affordability is driven by three things, and not just fees. State General Fund support for the system, as well as moderate, predictable fees, and financial aid that further discounts the real cost to families are equally important components determining affordability. CSU is working on an effort to make sure that financial aid programs like Cal Grant serve the needs of all needy students. While CSU agrees fees are important to access, it is only one component of affordability tied to pricing. Addressing all components of affordability, not just pricing, is most important to student fee policy and student access to the university.

The Analyst recommends eliminating the $54.4 million fee buyout. The Analyst would restore $7.6 million of this loss by increasing General Fund support for CSU general operations and $24 million of the General Fund buyout loss (after setting-aside funds to increase CSU financial aid) through a proposed fee increase of 3 percent. Left unaddressed is the $23 million funding loss that was included in CSU’s budget plan to cover 2006/07 expenditure costs. These budget plan cost increases are predominately tied to mandatory costs of $34 million, compensation costs of $77 million to keep CSU salaries at pace with inflation, and $16.5 million to address salary lags that are impacting CSU’s ability to retain highly skilled faculty and staff. The Analyst’s does not address the merits of these funding priorities, yet recommends reducing revenues that would fund them. This action appears inconsistent with the recommendation that the Legislature give thoughtful consideration to higher education costs that should be accommodated.

**Base Budget Increases.** The Analyst correctly indicates that higher education funding agreement calls for base budget General Fund support of 3 percent. The Analyst argues that in buying out increases in CSU fee rates, the Governor’s Budget raises the General Fund base budget percentage increase under the agreement to 5.2 percent. The Analyst is providing a distorted view of the funding agreement.

The funding agreement calls for a general operations increase of 3 percent over CSU base budget General Fund appropriations to address budget year funding priorities. In addition, it calls for a predictable change in student fee income in association with this General Fund change to help address these budget year priorities. These two revenue resources act together under the higher education funding agreement. In replacing the student fee component of this dual revenue stream with General Fund revenue, the Governor’s Budget
did not increase the overall share of revenue growth envisioned under the funding agreement.

The Analyst recommended, based on its imprecise reading of the higher education agreement, that the General Fund component that supports general operations be increased by .3 percent to reflect the Analyst’s projection of budget year inflation. CSU recommends that the Legislature review the base budget increase proposed under the higher education agreement in the full context of resource growth that was envisioned, as well as the CSU budgetary cost pressures that cannot be measured by or supported on the basis of changes in an unpredictable inflation index the university would have to wait for the Analyst to project.

The base budget annual change provided by the higher education funding agreement is consistent with the predictable funding framework the university needs to make decisions based on its master Plan mission in a timely manner. It incorporates an established cost share between the State and student fees, not unlike the share-of-cost recommendation proposed by the Analyst for student fee policy. As a matter of sound and effective fiscal policy, CSU urges that it be supported by the Legislature.

Redirect LAO Identified Savings to Other Important Priorities. The Analyst argues that the $46 million in savings identified in its budget proposals for CSU could be used to address other important priorities. The only priority the Analyst mentions is a generic reference to the State’s budget problems.

The Analyst is asking the Legislature to take away $14.6 million from student enrollment support and $23 million from CSU budget priorities related to mandatory cost increases and closing employee salary lags and redirect those funds to, among other things, addressing the State’s budget problems. While CSU shares the concern of every Californian over permanent solutions to structural shortfalls in the State’s budget, the Legislature is reminded that CSU is only in the first year of recovery from a three-year budget loss of over $500 million – cuts that were made in CSU’s budget to help address the State budget problems.

Further cuts in the university’s budget would not only undermine the CSU’s ability to meet its Master Plan mission, but would actually weaken the State’s own fiscal recovery by undermining efforts to increase the population of college-educated, skilled professionals and technicians. CSU published an impact analysis performed in 2004 that documented the enormous economic and social impact of the CSU. Among those impacts, it is worth noting that:

- Over 410,000 full-time and part-time students pursued baccalaureate and higher degrees at the CSU in college year 2004/05. In that year, the University conferred a total of almost 84,000 degrees. The vast majority of these degree recipients left the University to begin productive careers in the State’s critical industries including agriculture, tourism, commerce and business, bioscience, technology, media and entertainment, engineering, and public service and began careers as teachers, nurses, caregivers. CSU is also uniquely positioned to respond to the State’s urgent and growing need for nurses, and math and science teachers. In fulfilling its mission, the CSU is the leader in providing the life-changing and enriching experience of a college education to the state’s increasingly diverse population. More than half of all undergraduate degrees granted to Latino, African American and native American students in California were awarded by the CSU in 2002/03.

- CSU’s direct economic impact on the state of California is enormous—$7.46 billion. This direct spending in California generates a total impact of $13.6 billion in the state’s economy. This impact sustains more than 207,000 jobs in California, and it generates more than $760 million a year in state and local annual taxes. In 2002/03, the 1.7 million CSU alumni working in California earned an estimated $89 billion in income, of which $25.3 billion is attributable to
their CSU degrees. When the impact of enhanced alumni earnings is taken into account, the CSU’s impact reaches $53 billion.

- CSU improves California’s economy with research, education and an entrepreneurial spirit. For every $1 the state invests in the California State University, CSU returns $4.41. That's a four-fold return on investment.
CSU Recommendations for Legislative Action on Legislative Analyst Support Budget Recommendations
(Analyst’s Recommendations R-1 through R-11)

Fund Expected Levels of Enrollment Growth Recommendations

R-1 Based on our demographic projections, we recommend the Legislature fund budgeted enrollment growth of 2 percent for the University of California and the California State University. Our proposal should allow the segments to easily accommodate enrollment growth next year due to increases in population, as well as modest increases in college participation.

CSU Recommendation for R-1: Fund enrollment growth at CSU at 2.5 percent as provided for in the Governor’s Budget.

The Analyst’s demographic projections uses college aged population counts from the US census, and projections there from, to develop higher education enrollment projections. This is not the methodology of first choice used by California demographers of higher education enrollments because it is largely unconnected to the processes by which Californians become students and progress to academic objectives.

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R-2 If the California State University (CSU) does not meet its current year (2005/06.) enrollment target, we recommend the Legislature remove the unused enrollment funding from CSU’s base budget for 2006/07.

and

R-3 For CSU, we also recommend modifying Provision 7 of Item 6610-001-0001 as follows:

The amount appropriated in Schedule (1) includes funding for the California State University to enroll a total of 346,564 full-time equivalent (FTE) students (excluding summer students for which campuses only received funding in 2005/06. to buy down their summer fees), based on a graduate student FTE unit load of 12 units per term. The Legislature expects the university to enroll this number of FTE students during the 2006/07 academic year. The university shall provide a preliminary report to the Legislature by March 15, 2007, and a final report by May 1, 2007, on whether it has met the 2006/07 enrollment goal. For purposes of this provision, enrollment totals shall not include FTE summer students for which campuses only received funding to buy down their summer fees. If the university does not meet its enrollment goal, the Director of Finance shall revert to the General Fund by May 15, 2007, the total amount of enrollment funding associated with the share of the enrollment goal that was not met.

CSU Recommendation for R-2 and R-3: CSU projects it will exceed its enrollment target by over 2,000 FTES in 2005/06. CSU recommends the Legislature restore budget language that provides a plus or minus 2 percent threshold for CSU enrollment management, consistent with the State’s historical recognition in the enrollment funding process of variances affecting student access.

CSU believes budget language that establishes punitive measures for meeting enrollment targets does not serve its mission well. Nor does it provide guarantees that student access will be met. Even though CSU will likely exceed its overall target by more than 2,000 FTES, several
campuses continue to experience significant shortfalls in enrollment levels. The State has historically recognized the year-to-year changes that can affect even the most careful enrollment management practices. CSU recommends the Legislature returns to a two percent threshold above or below the budget year enrollment target before taking any budgetary action related to enrollment growth funding.

If the Analyst's recommendation were applied to 2005/06 enrollment excess, the state would have to provide a one-time augmentation of as much as $16.5 million at the Governor's Budget marginal cost funding rate. If the Legislature adopts language as recommended by the Analyst in R-3, then the provision should be amended to require the state to provide a supplemental funding augmentation for all enrollment served in excess of the 2006/07 target.

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R-4 We recommend the Legislature revise the current marginal cost methodology, in order to more effectively fund the increased costs associated with enrollment growth. Specifically, we recommend (1) excluding unrelated costs, (2) reflecting actual costs for faculty and teaching assistants, (3) including operation and maintenance costs, (4) redefining a full-time equivalent graduate student at the California State University, and (5) adjusting the total marginal cost by the average fee revenue collected per student.

CSU Recommendation for R-4: The Legislature should accept the proposed revision in the Governor's Budget for enrollment growth funding, which has been agreed to in concept by the majority of the working group the Legislature asked the Analyst to convene.

The Legislature asked that a working group be convened to recommend changes to enrollment growth funding methodology. The Analyst is proposing that the Legislature accept a unilaterally determined change in marginal cost funding because the Analyst does not accept the recommendation proposed by the Department of Finance with the support of CSU and the University of California.

Despite the Analyst's review of certain components of the proposed methodology, the methodology in its entirety makes appropriate compromises that addresses all issues raised by the working group relative to how enrollment growth should be funded. The principle focus of the working group was not to identify a specific level of funding, but rather to recommend a revised methodology that more accurately reflects enrollment growth costs. The changes proposed in the Governor’s Budget methodology accomplishes this overarching objective in ways that required all parties to compromise their positions on what the specific components should entail.

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R-5 Using our revised methodology and our proposed 2 percent enrollment growth, we recommend deleting $30.8 million from the $110 million requested in the budget for enrollment growth at the University of California (UC) and the California State University (CSU). Our proposal would leave sufficient funding to provide $8,574 for each additional UC student and $6,407 for each additional CSU student. We further recommend the Legislature adopt (1) provisional language specifying the marginal cost funding rate for each segment and (2) supplemental report language specifying that enrollment growth funding provided in future budgets be based on our proposed methodology. (Reduce Item 6440-001-0001 by $16.7 million and Item 6610-001-0001 by $14.1 million.)

We also recommend adding the following provision to Item 6610-001-0001:

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Of the amount appropriated in Schedule (1), $43,516,000 is to fund 2 percent enrollment growth (or 6,792 additional full-time equivalent students) at the California State University, based on a marginal General Fund cost of $6,407 per additional student. This funding shall not be used to provide additional state support to students for which campuses only received state funding in 2005/06. to buy down their summer fees.

CSU Recommendation for R-5: Reject the $30.8 million funding reduction recommended by the Analyst and fund additional FTES at CSU and UC at rates required by the Governor’s Budget methodology. The Legislature is encouraged to adopt the Governor’s Budget methodology for future enrollment funding increases.

The Analyst has not made a compelling argument for changing the funding levels provided for enrollment growth in the Governor’s Budget. The proposal recommended by the Department of Finance integrates all budgetary components related to student instruction to derive a funding rate that more accurately reflects the cost of adding new students at CSU and UC. The Analyst’s augments address individual components of a comprehensive model and ignores the overarching goal of defining a funding rate that accurately represents the cost of adding new enrollment.

The Governor’s Budget proposal reflects a compromise of the issues raised by CSU, UC, the Analyst and the Department of Finance in the working group discussions that occurred in August and September last year. The issues included effective student to faculty ratios, the supplement cost of instructional equipment, the impact of structural budget deficiencies on instructional quality, full-time equivalent versus student headcount costs, etc. None of the desired outcomes of any individual group is reflected in the recommended methodology in their entirety. Rather a composite of the individual group proposals to address enrollment costs accurately has been integrated into a simplified methodology that can be readily accessible to all parties concerned from published budget data.

Further, the Analyst’s recommendation for budget bill language that dictates the Analyst’s unilateral proposal for enrollment growth funding rates is inconsistent with Legislative intent that a compromise be reached between the Analyst, Department of Finance, UC and CSU on how best to revise the current methodology to ensure all enrollment growth costs are being met.

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R-6 In determining whether to provide additional funding to fully convert additional University of California (UC) and California State University (CSU) campuses to year-round operations, we believe the Legislature should consider (1) recent summer enrollment trends and (2) the effectiveness of earlier supplemental funding provided to UC and CSU in prior-year budgets.

We believe that the University of California and California State University should continue to take steps to increase enrollment during the summer term, including providing financial incentives to students and requiring some summer enrollment at high-demand campuses.

CSU Recommendation for R-6: CSU has agreed to fully convert all remaining campuses from within its annual enrollment growth increase provided the state upholds its commitment to fund the higher education funding agreement. Should the state not fund Compact levels, then conversion of self-supported enrollment to state-supported year round operations should only be addressed if all other operational needs of the university to support increased enrollment levels can be met and FTES should be funded at the marginal enrollment funding rate applicable to the budget year.
The state has a commitment to fund additional growth at CSU. The Legislature has indicated its intent that CSU campuses function on a year round basis to promote access. In determining whether CSU campuses will fully convert to year round operations, these are the most pertinent issues that should be considered. The CSU summer term policy goal is to achieve 40 percent of academic term enrollments at urban campuses and 25 percent of academic term enrollment at non-urban campuses. It should be noted that CSU plans capital projects with the assumption that these enrollment targets are being met for capacity purposes. A campus falling short of these targets is deemed to have available capacity, which affects funding made available for new building space.

Student Fees Recommendations

R-7 For 2006/07, we recommend the Legislature at least maintain non-needy students' share of cost at the current-year level. Holding this share constant would entail modest fee increases of 3.5 percent at the University of California (UC), 3.0 percent at the California State University (CSU), and 7.0 percent at the California Community College (CCC). For a full-time undergraduate, this equates to an annual increase of $215 at UC, $76 at CSU, and $55 at CCC. These increases would generate $84 million in net new fee revenue. (Of this fee revenue, $35 million is generated at UC, and $1 million at Hastings, $24 million at CSU, and $24 million at CCC.)

CSU Recommendation for R-7: While CSU supports its long-term fee policy of moderate, predictable and affordable fee rates, the university recognizes the Administration's desire to buy out fees after years following significant increases that occurred simultaneous with severe reductions in CSU's General Fund support during fiscal years 2002/03 through 2004/05. The CSU Board of Trustees adopted fee rate increases of 8% for undergraduates and 10% for graduates for the 2006/07 fiscal year. These rate increases are based on a comprehensive definition of affordability that takes into consideration State General Fund support, financial aid availability, and pricing. They were tied to specific revenue needs in the budget plan approved by the Board. The fee buy out proposed in the Governor's Budget supports CSU budget plan need. If the Legislature recommends that the trustees increase student fee rates, the rate increases recommended should be set at levels sufficient with state general fund support to address the budget year needs in the CSU 2006/07 budget plan.

CSU has only two primary fund sources to address general operating costs of the university: the state General Fund and revenue from student fees. CSU uses the combined increase of revenue from these two fund sources to address budget year expenditure need. Mandatory cost obligations, keeping employee salaries at pace with inflation and regional competition, and addressing salary lags that threaten the retention of experienced, highly skilled faculty and non-faculty employees comprise over 90 percent of the non-enrollment related general operating cost increases identified in the CSU 2006/07 budget plan. These increases represent the minimal funding levels required to address critical cost areas and halt additional erosion of base levels of CSU funding support. The Analyst's fee rate recommendation ignores the comprehensive budget plan that has been identified for the budget year and the critical needs the CSU trustees have given priority consideration within that plan to ensure CSU will be able to maintain its master Plan mission.

The CSU Board of Trustees has adopted a comprehensive fee policy that takes into consideration all variables affecting student access to the university. It is within those policy
guidelines that fee rates were adopted in the budget plan approved for 2006/07. If the Legislature
is interested in recommending fee rate increases for 2006/07, the rationale for the proposed
increase should be based on more a comprehensive policy framework than simply preserving an
undefined, pre-existing student fee revenue share of costs.

*****

R-8  We recommend the Legislature reject the Governor’s “fee buyout” proposal because it
distorts budgeting and creates the wrong incentives. Rather than provide a fee buyout, we
recommend the Legislature provide the segments sufficient funding to meet identified needs.

and

R-9  If the Legislature wishes to continuously appropriate CSU’s fee revenue, we would
recommend the Legislature amend trailer bill language to facilitate continued accountability for
these funds.

CSU Recommendation for R-8 and R-9: CSU agrees with the Analyst that the state should
provide sufficient funding to meet costs and that CSU should continue to be accountable,
as it has been in the past, for fee revenue that is continuously appropriated.

The higher education funding agreement provides a level of support that CSU has agreed will be
sufficient to meet the minimum budget year needs of the university. Provisions regarding student
fee increases or the buyout of these increases have been determined in the context of specified
levels of state funding commitments developed within a comprehensive framework of funding to
help the university plan in a timely matter to accomplish its mission and achieve the goals
established in California’s higher education Master Plan. The agreement does not preclude any
action by the Governor or Legislature that would increase or restructure these minimum levels of
support.

The agreement also establishes accountability tied to specific outcomes for the funding the
university receives. If revenue is continuously appropriated to strengthen the financial operations
of the university, CSU will report and be held accountable for the appropriate and effective
utilization of this revenue – as it currently does for all General Fund expenditures. CSU will
provide the same level of detailed expenditure reporting as it currently does for General Fund
revenue in accordance with generally accepted accounting principles. CSU believes there is
already in statute or practice sufficient legal and policy guidelines that satisfy accountability
recommended by the Analyst.

Fund Cost Increases Caused by Inflation Recommendations

R-10  We recommend the Legislature provide a 3.3 percent General Fund base increase to the
California State University. This is consistent with our projection for inflation in the budget year.
The Governor in effect proposes funding for a 5.2 percent base increase. We therefore
recommend reducing the proposed increase of $130 million by $46.8 million. (Reduce Item 6610-
001-0001 by $46.8 million.)

CSU Recommendation for R-10: CSU recommends that the Legislature review the entire
budget plan adopted by the Board of Trustees for 2006/07 and reject the reduction
recommended by the Analyst.
The Analyst’s recommendation will result in funding levels that are insufficient to meet the priority needs identified for the 2006/07 fiscal year. The Analyst’s recommendation also assumes the funding agreement for higher education is based on an inflation-driven cost factor. Such an assumption is incorrect. The funding agreement a comprehensive funding plan based on a multi-year framework. The various components are all inter-dependent and cannot be adjusted individually without compromising the viability of the entire framework.

The framework established under the higher education funding agreement address comprehensive budget need over a period of several years within a planning framework more closely aligned with the operations of the university to ensure effective enrollment management, student access and progress towards degree objectives. Making individual funding decisions like Analyst’s recommendation to reduce CSU funding support by $46.8 million without recognizing the impact on the entire budgetary needs and operations of the university is counterproductive to the university’s efforts to achieve its Master Plan mission.

*****

R-11 We withhold recommendation on the proposed $7 million General Fund reduction to CSU’s outreach programs, pending our review of an evaluation of the programs to be submitted in April.

CSU Recommendation for R-11: CSU has requested that the $7 million previously appropriated for CSU academic preparation outreach programs be permanently appropriated in 2006/07.

CSU submitted a report to Joint Legislative Budget Committee on the effectiveness of the CSU academic preparation and outreach programs in December 2005. Campuses reported expenditures for Educational Opportunity Program outreach; Summer Bridge; the MESA math and engineering student assessment program; GEAR-UP; America Reads/Counts; Upward Bound; and other academic outreach and preparation activities. Expenditures were also reported for the Early Assessment Program (EAP) which includes allocations for EAP campus coordinators and for the development of a senior expository reading and writing course, modules, and materials, the development and implementation of aligned, online mathematics activities, professional development for high school teachers, the Math Success website, and the development of the English Success website for communications, and other EAP program costs.

The implementation of the California State University’s Early Assessment Program (EAP) is the result of an extraordinary collaborative effort between the California State University (CSU), the California Department of Education (CDE), and the State Board of Education (SBE). In partnership, CSU’s early assessment program incorporates the CSU’s placement standards into existing high school standards tests in augmented English and mathematics California Standards Tests (CST).

Items 1 – 4 immediately below constitute a listing of the ways in which the EAP assessment may positively affect student readiness for college-level work in English and mathematics upon initial matriculation to CSU (or another institution of higher learning).

1. Alerted by readiness signal from EAP test, students improve their 12th grade learning through diligence and good work. High schools may also have an opportunity to place 12th grade students in the most appropriate class or learning experience, upon receiving the EAP readiness signal.
2. Improved 12th grade English curriculum aligned to CSU expectations is implemented in high schools.

3. A focus on CSU proficiency expectations for first-time freshmen is infused into pre-service, teacher preparation programs in the CSU.

4. CSU-sponsored professional development experiences equip currently-serving high school teachers with improved understanding of CSU expectations, who then teach to CSU expectations.

A major component of the CSU Early Assessment Program has been in-service professional development for teachers. The surveys conducted of participating teachers and the analyses of the products of their work indicate that this professional development in English has been highly effective. Professional development is now being delivered to teachers across the state in mathematics. As has been the case with professional development in English, the CSU will evaluate impacts on teacher instructional practices and student performance on CSU entry-level proficiencies to determine program effectiveness.

CSU believes the success of all of its outreach programs in preparing students for CSU eligibility, promoting student access, and helping students persist towards degree objectives warrant the continued state support of the $7 million appropriation.
Unsubstantiated Cost Increases

The Analyst’s recommends [page G-51] the Legislature reduce the cost of three projects (East Bay Student Services Replacement Building, Long Beach Peterson Hall 3 Replacement, and Northridge Performing Arts Center) for which the California State University has requested cost increases that exceed inflation without justification.

CSU Recommendation: The CSU recommends full funding for the three projects. Over the last few years, the California construction industry has faced unprecedented cost increases. The CSU funding request for the three projects is justified based on professional cost estimates and Department of Finance procedures for the inclusion and update to project costs.

CSU Analysis:

The CSU proposed revised budgets for the three projects based on the following factors:

1) Costs based on the receipt of updated project cost estimates based on the further development of design;

2) Costs related to the projected change to the California Construction Cost Index (CCCI) used by the Department of Finance (DOF) as updated annually by the Department of General Services as part of the capital planning process;

3) Costs to increase project contingency consistent with a newly instituted DOF budgeting procedure (Budget Letter BL 03-05, dated August 2005) designed to address the continuing market cost inflation to the midpoint of construction.

The below table summarizes the three cost factors by project. A brief narrative following the table is provided on the three cost factors noted above, followed by project specific comments.

<table>
<thead>
<tr>
<th>Cost Escalation Factors</th>
<th>Long Beach Peterson Hall 3 Replacement Building</th>
<th>Northridge Performing Arts Center</th>
<th>East Bay Student Services Replacement Building</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% change</td>
<td>% change</td>
<td>% change</td>
</tr>
<tr>
<td>2005/06</td>
<td>$66,323,000</td>
<td>$47,150,000</td>
<td>$33,711,000</td>
</tr>
<tr>
<td>(1) Increase based on Design Estimate</td>
<td>8.20%</td>
<td>3.71%</td>
<td>N/A</td>
</tr>
<tr>
<td>(2) Increase from CCCI 4328 to CCCI 4633</td>
<td>7.05%</td>
<td>7.05%</td>
<td>7.05%</td>
</tr>
<tr>
<td>(3) Escal. To Mdpt. Construction</td>
<td>7.00%</td>
<td>5.07%</td>
<td>5.07%</td>
</tr>
<tr>
<td>2006/07</td>
<td>TOTALS</td>
<td>$82,696,000</td>
<td>$56,526,000</td>
</tr>
</tbody>
</table>

1) – Cost Increase based on Design. The proposed budgets reflect a professional cost estimator’s calculation of the amount needed to complete the scope previously approved by the legislature. The construction cost increases over the last few years have been unprecedented. Reports cite the high demand for materials in China, higher fuel costs for transportation and
material production, and shortage of labor in California as key drivers to the cost escalation. In addition, the full impact of the Gulf Coast rebuilding effort after hurricane Katrina is still on the horizon but factored in by estimators in consideration of anticipated material and labor pricing, and availability.

(2) – Cost escalation based on DOF/DGS cost index increase. The second factor contributing to budget increases occurs as estimates are updated to reflect the projected increase in the California Construction Cost Index (CCCI). The projects were budgeted at a certain CCCI index when funded for preliminary design and/or working drawings. As typical to the budget process for projects, when the construction phase of funding is requested, the project cost is increased to reflect the projected index for July of the budget year (2006). A project funded at CCCI 4328 in 2005/06, was increased to the estimate of CCCI 4633 projected for July 2006 established by the Department of Finance/Department of General Services for the 2006/07 budget year.

(3) – Cost increase to midpoint of construction. The CSU supports the Department of Finance’s effort to recognize that contractors typically develop project bids anticipating costs over the duration of the project, not just to the start of construction. With the recent construction inflation rates, by including escalation to midpoint of construction, the methodology has changed to more appropriately reflect the prevailing wage labor cost and material cost increases that contractors must anticipate.

Based on the Labor Code, many labor rates for construction trades are able to escalate in February and in August, by roughly 1.5% to 2% per period depending on the type of construction trade. For example, a $30 million, 24-month construction duration project awarded in October 2006, is only budgeted to the CCCI projected for July 2006 based on the historical process for a non-streamlined project (funded by phase). Based on the prevailing wage requirements, the contractor and his subcontractors base their bid on labor rates increasing 1.5% in February 2007, 1.5% in August 2007, 1.5% in February 2008, and 1.5% in August 2008. Assuming labor costs range from 50% to 60% of a project, the contractor will include an additional 6% to 8% in the bid. For the $30 million project, this can range from an additional $900,000 to $1,440,000 being added to the contractor’s bid. Assuming project contingency is budgeted at 5% of the construction value, or $1,500,000, there would not be sufficient funds to absorb this increase without reducing quality, size, or scope.

This change in budget methodology will also help to address material price escalation. While this methodology change will not build sufficient contingency to address the a 21 percent annual material cost escalation as currently being experienced in the industry, it will help the CSU maintain quality in our buildings should more typical inflation patterns return. It will more closely represent the practice of professional cost estimators in developing project bids. It will help mitigate material cost escalation past July of the budget year. It will also improve the budgeting for those materials whose prices are not locked-in at the time of bid. CSU estimates 20% to 25% of the materials are not locked in at bid time.

When the Department of Finance issued Budget Letter 03-05 in August 2005, the CSU modified our estimates to add this component of cost. The letter allows the inclusion of escalation at a rate of 5% per year or .42% per month. The analyst does not believe funding to the midpoint of construction should be necessary and that the budgeted contingency should be adequate to cover additional cost escalation. The labor and material cost escalation noted above explain in part why the budgeted contingency is not adequately covering the current escalation.

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1 “Trends in Southern California Costs”, January 2006 Presentation by Bill Rodgers, Cumming LLC
2 Engineering News Record, p. 21, December 19, 2005
CSU believes the three factors noted above provide the California State University the best chance to deliver projects within the approved scope, budget and projected schedule. The CSU continues to manage its capital outlay program in this very challenging environment. Campuses continue to reduce quality elements to control costs in order to deliver capacity space to teach students. In addition, certain projects have been submitted to the Public Works Board for approval to reduce scope, and increase project budgets for those projects where a scope reduction can be tolerated. The industry-wide cost increases have made it difficult to afford the quality in our buildings that we believe should exist to promote a 70 to 100 year life inclusive of energy efficiency elements and with sustainable design and construction in mind. The design of the three buildings based on the proposed budget reflects the complexities of the individual projects, site conditions, and academic program needs.

CSU Long Beach, Peterson Hall 3 Replacement Building

The program submittal for 2006/07 reflects both the Department of Finance escalation per CCCI adjustment from 4328 to 4633 and the increase based on the preliminary design. The latest cost estimate reveals the increases to be contained in the substructure, and building systems (HVAC, electrical, plumbing) driven by cement and steel/metal product cost increases. The basement configuration, and site constraints related to the existing building demolition and available contractor lay-down area for construction materials are other key factors driving the building’s cost per square foot. Energy efficiency elements include high performance, glazing, high reflectivity roofing material, louvered sunshades, high efficiency durable building skin, variable air volume control and automated building HVAC controls.

CSU Northridge, Performing Arts Center

The proposed 2006/07 budget for the Performing Arts Center is based on the completion of the initial preliminary planning phase. Having moved from a feasibility level study to design documents improves the accuracy of the estimate based on an actual design. The design includes elements consistent with sustainable buildings and energy reduction strategies recommended for state facilities in the Governor’s Executive Order S-20-04. These latter design elements include highly efficient heating, ventilating and air conditioning systems, windows that limit radiant heat into the building, a cool roof and effective lighting systems.

CSU East Bay, Student Services Replacement Building

The CSU East Bay Student Services Replacement Building budget increase includes only the CCCI adjustment and the midpoint to construction increase. The projected CCCI increased from 4328 to 4633 resulting in an increase of $2,377,000, and the escalation to midpoint of construction of $2,850,000 per the DOF Budget Letter.

In each of the three projects, two cost factors are justified based on budget methodology used by the DOF and other state agencies (CCCI increase and escalation to midpoint of construction), the third cost factor based on the actual design was needed for two projects are they were budgeted prior to the inclusion of significant material and labor price increases. We recommend approval of these projects as these costs are justified based on design documents and consistent with Department of Finance budget methodology.

CSU RESPONSE: ANALYSIS OF THE 2006/07 BUDGET BILL
**CSU Channel Islands: Infrastructure Project**

The Analyst recommends [pages G-52 through G-54] the Legislature delete $2.5 million for preliminary plans and working drawings for phases 1a and 1b infrastructure improvements at the Channel Islands campus because (1) the central plant portion of the project has not been justified, (2) the specific infrastructure improvements are not identified, and (3) the infrastructure renewal portion of the proposal can be funded in priority with other renewal projects under the state-funded California State University capital renewal program.

**CSU Recommendation:** CSU recommends approval of the CSU Channel Islands Infrastructure project. The requested $2.5 million for preliminary plans and working drawings will be used to design infrastructure improvements to replace fifty- to sixty-year old utility systems serving the campus based on a Utility Master Plan completed for the campus. The utility systems were built in the 1930s to 1950s to serve the Camarillo State Hospital and have not been upgraded or replaced to meet the needs of a university. If the proposed project to replace aged infrastructure is not funded, there is an increased likelihood that catastrophic failures in the electrical system will cause the campus to close for prolonged periods of time, and new or renovated buildings to serve the growing student population will not be able to come on line.

**CSU Analysis:**

Due to the critical nature of the utility system deficiencies, prior year bond funds are proposed for the preliminary and working drawings. With the large number of system failures to date, a phased plan has been developed for the capital outlay infrastructure proposal as an alternate approach to funding the construction phase should a new infrastructure bond not be approved.

The proposed project is based on the recommendations documented in the Utility Master Plan and will provide backbone capacity to enable the campus to serve the FTE enrollment growth forecast for the next 15 to 20 years. It prioritizes the areas of infrastructure upgrades consistent with the projected size of new and renovated buildings.

**Background**

In 1996 the State Developmental Hospital was closed. A Governor’s Task Force recommended Camarillo reuse of the facility for a CSU campus. In 1998, the CSU took possession of the hospital property and buildings, and began planning for the conversion to the 23rd CSU campus, California State University Channel Islands.

On July 19, 2000, the CSU Board of Trustees approved the initial campus master plan. Classes began in renovated space in fall 2000, and today the students and faculty occupy some 250,000 GSF of renovated and new space on the grounds.

**Planned Enrollment and Campus Growth**

California State University Channel Islands is a young campus that has met and exceeded all enrollment targets in the first few years of operation. In fall 2005, the actual campus enrollment was 2,136 FTE students, exceeding the target of 2,130 FTES. After 2006/07, the campus is projected to grow by 500 to 600 FTS per year, reaching a projected enrollment of 4,750 FTES by 2011/12.
Currently, the 2,130 FTE students and 500 faculty and staff use approximately 250,000 GSF of state (12 major buildings) and non-state funded building space to support the academic mission. With enrollment projected to grow to 4,750 FTE students by 2011/12, the campus is planning several new buildings and the renovation of existing, unused space. These include:

- A 120,000 GSF Library (currently in construction, funded with non-state and donor funds);
- A 60,000 GSF North Hall Classroom/Office addition/renovation;
- A student union and additional student housing (phase III) as the campus continues to grow.

In total, the campus forecasts adding 600,000 GSF of space by 2011/2012 (300,000 GSF non-state), and 2,000,000 GSF by 2025 (680,000 GSF non-state), to accommodate the forecasted enrollment growth to 15,000 FTE students.

**Justification for a New Central Plant**

A new central plant and distribution system is justified for the following reasons:

1. The existing 75-year old steam distribution system has passed its useful life and has been kept operational by emergency repairs.
2. Distribution of hot water in place of steam is more energy efficient.
3. Installing a steam-driven chilled water production plant will improve the demand for steam the campus is required to purchase.
4. Cooling is not available in most of the existing buildings, and room temperatures can exceed 80 degrees F, which is not conducive to learning and working.
5. The campus must grow to serve the projected enrollment, and centrally provided heating and cooling is the most cost-effective and energy-efficient solution.

The rapid pace in which the CSU moved to transform the State Hospital to a State University required administrators to focus on making key academic and instructional support functions operational in order to serve the students attending the existing Ventura Off-Campus Center and new student growth in the region. Operational experience with the infrastructure has enabled the campus to review and assess utility plant alternatives.

The Utility Master Plan evaluated the alternative of installing heating and cooling units localized to serve each existing and new building and compared upgrading the central distribution system to serve the entire campus via hot water and chilled water piping. The cost analysis clearly shows that a central plant, with hydronic piping system serving the campus, is the more cost effective and energy efficient solution. It is well documented that connecting existing and new buildings to a central heating and cooling system consistently yields improvements in energy efficiencies between 15% to 25%, lowers operation and maintenance costs, and improves the lifecycle cost for both existing and new buildings.

The proposed project will replace the 1930’s to 1940’s steam distribution system that fails regularly in delivering steam to heat existing buildings. The steam production system is currently a third party owned and operated cogeneration plant, which leased land from the Camarillo State Hospital and now leases land from the university. The agreement inherited by CSUCI to purchase steam and electrical power generated by the plant requires a minimum average thermal (steam) purchase of 9,000 pounds per hour each year until 2018. Based on the current heat load of the campus, this amount exceeds the daily needs of the campus, but must be purchased anyway based on the contract.
The proposed plan to install steam-driven absorption chillers in the central plant would increase campus demand for steam and enable chilled water to be pumped to buildings for air-conditioning. This is an excellent use of the steam as the co-generation plant increases in efficiency when thermal demand would increase during hot summer months to operate the chillers. Currently the University must purchase steam that it cannot use; this is a significant expense that results in no benefit to the campus. The proposed plan addresses an operating deficiency in cooling buildings as necessary, and utilizes steam that the campus is obliged to purchase whether they need the steam, or not.

More than 90% of the state-funded building space in use does not have conditioned air or cooling. Only two buildings, Science Building and Data Center, are served by chiller units that are dedicated for the buildings. The rest of the buildings are not cooled. The temperature inside the classrooms and offices often exceed 80 F.

The University needs to provide adequate cooling in the existing and future buildings that meet health and safety criteria for ambient temperature. The utility master plan calculates a peak-cooling load of 1,321 tons, which is projected to increase to 5,200 tons by 2025. This large cooling load requires a centrally produced solution to achieve energy efficiency both now and in the future.

The CSU assessed the viability of a third-party building the central plant, however determined that based on the need for extensive costs for the overall utility infrastructure, for planning purposes it was not reasonable that the project should rely on securing co-funding for the central plant. While any viable options will be considered should they arise, they is no viable plan that can be relied upon for a third party commitment of funds.

Specific Improvements are Identified

The Utility Master Plan has identified the specific infrastructure improvements based on areas of critical need, the planned areas of renovation and growth, and construction of utility improvements that are coordinated in order to avoid digging up the campus multiple times. The improvements are discussed in the following paragraphs.

Electrical Infrastructure

The project will replace the 40-50 year old 4kV electrical distribution system, with a more efficient 12kV distribution system. The University has experienced several cable and circuit breaker failures during the past three years. On several occasions, for more than one day each time, the University remained in operation only by using antiquated diesel generators. This occurred because specific areas of campus cannot be isolated, and repairs and parts on the antiquated equipment take longer to procure and install. In addition, many of the existing high-voltage cables are not encased in concrete, in violation of current safety code requirements.

The new 12kV cables and new transformers will provide reliable service and prepare the campus for future expansion. Due to the critical condition of the primary switchgear, the campus is using $940,000 from the 2005/06 Systemwide Capital Renewal Program to address a significant component of renewal in a very large, complex outdated network.

CSUCI has long-term power purchase contracts in place. The inherited contract with third party owner/operator OLS to procure up to 1.5 MW of power from the co-generation plant has a term to 2018. In addition, CSUCI has successfully negotiated with SCE to provide electrical service for loads exceeding 1.5 mW. This service will be delivered through existing equipment, and will be
billed at transmission rates. This additional power will provide for projected peak electrical demand of 10mW.

**Telecommunications System**

The Camarillo State Hospital’s telecommunication system was not usable for campus requirements, and was abandoned. When the University was first opening, a portion of the communication backbone was installed to serve a few of the existing buildings. This project proposes to bring the campus up to the CSU Telecommunication Infrastructure Planning (TIP) guidelines consistent with the systemwide telecommunications initiative previously funded for the other campuses. The project will construct needed telecommunications rooms in each building, and provide sufficient cable and conduit capacity for academic technology and desktop connectivity for faculty, staff and students for all existing buildings and planned additional buildings and renovations.

**Sanitary Sewers**

Sewer mains are also 50 to 70 years old. The pipes are made of vitreous clay with tar poured hub joints, and some asbestos-cement piping. There are many areas with tree root intrusions. Tree roots damage the clay pipes and the pipes require frequent repair. The Utility Master Plan studies show that the existing system is not adequate to serve the campus expansion. A new, larger sanitary sewer system is proposed as part of the Infrastructure project. Camrosa, the local wastewater treatment agency, has a three-phase plan to expand their capacity. CSUCI will utilize approximately one-third of the expansion capacity, and Camrosa is expected to begin construction of the expansion in 2006.

**Storm Drains**

CSUCI has an extensive storm drain system, installed in the 1930s. No major work has been done on the system since the 1930s and the system needs to be upgraded to address storm water runoff discharge requirements into Ventura County drains and waterways. Current County hydrology guidelines also indicate vastly higher flood level requirements than when the system was installed. Preliminary hydrology, hydraulic analyses and recent campus flooding due to storms show that the existing system is inadequate to transport 10-year flows using current Ventura County hydrology data and methods. To mitigate the potential flooding conditions, the storm drain system must be redesigned and piping upgraded to direct outflow into Long Grade Creek, therefore this project will install a new flood control retention basin.

**Water Distribution System**

Water mains feed domestic water, fire system water, and irrigation. The water distribution system is undersized for future expansions. To provide capacity for planned future enrollment and ensure adequate pressure at hydrants for fire hydrants, the water distribution system will have to be upgraded. A 12-inch water supply system is proposed as part of the Infrastructure project and is sized to reflect the use of reclaimed water for irrigation as part of this project. Piping improvements will focus on the campus core.

**Reclaimed Water System**

The Camrosa Wastewater Treatment Plant delivers reclaimed water to a main line located at the northern edge of campus, but there is no reclaimed water line loop inside the campus. Reclaimed water needs to be routed throughout the campus to enable connection and isolation of all
irrigation devices. Currently, potable water costs CSUCI $1.38/HCF and reclaimed water costs $0.38/HCF. Distribution of reclaimed water increases sustainability by decreasing the need for potable water, and over time will provide enormous savings in water costs. As part of the Infrastructure Project, the campus proposes to install a reclaimed water distribution system for irrigation.

**Natural Gas**

The natural gas is used in laboratories, art facilities, and kitchens. The existing natural gas distribution piping system is capable of serving the campus, including its future needs. As part of the Infrastructure Project, the natural gas distribution loop will be extended to areas where no service is available currently.

**Project Scope and Size Warrants Major Capital Outlay Funding**

The Analyst is correct in stating that the CSU Capital Renewal program is designed to provide improvements to all 23 campuses that have long backlogs of deferred maintenance. It should also be noted that each of the 23 campuses has an extensive list of deferred maintenance, and the Capital Renewal program is designed to provide smaller renewal and repair projects across the 23 campuses.

The CSUCI campus requires a new central plant, and installation of new utility distribution systems, at a projected cost of $47.2M, as a major capital outlay project. The Capital Renewal Program, currently funded at $50 million, cannot support individual projects of this required magnitude, and such an allocation would be unfairly detrimental to needed projects on other campuses. In addition, to fund a single, major infrastructure renewal and improvement project on a single campus is not consistent with the intended purpose and systemwide objective of the Capital Renewal Program as defined by CSU and approved by the Legislature. The campus plans to complete the underground work in a coordinated manner, to achieve the difficult pipe crossings and to minimize long-term disruption to the campus community.
## Infrastructure Failures at CSU, Channel Islands

<table>
<thead>
<tr>
<th>Failure</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electrical Outages</strong>&lt;br&gt;Feb-06 Power outage for entire campus. Blown fuse at main ATS switch.</td>
<td>Emergency generators supplied power to the campus for one whole day.</td>
</tr>
<tr>
<td>Feb-06 Power outage for entire campus. Breaker fault.</td>
<td>Emergency generators supplied power to the campus.</td>
</tr>
<tr>
<td><strong>Sewer Back-up</strong>&lt;br&gt;Feb-06 Sewer main line on Ventura Street plugged.</td>
<td>Line had to be cleaned and vacuumed.</td>
</tr>
<tr>
<td>Jan-06 Line in Corp Yard collapsed</td>
<td>20 feet of clay pipe had to be replaced.</td>
</tr>
<tr>
<td>Jan-06 Line in Chapel Drive plugged.</td>
<td>Pipe separation due to settling. Portions of pipe had to be replaced.</td>
</tr>
<tr>
<td>Dec-06 Sewer main line on Santa Barbara Street plugged.</td>
<td>Line had to be cleaned and vacuumed.</td>
</tr>
<tr>
<td>Nov-06 Sewer line to Hub plugged.</td>
<td>Line had to be cleaned and vacuumed.</td>
</tr>
<tr>
<td>Feb-06 Sewer Line to Fire Dept. collapsed</td>
<td>120 feet of Transite line had to be replaced.</td>
</tr>
<tr>
<td><strong>Steam System (Heating) Failure</strong>&lt;br&gt;Feb-06 Failed steam system regulator in BT West equipment room.</td>
<td>No heat in Bell Tower office building for 8 hours.</td>
</tr>
<tr>
<td>Ongoing Failed steam system regulator serving campus pre-school.</td>
<td>Regulator being controlled manually. Replacement requires 8 hour heating supply outage.</td>
</tr>
<tr>
<td>Jan-06 Pressure regulating valve failure.</td>
<td>No heat in two campus buildings.</td>
</tr>
<tr>
<td>Feb-06 Entire campus steam outage. Failed steam system isolation valve &amp; regulator in main equipment room.</td>
<td>No heat for 12 hours.</td>
</tr>
</tbody>
</table>
San Marcos: Social and Behavioral Sciences

The Analyst recommends [page G-54] the Legislature delete $1.1 million for development of preliminary plans for a 68,000 assignable square foot social and behavioral sciences building because it is not justified by enrollment projections. The future cost to complete construction of the proposed building is $53.9 million.

CSU Recommendation: The proposed Social and Behavioral Science Building is justified based on enrollment projections. The CSU recommends project funding to ensure regional access can be provided. In 2005/06, the San Marcos campus had an enrollment target of 6,072 FTES. By the target year of 2012/13, the campus is projected to have a college year enrollment of 9,262 FTES, which amounts to a 52.5% increase. This projection is supported by the number of high school graduates in San Diego and Riverside counties, from where a majority of San Marcos students are drawn. Given that the number of high school graduates in San Diego and Riverside Counties will exceed 60,000 in 2012/13, meeting a target to enroll 2,000 to 3,000 incoming first year students is achievable.

CSU Analysis

Campus Will Not Have Sufficient Space to Serve Future Enrollment

The campus continues to meet or exceed its FTES enrollment projections. Future enrollment projections justify the addition of 461 FTES (198 lecture seats) in a new building in 2012/13 (target year). Despite the addition of the classroom seats in the recently occupied Academic II building, the modest addition of lecture seats in the Social and Behavioral Sciences building is justified in the target year per the 2006/07 CSU Summary of Campus Capacity, a companion report to the CSU Five-Year Infrastructure Plan. Furthermore, several new programs just became operational, and at the March 2006 meeting, the Board of Trustees approved the campus academic plan to bring additional degree programs on line. These include: in 2005 the BA in Mass Media and a BS in Biotechnology; in 2006 the BA in Border and Regional Studies, a BS in Nursing and an MA in History; and in 2007 a BA in Anthropology and the MPA in Public Administration. All but two of these will be housed in the 2006/07 proposed Social and Behavioral Sciences Building.

The campus’s primary inventory of current lab space is designed for the hard sciences (chemistry/biology/physics). This space is planned to accommodate the courses taught in the new Biotechnology program in 2005 and the new Nursing program starting in fall 2006. The proposed labs in the Behavioral and Social Sciences building will be designed to focus on psychology-based research, extensive media labs and planning/public policy colloquium arrangements.

The San Marcos campus is still in relatively early physical developmental stages and many specialized teaching spaces have yet to be provided on the campus, inhibiting the development of certain programs. The addition of specialized teaching spaces has proven to be the catalyst in the growth of other College of Arts and Sciences academic programs after the addition of the new Arts building in 2002. Likewise, adding the appropriate teaching labs is essential to support the growth of the social and behavioral sciences academic programs. From 1995 to 2004, the number of majors in the social and behavioral sciences grew from 1,409 to 2,665 FTES. This illustrates the relatively high and growing demand for these disciplines and the corresponding need for appropriate facilities. By the target year for this building (2012/13), all of the programmed spaces will be necessary and justified to facilitate meeting FTE, faculty needs and degree program growth.
**Project Accounts for Summer Enrollment Goal**

It is incorrect to state that the San Marcos campus did not have any summer enrollment in 2004. The summer program was partially non-state financed through Extended Studies as extensive support budget cuts were initially identified in the enrollment target for the 2004/05 College Year. This was a comprehensive enrollment management strategy for dealing with a much larger demand than the state-funded summer target initially allowed. With the support budget uncertainties the campus achieved the following annualized enrollments in state funded summer term.

<table>
<thead>
<tr>
<th>Year</th>
<th>FTES</th>
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</thead>
<tbody>
<tr>
<td>2003</td>
<td>370</td>
</tr>
<tr>
<td>2004</td>
<td>322</td>
</tr>
<tr>
<td>2005</td>
<td>303</td>
</tr>
</tbody>
</table>

The campus continues to explore strategies to increase summer enrollment. The BS in the Nursing Program will require summer coursework, as well as cohorts for the MA in Education. The summer session schedule will be available earlier giving students a greater opportunity for enrollment and allowing the Colleges to address additional need by offering specific sections of courses where the demand exceeds the supply. Lastly, the summer format will be slightly shorter which will make it easier for students to fit into their schedules.

Based on the legislative targets for summer enrollment, the summer enrollment goal is 25% of the academic year enrollment, or 1,112 FTES for 2012/13. This enrollment goal is built into campus calculations comparing capacity to projected enrollment as summarized below:

- **Capacity/Enrollment without summer goal** = 96.8%, deficient space for 261 FTES
- **Capacity/Enrollment with summer goal** = 105.7%, surplus space by 481 FTES

The proposed project has been appropriately sized in consideration of the planned growth of the campus and taking into consideration summer enrollment goals. Sizing a building for a growing campus at 105% to 110% (capacity space to projected FTE) is a reasonable metric and consistent with previous legislative approval of CSU projects absent summer enrollment goals.

**San Luis Obispo: Center for Science**

The Analyst recommends [pages G-55 through G56] the Legislature delete $1.9 million for preparation of preliminary plans for an 86,000 assignable square foot science building because (1) it will add a small amount of instructional space at a very high cost, (2) the alternative of renovating the existing science building has not been adequately evaluated, and (3) the proposal includes project elements unrelated to the proposed science center. Estimated future state cost to complete the project is $100.3 million.

**CSU Recommendation:** CSU recommends funding the proposed project in order to replace a building that is not conducive and ill equipped to teaching science for the next 70-100 years. The existing one-story science building was built in 1962 and is seriously deficient in providing the needed academic program space to meet the needs of the university. In addition, all major building systems need renewal and asbestos abatement is necessary. The proposed project to demolish the existing building and build a new 173,000 GSF science lab is the preferred alternative based on the higher cost and site limitations to the renovation/addition alternative.
CSU Analysis

Academic Program

This polytechnic university has a large proportion of students enrolled in architecture and engineering (22%). Science is the cornerstone of engineering and architecture programs and is required to support the expanded FTE within those areas. Recent capital projects are designed to accommodate enrollment growth in architecture and engineering.

This project will build a modern, state of the art; wet lab science building to accommodate 354 FTES in laboratory space, a total of 1,817 FTES in overall lecture and laboratory space and 41 faculty offices, an increase of 11 offices over the existing building. The legislative analyst correctly states that this is 66 FTES greater than what is housed in the sprawling one story building it will replace. However, this building is designed to accommodate all of the projected FTES in the disciplines of chemistry, chemical biology, soil science, and school of science and mathematics at the campus master plan enrollment ceiling of 17,500 FTES. This science replacement building is sized consistent with the campus long-term strategy as articulated in its academic and physical master plans. The academic plan provides a blueprint for achieving the campus vision for projected numbers of students, majors and faculty; changes in curriculum, schedule, pedagogy and research; and new initiatives and programs.

The additional science FTES accommodated in the Center for Science will have a cascading impact on campus-wide FTES capacity in other programs. A relatively modest increase in FTES capacity in science leverages a much larger FTES throughput – as all students in architecture, engineering and related technical majors must go through a number of required science courses. The 66 FTES expansion in science capacity will support 300 FTES in related disciplines at master plan build out.

New Construction is the Best Solution

It is not cost effective to renovate this core science building to meet the University’s needs. Studies have been completed to assess the building deficiencies and a recent cost estimate of the alternatives completed. The cost analysis indicates that the renovation cost is higher than the cost of new by $12 million. This higher costs reflects the difficulties in renovating an existing building that does not meet the academic program needs, has inadequate ventilation, is not ADA compliant, needs renewal of all major building systems, and requires asbestos abatement. Even if the costs were $12 million less than new construction, renovating this building does not make sense. An efficient building well designed to meet today’s codes and standards will better serve our students, faculty and staff.

Building Deficiencies

The existing science building (building 52) was built prior to codification of access compliance regulations. This building is nearly one mile long around its perimeter and covers a topography that changes 26 feet in elevation across its expanse. Circulation through the building entails traversing many sloped corridors whose gradient change exceeds the current ADA requirements of 1:12 or 8.3% (Exhibit A, Photos 1 and 2). Several areas within the building exceed the code requirement by as much as 37%. The slopes within the building are not easily remedied and would require extensive retrofit work necessitating the reconfiguration of space to accommodate the new pathways. This would result in a loss of academic program space in the building.
Dead end corridors present another fire/health safety concern and this Title 24 building code issue would be difficult, extremely costly to remedy, and will result in an additional loss in assignable square footage. Title 24 requires a clear landing space of 60 inches for a wheelchair to make a 180-degree turn. The existing science building has many corridors that are non-complying, one of which is illustrated in the accompanying photo. Similar problems exist in several classrooms with sloped floors. Not only are the slopes non-compliant, but there are also no provisions for handicap seating (Exhibit A, Photo 3).

Gender equity requires restrooms for men and women in relative numerical parity. Building 52 was built during a time when Cal Poly had very few women on campus and as such the total square footage of men’s restrooms is three times bigger than the accompanying women’s restrooms. Additionally, to bring the building to current California Plumbing Code requirements the fixture count would need to be substantially increased, adding to the square footage required, again reducing the existing ASF within the building.

Building 52 has a fifty-year-old structural system and a major renovation would trigger seismic code requirements to bring the entire structure up to current Title 24 requirements. This too would reduce the existing ASF within the building. Likely upgrades will entail additional sheer walls, which would trigger removal of the existing stucco, or nearly full sheathing of the interior; enhancement of the roof loading capacity to accommodate increased mechanical equipment, and isolated underpinning of the foundation.

The building's efficiency (ASF/GSF) is 79%, while modern science buildings have an efficiency of 59% per CSU building standards. This lower efficiency is driven by code requirements for ADA, as well as by the requirements of mechanical, electrical, and plumbing systems in a modern science building. Based on these disparate percentages, renovating building 52 to address the code requirements would require over 32,000 GSF in order to not lose academic program space. Building 52 is already a sprawling one-story structure encompassing a huge footprint within the campus core area.

The mechanical system needs to be replaced to provide the code required air volume. As the existing floor to ceiling space is limited, either the ceiling height would need to be raised, or all the ductwork would have to be run on top or outside the building. In addition, a wholesale replacement of the electrical system is required (Exhibit A, Photo4). When this building was built, the basis for the electrical design was less than 19 watts per square foot. Today, based on the increase in electrical equipment, buildings are designed using 27.7 watts per square foot. Safety concerns dictate that the electrical system use dedicated panels for individual labs, a major change from the zoned system that is in the building today.

An entirely new waste system is required for lab wastes. Building 52 has a lab waste that flows into a common waste system. Today, separate waste systems are used in labs to dispose of the many chemicals used and this would require a major retrofit of the existing waste system resulting in a significant expense. This building has concrete slab floors. Retrofitting a new waste system would require extensive concrete sawing and coring throughout the entire building.

The existing science building has asbestos, lead, and chemical hazardous materials that will require abatement in either a renovation or replacement scenario. Hazardous materials abatement is far more difficult and costly, however, when done for renovation rather than demolition. The reconfiguration of interior walls both for programming and in order to provide space for all the current code and mechanical requirements would require near complete demolition of interior partitions. Those walls that remained would need to be penetrated for new electrical and telecommunications pathways under HAZMAT conditions because of the presence
of asbestos and lead-based paint. Completely demolishing the building will eliminate future abatement costs and occupant safety concerns.

**Physical Master Plan Considerations**

This one-story building covers more than 6.6 acres in the heart of the campus. Building an addition and renovating the existing building to accommodate enrollment growth and address deficiencies would:

- Negatively impact pedestrian circulation pathways through the campus core;

- Be contrary to the adopted physical master plan goals for expanding green space at the campus core and enhancing the ability to build in this area in the future to accommodate campus growth;

- Increase campus costs to provide temporary surge space and likely require phasing over several years.

Contrary to the Analyst’s comment, the campus has fully examined the renovation alternative and found that the reasons for demolition of the existing building and replacing with new construction are compelling. The fact that the cost of renovation exceeds the cost of new construction by over $12 million further underscores this point. CSU thus recommends that the Science Center be funded as originally conceived, as a full replacement project.

**Building Heating and Cooling Needs**

The LAO analysis correctly points out that the project is adding only about 13,000 new ASF. However this does not account for the fact the existing 44-year-old building is not air-conditioned. The proposed Center for Science will have 146,350 GSF of conditioned space in total, as utility closets and service areas are equally dependent on conditioned air in modern lab buildings. (Exhibit A, Photos 5, 6 and 7)

The cost to heat and cool a building is typically included in the project and/or a connection provided to an existing central plant. In this case, the central plant does not have existing capacity to serve the building so funds are proposed to locate chillers and boilers remotely in the central plant in order to increase plant capacity. The central plant is more efficient than locating individual chillers and boilers in individual buildings. This project will expand the Central Plant and connect the new building to the distribution system for the heating and chilled water. The new piping connection will be sized to enable the connection of other new and planned buildings to this sector of campus.

The San Luis Obispo campus needs to replace the existing science building in order to provide facilities that are conducive to teaching and learning. While a renovation and addition to the project is possible, it is not the most effective or efficient use of funds. The proposed project schedule in most of the program documents correctly show the start date as January 2007. This is based on the assumption of voter approval of a November 2006 general obligation bond.
Monterey Bay: Equipment Infrastructure Improvements

The Analyst recommends [pages G-56 through G57] the Legislature delete $257,000 requested for equipment because the equipment either should not be funded by the state or should be purchased through the support budget.

CSU Recommendation: The CSU recommends funding the equipment as requested, as it is key to supporting needs of the academic program. California State University, Monterey Bay is one of the newest campuses in the CSU system. Once an Army Base, the campus is faced with the challenge of upgrading existing military facilities to meet the needs of an academic community. The Infrastructure Improvement project was originally funded for preliminary plans, working drawings, and construction in 2004/05. The project will demolish vacant military buildings, improve pedestrian and disabled access, and upgrade the utilities distribution system. As part of the project, the campus requested funding for the creation of physical education playing fields in the cleared areas and to renovate one building for physical education.

CSU Analysis

The requested equipment is necessary and justifiable for the development of the new physical education facilities, and essential for a campus that is transforming non-code compliant military facilities into a fully compliant and accessible state campus. Physical education facilities are unique learning environments, and require a large amount of specialized equipment to support a variety of courses. Physical education courses consist of instruction as well as execution of skills. In order to accomplish this, benches and bleachers are needed as a gathering space for the instructor and the students.

Funding the bleachers and related equipment for this project is appropriate to allow a small but growing campus to provide the same level of physical education instruction as the more established CSU campuses. The LAO comment that the support budget could be used to purchase smaller equipment would be applicable for replacing existing physical education equipment, however new academic programs are typically supplied with initial equipment needs as part of the capital outlay budget. A new project of this magnitude would overburden the campus support budget. In response to the Analyst's comments, the CSU has reviewed the proposed list and made slight revisions to ensure the equipment list was consistent with the requirements for equipment life in order to be purchased with capital funds. Funding the equipment as requested in 2006/07 would outfit the campus with the appropriate equipment for educating students in facilities comparable to the rest of the CSU system.