CSU Responses to the Analysis of 2008/09 Budget Bill

Business and Finance
April 2008
May 2008

The Honorable Denise Ducheny, Chair, Senate Budget and Fiscal Review Committee
The Honorable John Laird, Chair Assembly Budget Committee
The Honorable Tom Torlakson, Chair Senate Appropriations Committee
The Honorable Mark Leno, Chair, Assembly Appropriations Committee
Budget Committee Vice Chairs
Members of the Senate and Assembly Budget Subcommittees

Dear Members:

The following information has been prepared in response to several issues raised by the Legislative Analyst Office (LAO) in relation to the 2008/09 California State University (CSU) budget in the Analysis of the 2008/09 Budget Bill. This response will address those issues, answer questions, and assist you, your staff and your colleagues in making decisions about the 2008/09 state budget.

The issues raised by the LAO are important; however, CSU disagrees with several critical assumptions made and conclusions drawn by the Analyst. We disagree with a number of the Analyst’s recommendations for the Governor’s Budget as it pertains to higher education and CSU appropriations in the 2008/09 Budget Bill. We believe funding for CSU and all of higher education is an investment in California’s future, which returns dividends that enrich not only the students we serve but the economic vitality of the entire state.

I would like to take this opportunity, on behalf of the CSU Board of Trustees and the executive managements, to commend the thoughtful consideration that is always given to higher education funding issues. In particular, we appreciate the recognition the legislature always gives to the special needs of the CSU. This enables us to continue to be the power that fuels California’s dynamic knowledge-based economy and provide the bulk of the state’s workforce in the competitive industries that keep California strong.

Respectfully submitted on behalf of the Board of Trustees,

Sincerely,

\[signature\]

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

c: Elizabeth G. Hill, Legislative Analyst
Charles B. Reed, CSU Chancellor
Rodney Rideau, CSU Budget Director
Karen Yelverton-Zamarripa, CSU Assistant Vice Chancellor, Governmental Affairs
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## Recommendations Affecting CSU Capital Outlay

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Support Budget – Overview

The Analysis of the 2008/09 Budget Bill focuses on three overlapping themes the legislature should consider when making budget decisions for the 2008/09 fiscal year:

- Reject “across-the-board” spending cuts and prioritize state spending
- Combine targeted reductions and ongoing revenue solutions to resolve budget deficit
- Utilize “alternative” budget proposals as a tool to bring state revenues and expenditures in line without resorting to “across-the-board” reductions.

For higher education, the Analysis uses these themes to make funding recommendations for four intersegmental issues:

1. Recognizing the cost of non-discretionary price increases only.
2. Limiting enrollment growth and funding to LAO estimates of demographic change.
3. Cutting funding for Institutional Support as a means for achieving savings in administrative costs.
4. Increasing student fees to fund a larger proportion of state-funded educational costs.

The Analyst also makes specific recommendations for the California State University (CSU) regarding funding for capital outlay projects.

In considering the Analyst’s recommendations regarding the California State University, the Legislature should consider the following:

The CSU sustained over $500 million in budget reductions between 2002/03 and 2004/05 that created long-term deficiencies that continue to present funding challenges.

The university sustained the quality of its educational programs during that 3-year period by cutting enrollments by more than 10,000 FTES and reducing non-instruction budget areas to minimal service levels. CSU has been slowly making efforts over the past three years to rebuild its plant infrastructure and to devote additional resources to financial aid in order to offer students access and increase outreach to underserved student communities. During this period of rebuilding, CSU has also maximized cost-efficiencies and continued cost-effective management to improve its educational support services and to make some progress in addressing the erosion of employee salaries that threatened the retention and recruitment of a highly skilled and motivated workforce. The result of these efforts can be seen in the following table.

Cost Effective Management of CSU Resources

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</tr>
<tr>
<td>Research, Public Service, SWP</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>
The current Governor’s Budget and Legislative Analyst’s Alternative Budget proposals will not allow the CSU to serve all qualified students and reduces access to college.

Student demand of roughly 10,000 FTES cannot be served under these proposals, and no real enrollment growth beyond currently funded levels can be achieved under either proposal. The long-term prospects of increasing college going rates of underserved communities will be negatively impacted just as real progress has been made. CSU outreach efforts that have resulted in double-digit annual increases in first-time freshmen enrollments over the past three years for African-American, American Indian, Asian American and Latino students are seriously threatened under current budget proposals.

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.

According to the Public Policy Institute of California, California’s future supply and demand for skilled workers will reflect serious shortages. Over 3 million skilled workers with baccalaureate degrees or higher will be needed to meet projected demand.

![Large Gap Between Future Supply and Demand for Skilled Workers](chart.png)

Just under 447,000 full-time and part-time students pursued baccalaureate and higher degrees at the CSU in college year 2006/07. In that year, the University conferred over 89,050 degrees (a 9% increase in enrollments and a 6% increase in degrees granted since 2004/05). 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, and engineering.
But the CSU’s strategic importance to California’s workforce is not limited to supplying California’s leading for-profit industries with the professional workers they need. The CSU is an even more important producer of workers for critical occupations in the public and non-profit sector, from education and social work to public administration and criminal justice. In 2001-02, CSU awarded between 82 percent and 89 percent of all public and private university Bachelor’s degrees in education, criminal justice, social work and public administration.

CSU published an impact analysis performed in 2004 (updated in January 2005) that documented the enormous economic and social impact of the CSU. Among the impacts identified in that analysis, which are still evident today, it is worth noting that:

- CSU is 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.
Revise General Fund Base Budget Funding Increase

**Analyst Recommendation – Responding to Price Increases:** We recommend providing $49.5 million to the University of California and $45 million to the California State University to fund non-discretionary cost increases. Given the state’s fiscal situation, we do not recommend funding salary increases at the segments. (Reduce Item 6440-01-0001 by $105 million and Item 6610-001-0001 by $101 million)

**CSU Recommendation:** Maintain the $216.2 million Governor’s budget increase for general operating cost at CSU.

**Analysis:** The Analyst correctly observes that the unallocated reductions in the Governor’s Budget eliminate any new funding for cost increases or, as provided by the Compact agreement, funds that “will help prevent further erosion in the segments’ ability to fund competitive faculty and staff salaries, health benefits, maintenance, inflation, and other cost increases.”

In recommending that the CSU budget be augmented to cover nondiscretionary price increases related to goods and services purchased outside the university, the Analyst recognizes that even in the short term such costs increases can seriously impact funding for core educational services. CSU concurs with this assessment of the need to fund nondiscretionary costs, and agrees that funding to support these costs should be provided.

However, CSU believes funding to support cost increases in all areas of existing services and programs are equally important to the mission of the university. Maintaining competitive salaries to compete with changes in the national marketplace and demand within employee peer groups is as important to the ongoing mission of the university as uncontrollable changes in utility costs. Structural deficiencies in the on-going maintenance of existing building space and scheduled upkeep of facility components demand the same funding consideration as other areas the Analyst has identified as nondiscretionary costs. Addressing these costs is a critical component of investment in the university and of the preservation of its ability to accommodate student access, expanding outreach to and increasing admissions from underserved student communities, and for maintaining the steady flow of skilled graduates that fuel California’s economy.

Without additional budget support, all agreements with employee groups will be subject to collective bargaining, as mutually agreed. Efforts CSU has identified to address employee salary lags that range up to 42 percent of current salaries will have to be renegotiated. Workload concerns associated with recovery efforts based on prior budget reductions from 2002/03 through 2004/05, over-enrollment to address consistent student demand, and insufficient funding to continue stopgap measures that have been employed pending permanent budget solutions will be exacerbated if the State significantly reduces investment in the university as both the Governor and Analyst have proposed. The likely consequence of this diminished State support will be workforce reductions resulting from not rehiring part-time employees from all workforce areas.

Additionally, improving services to students is a priority call on all new revenue to the university. Improving transfer with community colleges, making progress on the CSU Board of Trustees’ Graduation Initiative adopted in 2003 (which helps high school students enroll as well-prepared freshmen, assists community college students follow optimal pathways to undergraduate majors in their lower division studies, and encourages and supports efficient pathways to degree for
students at CSU), and developing and maintaining important K-12 partnerships and early intervention programs (such as the Early Assessment Program which assesses math and English proficiency of 11th and 12th graders for university-level work, the Parent Institute for Quality Education which promotes and develops integrated K-12 educational preparation at home and at school, the “How to get To College” poster that identifies and guides K-12 students along optimal pathways that will lead to college admission, and Super Sunday outreach efforts to increase applications, admission, and enrollment from communities typically underserved within the university) are critical investments in our student populations that result in multi-faceted returns that benefit the economic, social and cultural fabric of the State.

CSU makes efficient and cost-effective use of every dollar it receives from the State and student fees. Resources have been managed to take advantage of one-time fund availability to enroll students above funded levels in each of the past three years. In 2007/08, that over-enrollment is expected to be around 10,000 full-time equivalent students. Faculty and staff have temporarily taken on additional workload to ensure instructional opportunities are provided and the quality of essential services is maintained to accommodate the additional demand. Not only has additional space been made in the classroom, but employee efforts have been doubled to address admission processing, financial aid operations, and student support services resulting from the increased demand. CSU’s success in these efforts has been achievable only because the university has been able to proactively plan over a multi-year cycle based on its Compact agreement with the governor and the expectation that the progressive foresight of the legislature to support the core elements of the Compact funding commitments would be continued.

Revise Enrollment Growth Assumptions

Analyst Recommendation: We recommend the Legislature fund enrollment growth at all three segments based on our estimates of demographic change: 1.8 percent for the University of California, 1.6 percent for the California State University, and 1.7 percent for California Community Colleges.

We recommend the Legislature fund budgeted enrollment growth of 1.8 percent for the University of California (UC), 1.6 percent for the California State University (CSU), and 1.7 percent for California Community Colleges. For UC and CSU, we recommend this funding be based on the Legislature’s marginal cost methodology. We also recommend the Legislature amend budget bill language to ensure the funding is used to support only new growth above the actual level in the current year. (Reduce Item 6440–001–001 by $16.4 million and Item 6610–001–0001 by $22 million.)

We recommend the Governor’s proposed budget bill language be amended to require UC’s enrollment to increase by 1.8 percent, and CSU’s enrollment to increase by 1.6 percent, from their actual current-year levels. Any shortfall in these enrollment targets would result in a corresponding reduction in the associated enrollment growth funding.

CSU Recommendation: CSU does not concur with the Analyst’s population-based projection methodology or its conclusion calling for 1.6 percent enrollment growth. CSU is currently on track to serve roughly 10,000 full-time equivalent students (FTES) over funded targets. CSU recommends funding for enrollment growth of 2.5 percent for CSU in 2008/09, which would increase CSU enrollment by 8,572 FTES. CSU strongly rejects the Analyst’s recommendation that the university absorb 10,000 FTES without additional State funding in order to get any funding for new enrollment in 2008/09.
CSU also recommends the amendment to the Governor’s proposed budget bill language be rejected because it would force CSU to take enrollment growth without funding, which violates the statutory obligation of the State to fund enrollment growth, would erode the marginal cost funding methodology identified for new growth in the fiscal year, and would increase CSU unfunded costs as campuses work hard to ensure students not only get into college but also succeed in completing their degrees.

**Analysis:** The Analyst has argued for the past three years, as it does now, that CSU enrollment growth should be limited based on its demographic projections rather than the 2.5 percent growth identified in the Higher Education Compact. The Legislature has rejected the Analyst’s demographic argument primarily because evidence of CSU over-enrollment levels contradicts the statistical modeling used by the Analyst. The Legislature 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 is directly linked to the 2.5 percent growth called for under the Compact agreement.

The CSU has consistently shown that enrollment growth is at least 2.5 percent if the legislature funds it. Moreover, the best predictor of next year’s enrollment levels (assuming no CSU budget reductions) are this year’s enrollments (which are significantly over target), this year’s anticipated degrees (somewhat dampened given uncertainties about California’s employment horizon right now – recessions and apparent recessions tend to keep CSU students in school), and applications (so robust that the freshman application cycle was shortened given the budget situation). However, based on the Analyst’s and Governor’s budget proposals, there is no budgeted FTES growth that can be achieved in 2008/09. CSU strongly rejects the Analyst’s recommendation that the university absorb 10,000 FTES without additional State funding in order to get any funding for new enrollment in 2008/09. Asking CSU to provide permanent access to one-time over enrollment served in 2007/08, as the LAO Alternative Budget proposes, would diminish the funding the Analyst has identified for enrollment growth from $8,515 per FTES in State support to just over $3,900 per FTES – a $4,600 reduction in State support per FTES.

CSU recommends the legislature approve and fund the CSU enrollment growth request of 2.5 percent growth of 8,572 FTES. Demographic projections over the next several decades for California show significant growth in communities traditionally underserved in higher education, as shown on the table that follows. CSU has been making tremendous strides over the past three years in outreach to, and enrollment of, students from these demographic groups.

**Demographic Projections for California**

![Demographic Projections Graph](image-url)
Additionally, CSU continues to provide an essential gateway to the baccalaureate degree for community college transfer students. These components of enrollment ensure student demand at CSU will remain strong for years to come.

As previously stated, CSU does not concur with the Analyst’s population-based projection methodology or its conclusion calling for 1.6 percent enrollment growth. In addition, first-time freshmen admissions from underserved student populations have increased, due in part to CSU’s successful outreach to these communities, by double-digits for the past three years.

### First Time Freshman Enrolled in CSU

<table>
<thead>
<tr>
<th></th>
<th>African American</th>
<th>American Indian</th>
<th>Asian American</th>
<th>Latinos</th>
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<tr>
<td>2003-04</td>
<td>-1%</td>
<td>-6%</td>
<td>-4%</td>
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<td>2004-05</td>
<td>11%</td>
<td>2%</td>
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<td>2005-06</td>
<td>11%</td>
<td>2%</td>
<td>9%</td>
<td>13%</td>
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<tr>
<td>2006-07</td>
<td>17%</td>
<td>2%</td>
<td>4%</td>
<td>13%</td>
</tr>
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</table>

**Eliminate Targeted Reduction in CSU Institutional Support**

**Analyst Recommendation:** We recommend the Legislature adopt the Governor’s proposed reductions to the University of California’s and the California State University’s “institutional support” budgets. These budgets have been the subject of considerable controversy in recent years, and the universities are currently taking steps to reduce spending in these areas. (Reduce Item 6440-001-0001 by $32.3 million and Item 6610-001-0001 by $43.2 million).

**CSU Recommendation:** CSU recommends that no budget cuts be specifically targeted to any CSU program area. The university is in the best position to determine where cuts, if any are assigned, should be made to mitigate their impact on its core educational mission. Spending for Institutional Support is already at minimal levels.

**Analysis:** The Analyst has taken the Governor’s recommendation for a 10 percent reduction in the CSU Institutional Support program area out of context. The Governor’s recommendation reflects the equivalent of one CSU program area’s share of his 10 percent across-the-board budget cut across all CSU program areas. It also presents a 10 percent cut after CSU’s budget base was augmented by over $40 million in this program area for workload. The Analyst’s recommendation to sustain this level of budget reduction ignores the fact that the LAO Alternative Budget does not provide the $40 million budget augmentation in Institutional Support for workload adjustments the Governor made prior to his 10 percent reduction proposal.
CSU cannot sustain a $43 million reduction in current institutional support funding, or administrative costs, as the Analyst recommends. CSU is constantly monitoring and implementing quality improvements to produce greater efficiency in its administrative operations. During the State’s economic crisis between 2002 and 2005, CSU sustained over $522 million in budget reductions. These cuts impact accounting, auditing, maintenance and plant operations, clerical support, academic affairs, and student services staff – just to name a few administrative areas. CSU’s administrative staff budgets in Institutional Support were reduced by over 1,000 employees. CSU still has not fully recovered from these budget reductions and continues to operate its administrative functions at a “bare-bones” level.

The Analyst’s contention that CSU spends a larger share of its budget on executive administration than comparable universities does not seem evident between CSU and the California Postsecondary Education Commission (CPEC) comparison institutions by which it has been traditionally measured. CSU review of comparison institution data used to generate federal reports for the Integrated Postsecondary Education Data System (IPEDS) shows, on average, CSU spends roughly half the amount on Institutional Support as its public comparison institutions at all but the largest campuses. Even at campuses with enrollments above 20,000 students, CSU’s campus average is roughly $14 million less than the average at CPEC comparison institutions. Compared against 528 public universities reporting costs in IPEDS, the average spending at CSU’s 23 campuses on Institutional Support is less than every enrollment group above 10,000 students. Compared with public universities below 10,000 students, CSU’s campus average is statistically equal.

### 2005-06 Institutional Support Expenditures

<table>
<thead>
<tr>
<th>Campus Enrollments</th>
<th>&lt; 9,999 FTES</th>
<th>10,000 - 14,999 FTES</th>
<th>15,000 - 19,999 FTES</th>
<th>&gt; 20,000 FTES</th>
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<tr>
<td>Average for public universities (4-year)</td>
<td>10,855,226</td>
<td>22,117,900</td>
<td>29,557,148</td>
<td>54,838,203</td>
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<tr>
<td>Average for CSU campuses</td>
<td>10,989,015</td>
<td>17,607,776</td>
<td>24,631,227</td>
<td>32,520,821</td>
</tr>
<tr>
<td>Average for CSU Comparison Institutions</td>
<td>25,672,950</td>
<td>34,117,798</td>
<td>29,135,131</td>
<td>46,276,321</td>
</tr>
</tbody>
</table>

| Number of public universities (4-year) | 345 | 74 | 38 | 71 |
| Number of CSU campuses | 9 | 3 | 4 | 7 |
| Number of CSU Comparison Institutions | 1 | 4 | 1 | 8 |

Source: Integrated Postsecondary Education Data System (IPEDS), "IPEDS Institutional Support - Public 4-Year"

Average for public universities (4-year) includes 14 CSU comparison institutions, and excludes 23 CSU campuses.
While preserving the proportion of funds allocated for the Instruction program, the Institutional Support share of CSU budget resources has declined from 15.2 percent of operating costs in 2000/01 to 12.9 percent in 2007/08.

**Cost Effective Management of CSU Resources**

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CSU expenditure costs currently budgeted for General Administration are $24 million less than they were in 2001, and overall costs per student for Institutional Support have been significantly reduced over the past six years.
There are fixed costs that require a minimum level of institutional support regardless of the funding environment. And these fixed costs grow as certain enrollment and square footage thresholds occur during the normal maturation of the university. Each campus must determine how to allocate resources to address fixed cost obligations, and systemwide – as the following chart indicates – CSU has allocated resources over the years so that the distribution of funds by program by program has remained relatively constant, in years of economic growth as well as in years when budget support declined. CSU has maintained this proportionality across programs by making fiscal decisions driven by the best utilization of resources to meet its higher education Master Plan goals and objectives.

Additionally, the underlying premise for the Analyst’s recommendation to reduce administrative costs does not apply to CSU.

Findings from the Bureau of State Audits on employee compensation management at the California State University conclude that no university policies were violated, and recommends a series of actions focused on the need for strengthening existing polices, developing clearer guidelines and applying policies consistently throughout the 23-campus system.

Findings from the Bureau of State Audits on hiring practices at the California State University conclude that although systemwide guidance would help improve consistency in campus hiring practices, the overall workforce for the CSU is diverse and women and minorities are hired in greater numbers than their proportion of the available labor pool. In addition, the audit examined discrimination lawsuits at the CSU during the past five years, but did not make any recommendations to change current practice.

Do not Offset Student Fee Rate Increases with General Fund Cuts

Analyst Recommendation: We recommend that the University of California and the California State University systemwide fee be raised 10 percent from their current levels in order to modestly increase the share of total education paid by non-needy students. (Reduce Item 6440-001-0001 by $167.5 million and Item 6610-001-0001 by $108.7 million.)

We recommend the Legislature adopt bill language stating its intent with regard to UC and CSU fee levels, and making the segments General Fund support contingent on the expected fee levels. In this way, any fee increase above that intended by the legislature would result in a dollar-for-dollar reduction in General Fund support.

CSU Recommendation: CSU recommends student fees be used to expand and improve educational services that assist with persistence to degree. CSU disagrees with the Analyst’s contention that students’ share of CSU operating costs should be increased by raising fee rates and reducing an equivalent amount of State General Fund support. CSU further recommends that the Legislature not attempt to create statewide student fee policy through a budget bill provision.

Analysis: The Analyst argues that absent an explicit fee policy, the current share of educational cost borne by students through fees be increased in 2008/09 by linking CSU fee rate increases to reductions in current levels of State General Fund support to the university. The Analyst recommends that student fees increase by the $276 increase assumed in the Governor’s budget, and that all of the revenue generated by the fee increase be used to reduce current levels of State support to the university by $108.7 million.
By comparison, the Governor’s Budget does not specifically link any fee recommendation that may be approved by the Board of Trustees to any policy regarding State appropriations to the university. The Governor’s Budget recognizes that decisions regarding student fee rates should be made in the context of all budget and student needs affecting the university, not just the level of State support the university may or may not receive.

Any increase in student fees should be used to expand and improve educational services, not supplant the State’s obligation to fund the preponderance of student access costs. Student fees have more than doubled in the last six years. Whether one calls it a fee or tax, a $276 increase in student fee rates means all but the neediest students and their families will pay $276 more out of pocket. The budget approved by the Board of Trustees in November 2007 requested that the State provide additional revenues to CSU to address priority budget need without a fee rate increase. Absent this additional support, the budget year requirements to fund mandatory cost obligations, compensation increases to recruit, retain and reduce salary lags for employees, and address long-term need in areas like libraries, technology and deferred maintenance, necessitate revenue from student fees associated with a $276 increase in fee rates. With the added challenge of a significant General Fund reduction in the current level of State appropriations received in 2007/08, the Board will have to carefully consider the fee rate increases with student affordability and the availability of financial aid to ensure currently enrolled students will have the ability to stay in school. These are policy decisions that should be made following rational deliberation, not based on the narrow scope of fiscal language in a budget bill provision.

Student fee policy already adopted by the Board of Trustees recognizes that the preponderance of CSU operating costs are to be borne by the State and that fee rates should remain affordable for all students. Affordability is driven by three things: 1) CSU General Fund support from the State, 2) moderate and predictable fees, and 3) financial aid that discounts the actual cost to families are equally important components determining affordability. CSU is constantly working to ensure its institutional financial aid programs and programs like Cal Grant serve all students with need. 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.

CSU has only two primary fund sources to address general operating costs of the university: State General Fund appropriations and revenue from student fees. CSU uses 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 82 percent of the non-enrollment related general operating cost increases identified in the CSU 2008/09 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 to use fee revenue to reduce State General Fund appropriations eliminates the CSU Board of Trustees authority to address the comprehensive budget plan that has been identified for the budget year and the critical needs the trustees have given priority consideration within that plan to ensure CSU will be able to maintain its master Plan mission.

Financial Aid Should Fund a Realistic Estimate of Student Need

Analyst Recommendation: We recommend increasing financial aid awards to reflect increased student fee levels. Specifically, … we recommend increasing Cal Grant funding and rejecting the Governor’s proposal to phase out competitive Cal Grant awards. In addition, we recommend increasing institutional financial aid budgets by $32.5 million at the University of California and $28.5 million at the California State University. (Increase Item 6440-001-0001 by $32.5 million and Item 6610-001-0001 by $28.5 million.)

CSU Recommendation: CSU agrees with the Analyst recommendation that the State provide General Fund resources to increase the availability of institutional aid for students with need when CSU fee rates increase. CSU currently redirects $243 million of student fee revenue to cover 88% of the $277 million in institutional State University Grant aid provided to students with need. This cost was previously funded by the State and reflects, on average, the redirection of one-third of all revenue CSU receives from fee rate increases to student financial aid grants.

CSU recommends that the State fund one-third of the projected revenue from fee rate increases adopted by the Board of Trustees for the CSU State University Grant program and that these funds not be offset by General Fund reductions equal to CSU fee revenue increase, as proposed by the Analyst.

Analysis: The Analyst argues that CSU lacks a need-based methodology for funding institutional aid. This is a mischaracterization of CSU’s State University Grant policy and procedures. For 2006-07, the last year for which financial aid data are available, 51% of all enrolled students received student financial aid at the California State University. About 50% of all students who demonstrate a financial need are eligible for a State University Grant while only 26% are eligible for a Cal Grant. The cost of attendance for a student living off-campus is $15,600. This includes mandatory systemwide and campus fees, books, supplies, housing, food, transportation, and related educational expenses. Because SUG funds are insufficient to meet the financial need of all eligible students, only students with expected family contributions less than $800 are guaranteed to receive a SUG equal to the State University Fee. This family contribution level represents parents of dependent students who earn less than $41,800 on average, and single independent students who earn less than $8980. Students whose families can contribute between $800 and $4000 (representing middle income families with incomes in the range of $56,000 to about $71,000), are eligible to receive a SUG, but in many instances, available funds are insufficient to cover 100% of the State University Fee. While about 75% of financially needy students are likely to receive an increase in either the SUG or Cal Grant to offset fee increases, the remaining 25% of eligible financial needy students will not receive any additional SUG or Cal Grant funds to offset the fee increase because SUG funding is insufficient to cover the State University Fee of all financially needy students. These students will only have access to student loans and work study to offset fee increases. The LAO recommendation to increase SUG funds by 26% further reduces the ability of CSU to offset fee increases for financially needy students.
Recommendations Affecting CSU Capital Outlay

Addressing Impact of Campus Growth

Analyst Recommendation: We continue to recommend greater legislative oversight over the campus planning process at all three segments—particularly, holding hearings on draft campus plans. Specifically, we recommend the Legislature consider the following issues in its review of campus plans:

- **How Much Growth Is Necessary?** Prior to expanding its enrollment ceiling, each campus should demonstrate evidence of enrollment demand and adequate year–round utilization of its facilities.

- **What Are the Estimated Costs of Off–Site Mitigation?** We recommend that the segments include a preliminary estimate of fair–share mitigation costs in order to provide the Legislature a better understanding of the true costs that would be associated with the implementation of the proposed plans.

- **What Is the Status of Negotiations With Local Agencies?** Given the potential for litigation to add costs and delays to the planning process, it is important for the campuses to initiate discussions with their host communities early in the planning process. Ideally, mitigation costs will be negotiated prior to the legislative hearing and the governing body's approval of the campus plan and its EIR.

- **How Will Mitigation Costs Be Funded?** The segments should report on the sources of funding they will use for any off–campus mitigation payments, including any anticipated requests for state funding.

Given the immediate effect of the Marina decision, we also highlight the following recommendations for the near term:

- **Include Language Allowing Payments for Off–Campus Mitigation in Future Bond Proposals.** The Legislature has many options in how it decides to pay for off–site mitigation costs. Allowing future bond proposals to provide payments for these costs ensures that the Legislature can include state bond funds as a policy option.

- **Directly Address CSU’s Off–Campus Mitigation Policy.** The CSU’s off–campus mitigation policy raises numerous concerns which the Legislature should address through budget language or statutory changes.

CSU Comment: The overview by the Analyst on the CSU environmental review process, along with the discussion of the policy issues to be considered by the Legislature, identifies the complexities of local agency negotiations with the State University since the Marina decision.

The Analyst agrees with the CSU approach:

- To negotiate early with local agencies;
- To provide draft master plan revision ceiling increase information to the Legislature;
- To enable the Board of Trustees to consider the terms of agreement (or areas of disagreement) with the locals’ agencies, and the costs for off-site mitigation related to master plan growth.

CSU RESPONSE: ANALYSIS OF THE 2008/09 BUDGET BILL
**CSU General Recommendations:** We agree with the Analyst’s conclusion that the Legislature should consider state funding for off-site mitigation on a case-by-case basis to allow each campus the flexibility to negotiate the payment methodology to accommodate the various relationships between campuses and their host community and local agencies. We believe the timing of mitigation payments to local agencies should be based on the completion of planning, design and construction milestones. This approach will ensure payments for the project will not occur until the actual mitigation is underway by the local agency.

We believe that voter approved highway/roadway infrastructure bond funds should be used to fund mitigation improvements to state highways determined necessary to address state university growth. The California Department of Transportation (Caltrans) is responsible, in cooperation with local governmental and regional governmental agencies, for the statewide transportation system, including highways, bridges, intercity rail and transit systems. This approach is consistent with the mission of the state entities and the expectations of voters approving general obligation bond funds for areas of state support, i.e. highway transportation improvements versus higher education facility improvements.

In November 2006, voters approved Proposition 1B to authorize $19.9 billion for transportation programs that include:

- Congestion relief (corridor mobility) - $4.5 billion to expand capacity;
- Local transit and inter-city rail - $4.0 billion for public transit, inter-city and commuter rail;
- State Transportation Improvement Program - $2 billion to augment an existing program that provides capital funding allocated on a formula basis to every region of the state;
- State Route 99 - $1 billion for improvements through the Central Valley;
- Local streets and roads - $2 billion for improvements to local streets and roads;
- State-Local Partnership - $1 billion to match local agencies for transportation projects;
- Highway rehabilitation and operational improvements - $750 million to enhance safety operations and the capacity of local streets and roads.

In November 2006, voters approved Proposition 1D to authorize $690 million to improve higher education facilities for the California State University, including renovations and renewal of existing buildings, construction of new buildings, land acquisition, and equipment.

The State of California’s 2008 Strategic Growth Plan notes the need to better coordinate the activities of state agencies. Funding of highway improvements is certainly a complex area. While the California Transportation Commission schedules resources for projects and has adopted guidelines that enable projects to be scheduled, the Growth Plan notes that the state’s growing population, challenges of regional coordination and planning, …and local and environmental permitting issues are barriers to the development of roadways in California. Caltrans has funds authorized by the voters for highway road improvements, it seems reasonable that mitigation measures related to highways be funded from fund sources specifically authorized by voters for that purpose.

**CSU Near Term Recommendations:**

- The CSU agrees with the Analyst that the bond language should be revised to accommodate payments to local agencies for off-site improvements. In addition to a specific appropriation identified for off-site mitigation, the CSU would propose that off-site mitigation payments be permitted from minor capital outlay program funds, as well as capital renewal funds and that dollar limits on those programs be raised (from $400,000 to $1,000,000, and from $3,000,000, to $4,000,000, respectively) in order to increase flexibility to pay for off-site mitigation. In this
manner, if the Administration and Legislature do not approve the off-site mitigation program funds (akin to the lump-sum $15 million sought for 2008/09) two other program funds could be used (in a phased manner if necessary) to address such needs. If the local entity was not ready to move forward within the fiscal year, the minor capital outlay funds and/or capital renewal program funds would be used to fund appropriate projects on the campus backlog list for the particular program. The benefit to this approach versus a lump-sum mitigation appropriation, is that funds would not be held in reserve for an indefinite period should the local agency encounter delays in moving forward with any given off-site mitigation project.

The CSU also supports the inclusion of off-site mitigation funding as part of a project cost. We had not taken that approach for 2008/09 as it appeared the lump-sum approach better suited the number of campuses considering increasing their master plan ceiling. The lump-sum approach also provided greater flexibility should mitigation costs for one campus increase and another decrease, versus a specific amount per project when the local agency and the CSU had not yet come to agreement on the impact cost. The other downside to budgeting the cost on a per project basis is that it could take a number of years before the local agency/city has the co-funding to implement the proposed measure. Given the time limit to encumber and expend funds on a capital project, it is likely that the CSU would need to seek a re-appropriation of funds on a continuous basis to ensure project funds remain available for specified mitigation use.

The Analyst’s support to use general obligation bond funds for off-site mitigation would enable each of these funding options and provide flexibility to determine the best funding solution on a case-by-case basis.

- The CSU’s policy to negotiate fair share costs and seek funding from the legislature is consistent with CEQA and the Marina decision. The California State University’s policy does not ignore the Legislature’s intent concerning CEQA and the mitigation of environmental effects. The majority opinion in the Supreme Court decision ruled that the CSU must request mitigation funding and that “A state agency’s power to mitigate its project’s effects through voluntary mitigation payments is ultimately subject to legislative control; if the Legislature does not appropriate the money, the power does not exist.” If the power to fund off-site mitigation measures does not exist, then these measures become “infeasible.” CEQA provides that when a public agency has found that a project’s significant environmental effects cannot feasibly be mitigated, the agency may nevertheless proceed with the project if it finds “that specific overriding economic, legal, social, technological, or other benefits outweigh the significant effects of the environment.” The CSU approach is thus consistent with the intent of CEQA and the Marina decision.

Should the governor and the legislature approve off-site mitigation funding, it is also the CSU’s policy to pay the fair-share amount to local agencies for improvements that mitigate significant impacts and only pay when the specific mitigation measure is being implemented. We do not believe it is a prudent use of state funds to pay the local agency in advance of the measure’s implementation. In this manner, the state (CSU/DOF/PWB) has better control over the general obligation bond funds held in reserve (and earning the state interest) while awaiting the local agency to secure mitigation measure co-funding.

Background: In 2007/08, Supplemental Report Language was approved which requires the California State University to provide draft master plans to the Legislature. Initially, information on the master plans for Bakersfield, San Diego and San Francisco State along with their proposed mitigation measures and results of fair share negotiations were submitted to the Joint Legislative Budget Committee (JLBC). More recently, draft master plans and mitigation measures for Dominguez Hills, Long Beach and Monterey Bay have been sent to the JLBC as campuses and their consultants...
discuss with communities, state and local agencies the potential environmental impacts and work to develop on- and off-site mitigation measures as part of the CEQA process.

Based on estimates for off-site mitigation costs at the time the 2008/09 Capital Outlay Budget Change Proposals were due into the Department of Finance, the CSU Board of Trustees approved a capital outlay program request of $419.96 million of which $15 million was proposed for campus off-site mitigation. The CSU proposed an increase to the anticipated 2008 general obligation bond from $345M to $400M to pay for this new cost, and to further our energy efficiency efforts in new and renovated buildings in order to comply with AB 32, California’s greenhouse gas reduction law. While this $15 million request was not supported in the Governor's Budget, it was proposed as a collective amount intended to fund the off-site mitigation costs for a number of campuses pending the outcome of negotiations and Board approval of the proposed master plans and certification of its associated Environmental Impact Report.

It was envisioned the funds would be allocated to a campus only at the time local agencies were ready to move forward with an off-site mitigation measure. In this manner, the funds would be appropriated for use but held in reserve by the CSU Chancellor’s Office awaiting local agencies to fund their share.

As noted in the Analyst’s report, while this method attempts to provide local agencies some reassurance the funds have been budgeted, it could also result in significant funding being held in reserve for an indefinite period of time. Since the Marina decision, the CSU has convened an internal campus working group to discuss various issues pertaining to: the assumptions in the calculations for off-site mitigation; the alternatives to seek funding; developing terms to a generic Memoranda of Understanding to be used with local agencies; and policy questions when considering the funding requests of another state agency, to list a few examples. The purpose is to help guide the campuses and present issues to the Board to enable a consistent policy approach to decisions on proposed master plans and the required EIR. CSU has shared these policy deliberations with DOF, LAO, and legislative staff to seek input and inform them of general and specific issues facing our campuses with implementation of the Marina decision.

**Use of Remaining Bond Funds to Finish High-Priority Projects**

**Analyst Recommendation:** We recommend that the Legislature budget higher education capital outlay in a way that minimizes the undertaking of capital projects that are dependent on future bonds. Specifically, we recommend that existing bonds be used to complete 11 projects already approved by the Legislature (plus one small new project that can be completed with existing funds). We further recommend that the balance of continuing projects and the new projects included in the budget be funded from the proposed 2008 bond.

**CSU Recommendation:** CSU agrees that existing bond funds can be used to complete the equipment requirements for projects already approved by the Legislature, including 6 projects in the 2008/09 governor’s budget and 5 projects in the 2009/10 budget based on information to date on project augmentation needs.

**Analysis:** California State University (CSU) has requested funding several critical infrastructure and Capital Renewal projects with existing bond funds in the 2008/09 budget, such as the completion of the Channel Islands Entrance Road. The CSU does hold bond reserves in order to complete certain projects within a bond cycle. The CSU also increased reserves as the construction bid climate became more volatile and significant funds were needed to augment projects. Based on the status of project bids, the CSU can agree with the Analyst to release reserves to fund equipment for 2008/09. The use of existing bond funds will be reconsidered by the CSU for the 2009/10 program based on the outcome of the proposed general obligation bond initiative, and pending determination of appropriate reserves for DOF/SCO administrative costs, augmentations for construction, and contractor claims.
Authorized Amount of the 2008 Bond Should Match State’s Commitment

Analyst Recommendation: We recommend that the 2008 bond measure be of sufficient size to complete all California State University (CSU) projects approved by the Legislature – plus any amount that the Legislature wishes to reserve for new projects in subsequent years. If the Legislature approves all of the projects in the Governor’s 2008-09 proposal, the 2008 bond’s allocation to CSU should be at least $692 million.

CSU Recommendation: At a minimum, the governor’s proposed allocation of $395 million per year, or $790 million would provide an amount sufficient to complete the continuing projects and new start projects proposed for the 2008/09 capital program, assuming at least a two year bond life. A multiyear bond program of four or more years would greatly improve CSU’s capacity to plan a capital program wherein complex projects are fully funded from a single bond measure.

Analysis: The CSU’s Five-Year Capital Improvement Program exceeds $5 billion and identifies the critical infrastructure deficiencies, renovation and modernization needs of existing facilities, and new facilities and infrastructure to serve growth consistent with statewide priorities. The proposed $395 million per year represents an increase up from $345 million per year largely driven by the significant construction cost escalation over the last few years. The graph below shows the cost of a science building has increased 63% from 2004 to 2008. Our purchasing power, or general obligation bond sizing, has not been adjusted for this inflation as it has been flat lined at $345 million since 2004; if the bond was increased based on the construction inflation the CSU would be funded at $562 million per year. This amount is significantly higher than the $395 million proposed in the Governor's Budget.

The CSU also recognizes that compliance with AB 32, California greenhouse gas reduction initiative, will require significant investment in order to further reduce energy consumption and promote on-site power generation. The CSU actively pursues available grant funding like the Investor Owned Utility Energy Partnership Program, and participates in statewide solicitations for renewable energy, however without capital outlay program funding our ability to co-fund such programs and better integrate such systems into new and existing buildings will be greatly diminished.

CSU RESPONSE: ANALYSIS OF THE 2008/09 BUDGET BILL
CSU Capital Projects

Analyst Recommendation: We recommend the Legislature reduce $490,000 from the preparation of preliminary plans and working drawings for a new science complex at the Sacramento campus and reduce future costs by $6.1 million because (1) the increased capacity in laboratory space could be accommodated by improving year-round operations, and (2) the proposal includes project elements unrelated to the campus’ programmatic needs and state priorities.

CSU Recommendation: CSU recommends the project proceed as budgeted in the Governor’s Budget. The CSU has taken into account the legislative targets for summer enrollment in sizing this facility. The campus supports expanding summer enrollment, but must do so in a cost effective manner. The Analyst agrees the existing buildings are in need of replacement. The project will provide instructional and instructional support space consistent with the State University Administrative Manual.

Building is Appropriately Sized

The project is smaller as a result of incorporating the legislative summer term enrollment goal to artificially reduce the forecast capacity needs in the campus’ multiyear projections. The summer enrollment goal being counted against the campus is 40% of the academic year enrollment or 5,380 FTE for 2014/15. In sizing the building, the planning documents assume the campus will increase summer term enrollment to 5,380 FTE, even if they expect to grow summer at a slower rate, the legislative goal is calculated into their capacity. This results in the following campus calculations comparing capacity to projected 2014/15 enrollment as summarized below:

Capacity/Enrollment with project and without summer goal = 83.7%, deficient space for 3,891 FTE
Capacity/Enrollment with project and with summer goal = 102%, surplus space by 553 FTE

The Science II, Phase 2 project capacity is appropriately sized. The facility will provide needed instructional capacity space and is sized to increase the summer term enrollment. Construction of the facility will enable the demolition of Brighton Hall, a DSA level 6 seismic hazard.

Summer Term Inefficiencies and Expense

Experience with YRO at Sacramento State contradicts the assertion that its demonstrated need for additional laboratory capacity could be easily accommodated by improving summer attendance. Science lab classes offered at Sacramento State in the summer have resulted in reduced lab enrollments during the fall-spring semesters, thus acting as an expensive substitute for existing academic year (AY) capacity rather than supporting new capacity. Cost per FTE is a critical factor in the YRO analysis as campuses are being directed to further reduce operational costs in 2008 by 10%.

The College of Natural Sciences and Mathematics (CNSM) has offered a variety of summer courses in the past. On average, a biology course during the academic year costs the College $1,900 per FTE. Those costs jump during the summer to an average cost of $3,600 per FTE. When courses fall below 50% capacity, this unit cost escalates to $5,400-$7,000 per FTE. Given the low FTE demand, the College has found it more cost-effective to place the low capacity FTE in laboratories at overcapacity during fall and spring rather than to offer summer courses. Typical cost differentials for CNSM classes that will be conducted in the Science II facility:

<table>
<thead>
<tr>
<th>Course</th>
<th>Course Name</th>
<th>$/FTE Summer</th>
<th>Average Summer FTE</th>
<th>$/FTE AY</th>
<th>AY FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIO 10</td>
<td>Basic Biological Concepts</td>
<td>$3,296</td>
<td>2.7</td>
<td>$1,993</td>
<td>77.5</td>
</tr>
<tr>
<td>BIO 22</td>
<td>Introduction Human Anatomy</td>
<td>$4,893</td>
<td>2.8</td>
<td>$2,035</td>
<td>38.4</td>
</tr>
<tr>
<td>BIO 131</td>
<td>Systematic Physiology</td>
<td>$2,599</td>
<td>4.8</td>
<td>$1,861</td>
<td>48.0</td>
</tr>
</tbody>
</table>

CSU RESPONSE: ANALYSIS OF THE 2008/09 BUDGET BILL
The College has tried to offer additional summer class options but the expense could not be justified due to low enrollment. These include Bio 20 (Biology: A Human Perspective), Chemistry 106 (Chemical Concepts), Math 107A (Fundamental Math Concepts), Math 107B (Fundamental Math Concepts), and Phys 107 (History of Physical Sciences), all of which enrolled less than 50% of lab capacity. The campus has thus taken steps to limit summer course offerings for high cost, low yield lab courses. Similarly, many lower division science courses have been limited in summer because low enrollments reflect the much lower cost options provided at local community colleges for comparable courses.

Five courses (three lower division and two upper division) have shown sufficient demand to continue summer offerings: Biology 10, Biology 22, Biology 131, Statistics 1, and Geography 109. However, experience has shown that aside from these courses, it is not cost-effective to offer science courses during the summer.

### 2007/08 Summer Course Enrollment in CNSM For Cost Effective Science Courses

<table>
<thead>
<tr>
<th>Course</th>
<th>Course Name</th>
<th>Summer FTE</th>
<th>Summer Stations Occupied</th>
<th># Stations Available</th>
<th>Summer % Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIO 10</td>
<td>Basic Biological Concepts</td>
<td>2.7</td>
<td>27</td>
<td>40</td>
<td>68</td>
</tr>
<tr>
<td>BIO 22</td>
<td>Intro Human Anatomy</td>
<td>2.8</td>
<td>21</td>
<td>24</td>
<td>88</td>
</tr>
<tr>
<td>BIO 131</td>
<td>Systematic Physiology</td>
<td>4.8</td>
<td>24</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>STAT 1</td>
<td>Introduction to Statistics</td>
<td>3.5</td>
<td>14</td>
<td>18</td>
<td>78</td>
</tr>
<tr>
<td>GEOG 109</td>
<td>Geographic Information Sys</td>
<td>1.4</td>
<td>35</td>
<td>30</td>
<td>117</td>
</tr>
</tbody>
</table>

### Efforts Continue to Increase Summer Enrollment

Among the YRO strategies that do hold promise, the Sacramento campus has already improved summer offerings and scheduling to offer high demand general education courses that fill quickly during the academic year. Likewise the campus has scheduled core upper division courses in large majors with no lab requirements such as Business Administration and Criminal Justice to enhance opportunities to accelerate progress to degree completion. The campus has encouraged faculty to shift load to summer and reviewed faculty assignments and compensation issues; they have tailored the financial aid program to sweep up remaining aid from the prior year. They have offered summer specific State University Grants and they have expanded summer outreach and marketing with direct mail and email. The results of these measures have fallen short of targeted goals, a fact which reflects more on the host of climatic, economic and cultural impediments to growing summer operations than the vigor of the campus marketing program. Student surveys reveal that nearly 80% of Sacramento State students find employment during the summer to support their educational expenses.

Not to be deterred, the Sacramento State campus continues to explore strategies to increase 2008 summer enrollment. The BS in the Nursing Program will require summer coursework, as well as cohorts for the MA in Nursing. Education majors will have flexible scheduling options for credential courses to accommodate their summer breaks. 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 modified to make it easier for students to fit into their schedules.

Denying the Sacramento campus the much needed Science II, Phase 2 project in the face of these concerted measures would penalize the campus for its practical efforts to attain YRO targets in an efficient and cost effective manner. Practically speaking, it will be difficult to incentivize the summer session sufficiently to attract 40% of fall semester FTE and from a strictly economic perspective; the last FTE to be moved to summer should be for science laboratory classes.

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CSU RESPONSE: ANALYSIS OF THE 2008/09 BUDGET BILL
Programmatic Elements Support the Academic Discipline

The LAO comment that the Sacramento, Science II, Phase 2 museum and planetarium are project elements unrelated to the campus’ programmatic needs is not supported by the information provided in the program COBCP or the campus master plan. The Science II science museum has been a critical and integral part of the building program. The science museum will house biological collections and exhibits to be used by Biological Sciences students in the following courses:

<table>
<thead>
<tr>
<th>Course</th>
<th>Course Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIO 1</td>
<td>Biodiversity, Evolution and Ecology</td>
</tr>
<tr>
<td>BIO 5</td>
<td>General Biology</td>
</tr>
<tr>
<td>BIO 10</td>
<td>Basic Biological Concepts</td>
</tr>
</tbody>
</table>

CSU has a history of incorporating similar science related museum/gallery and planetarium facilities to support academic programs and to stimulate interest in the physical and natural sciences. Science museums are included as an instructional support entitlement standard in the State University Administrative Manual (SUAM 9073) to compliment lecture and laboratory standards. Eleven CSU campuses maintain state funded museum/gallery spaces related to the disciplines of Astronomy, Biological Science, Natural Science and Physics; three campuses also have planetarium/astronomy gallery facilities.

The planetarium has been a master plan priority for the campus since 2004. Initially conceived as The Center for Space Science, the planetarium was not included in the 2005 Science II, Phase 2 feasibility study. However since that study was completed, it has been determined that the Science II, Phase 2 program should be developed as the capstone of Sacramento State’s goal of building a regional resource center for education in the Science, Technology, Engineering and Mathematics (STEM) program. The Science II, Phase 2 program has thus expanded to include all the natural science replacement needs of the Departments of Astronomy, Biological Sciences, Chemistry and Mathematics/Statistics.

Sacramento State will be offering two new upper division courses in astronomy with the opening of the Planetarium: Astronomy in the Ancient World, and Cosmology. These are in addition to the current class offerings in Astronomy:

<table>
<thead>
<tr>
<th>Course</th>
<th>Course Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASTR 4</td>
<td>Introduction to Astronomy</td>
</tr>
<tr>
<td>ASTR 6</td>
<td>Astronomical Observation Laboratory</td>
</tr>
<tr>
<td>ASTR 131</td>
<td>Solar System and Space Exploration</td>
</tr>
<tr>
<td>ASTR 132</td>
<td>Stars, Galaxies and Cosmology</td>
</tr>
</tbody>
</table>

The proposed project will provide the specialized facility in which astronomy students can explore their program of study and pursue capstone projects. The science gallery component will compliment the planetarium, providing opportunities for students to interact with dynamic displays and will also act as the audience assembly area for the planetarium. The planetarium and science gallery components will generate public interest in the sciences by hosting educational workshops for K-12 students and the local community. The STEM program is focused on boosting college sciences participation rates among minority and female high school students. Astronomy courses attract nearly 500 students annually, which make the department among the most popular science programs at Sacramento State, and a primary gateway for developing interest in the pursuit of a career in the STEM fields. This is indisputably a statewide priority, and the planetarium will be a featured element supporting this program.
The campus has received a federal grant of $1.9 million for the planetarium equipment including
the planetarium dome, planetarium projector, cove lighting, audio and other equipment to
configure a complete planetarium. The grant reduces the total project cost to the state. The
campus has applied for an additional federal grant of $3.9 million for specialized cellular and
molecular laboratory equipment, which would further reduce state funding to equip the project.

The Analyst agrees the existing facilities are obsolete and need repair and/or replacement. The
proposed project is appropriately sized, addresses academic program needs and is consistent
with state and university entitlement standards.

**Analyst Recommendation:** We recommend the Legislature delete $2.6 million for preparation of
preliminary plans and working drawings for a replacement facility to accommodate the College of
Humanities and Fine Arts at the Chico campus because the increase in instructional capacity is
not justified due to the underutilization of facilities during the summer term. Estimated future state
cost to complete the project is $52.2 million. (Delete $2,637,000 from Item 661-301-6074 [5].)

**CSU Recommendation:** CSU recommends the project proceed as budgeted in the Governor's
Budget. The CSU has taken into account the legislative targets for summer enrollment in sizing this
facility. The campus supports expanding summer enrollment, but must do so in a cost effective
manner. The Analyst agrees the existing building is in need of replacement. The project will provide
instructional and instructional support space consistent with the State University Administrative Manual.

**Building is Appropriately Sized**

The proposed Chico Taylor II Replacement project capacity has been appropriately sized in
consideration of the planned growth of the campus including legislative targets for summer enrollment,
which are incorporated to adjust the forecast capacity needs in the campus' multiyear projections. The
summer enrollment goal is 25% of the academic year enrollment or 2,057 FTE for 2014/15. This
enrollment goal is built into campus calculations comparing capacity to projected enrollment as
summarized below:

- Capacity/Enrollment with project without summer goal = 93.8%, deficient space for 898 FTE
- Capacity/Enrollment with project with summer goal = 104%, surplus space by 582 FTE

Sizing a building for a growing campus up to 105% of capacity (capacity space as a percent of
projected FTE) in the target year is a reasonable metric and consistent with previous legislative
approval of CSU projects even absent summer enrollment goals.

Factors that determined the requested program capacity for the Chico, Taylor II Replacement project
include the need to provide adequate large lecture capacity; meet minimum academic program
requirements for recital halls, dance studios, music and recording studios and support spaces; provide
code compliant fire safety, HVAC, accessible path of travel, expand restrooms, telecommunications
and utility service areas to comply with current codes. The project is programmed primarily for the
College of Humanities and Fine Arts (HFA), which is the largest college at the university, with
approximately 20% of the total FTE. Currently HFA has less than 89% of its space entitlement.

Large lecture capacity such as the 125-seat "case study" type lecture room included in the Taylor II
program does not currently exist on campus and is greatly needed to accommodate multi section
classes particularly in lower division programs. Chico presently has only three large lecture rooms and
they are occupied on average 117% of standard utilization. Large lecture space will replace the
inefficient smaller classrooms in the current Taylor facility, thus enabling the campus to function more
efficiently thereby reducing operational costs in response to budgetary pressures.

Summarizing the above observations, the Chico Taylor II Replacement building is appropriately sized
based on projected capacity entitlements and academic program needs. The new facility could not
replace the original at an equal size due to code requirements, and should not do so because
programmatic needs, such as large lecture space and recital hall, are different from those found in the current facility.

**Master Plan Consideration**

The proposed project has also been planned to facilitate a string of necessary building code renovations to the Physical Health Sciences Building and Butte Hall. These projects are planned to immediately follow the completion of Taylor II. As renovations typically require leased surge space, by including some lecture in the Taylor project, it will reduce the need to lease space at the time Physical Sciences and Butte Hall are renovated. Availability of surge space is an issue for all campuses planning a major renovation.

**Summer Term Inefficiencies and Expense Comparison**

As budget pressures continue, summer course offerings at Chico will need improved marketing, outreach and selectivity. Given the low FTE demand for many core course offerings in prior summer programs, CSU Chico has found it more cost-effective to place students in laboratories at overcapacity during fall and spring rather than to offer summer courses. Typical cost differentials for CSU Chico classes show that on average, a course during the academic year costs the campus $1,277 per FTE. Those costs jump during the summer to an average cost of $2,968 per FTE. When enrollments drop to 15 or less, this unit cost escalates to $5,000-$7,400 per FTE.

Typical cost differentials for Chico summer classes versus academic year are as follows:

<table>
<thead>
<tr>
<th>Course</th>
<th>$/FTE Summer</th>
<th>$/FTE AY</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANTH 140</td>
<td>1,022</td>
<td>764</td>
</tr>
<tr>
<td>ECON 103</td>
<td>2,890</td>
<td>1,249</td>
</tr>
<tr>
<td>PSYC 341</td>
<td>5,934</td>
<td>1,565</td>
</tr>
<tr>
<td>SOCI 384</td>
<td>2,272</td>
<td>1,312</td>
</tr>
</tbody>
</table>

Cost differentials aside, it would be incorrect to state that the CSU Chico campus will have excess capacity in the proposed Taylor II Replacement facility due to a paucity of summer enrollment, or conversely that meeting a summer enrollment goal of 25% of fall FTE would enable the campus to fulfill all its physical and academic objectives with a smaller Taylor II Replacement facility than that proposed. The premise that there is a nexus between fulfilling unmet summer FTE goals and meeting programmatic space entitlements for the College of Humanities and Fine Arts needs to be examined. The fact is that summer enrollment drives substantially larger headcounts per FTE than fall enrollments, this is due to the average unit load taken by each student in the summer versus the academic year. Chico had 1,437 students enrolled in the 2007/08 summer session, which generated 402 FTE. To achieve its goal of 25% of the academic year FTE using this ratio, Chico would have to attract over 13,000 summer students, or over 80% of the entire student body. Thus the achievement of the 25% FTE participation rate at Chico appears distant as it is not likely that 13,000 students would stay in Chico over the summer. Our experience thus far is that student participation in summer is essentially constrained to one or two classes per student, due to the cost of attendance and competing needs for summer employment, and further constrained by student plans to return home over the summer.

**Efforts Continue to Increase Summer Enrollment**

Chico has made strides towards achieving its summer target; the 2007 summer enrollment FTE is up 22% from the previous year. This is admirable growth given that only 22% of the student body lives in Butte County. Among the strategies employed thus far, the campus has improved summer offerings and scheduling; reviewed faculty assignments and compensation issues; offered summer fee incentives; expanded summer outreach and marketing, provided the most advanced classrooms and launched an online registration system to simplify self service registration.
Chico also continues to explore new strategies to increase 2008 summer enrollment. The BS in the Child Development Program will require summer coursework, as well as cohorts for the teacher credential and MA in Education. The summer 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.

The Analyst agrees the existing facilities are obsolete and need repair and/or replacement. The proposed project is appropriately sized, addresses academic program needs and is consistent with state and university entitlement standards.