

AGENDA

COMMITTEE ON FINANCE

Meeting: 12:30 p.m., Tuesday, January 30, 2018
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
John Nilon, Vice Chair
Jane W. Carney
Adam Day
Hugo N. Morales
Jorge Reyes Salinas
Lateefah Simon

- Consent**
1. Approval of Minutes of the Meeting of November 7, 2017, *Action*
 2. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Los Angeles and California State University Maritime Academy, *Action*
- Discussion**
3. University Operational Effectiveness Initiatives, *Information*
 4. 2018-2019 Operating Budget and Consideration of Expenditure and Revenue Options, *Information*

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

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

November 7, 2017

Members Present

Peter J. Taylor, Chair
John Nilon, Vice Chair
Jane W. Carney
Adam Day
Hugo N. Morales
Jorge Reyes Salinas
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter J. Taylor called the meeting to order.

Public Comment

Union, student, and faculty representatives spoke against increasing tuition and potential impacts to students.

Approval of Minutes

The minutes of the September 19, 2017 meeting were approved as submitted.

**Approval to Issue Trustees of the California State University Systemwide Revenue
Bonds and Related Debt Instruments for Projects at California State University,
San Bernardino and California State University, Stanislaus**

Trustee Taylor presented agenda item one as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-17-14).

2018-2019 Lottery Budget and Report

Trustee Taylor presented agenda item two as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-17-15).

Approval of the 2018-2019 Operating Budget Request

The proposed operating budget for the 2018-2019 fiscal year was presented. CSU Long Beach President Jane Coneley and Fresno State President Joseph Castro spoke about how funding received for the Graduation Initiative has improved services at their campus and benefited students.

Following the presentation, trustees commented that current funding levels are not adequate to sustain the university's operations and that options other than state funding must be considered. They asked questions related to reserves, mandatory costs, and priorities. Information about operating efficiencies and public-private partnership revenues was requested. Several trustees opined that a tuition increase should be the last consideration.

The committee recommended approval of the proposed resolution (RFIN 11-17-16).

Approval of a New Master Investment Policy for the California State University

Details of the CSU's new investment policy were presented, including information about a new, yet to be created, investment advisory committee.

The committee recommended approval of the proposed resolution (RFIN 11-17-17).

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Los Angeles and California State University Maritime Academy

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program in an aggregate amount not-to-exceed \$73,215,000 to provide financing for the two campus projects below. The trustees are asked to approve the resolutions related to these financings.

1. California State University, Los Angeles Parking Structure E
2. California State University Maritime Academy Motel 6 Property Acquisition

Background

The SRB program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and other revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the bonds issued to finance the projects. The consolidated pledge of gross revenues to the bondholders strengthens the SRB program and has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute’s issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.

1. California State University, Los Angeles Parking Structure E

The California State University, Los Angeles Parking Structure E project was presented for approval of the amendment of the Capital Outlay program and schematics at the November 2017 meeting of the Committee on Campus Planning, Buildings and Grounds. The project will be constructed on the western portion of parking lot 5 along Paseo Rancho Castilla and adjacent to existing parking structure C.

The new five-story, 640,000 gross square foot parking structure will include 2,200 parking spaces, primarily to replace parking that will be eliminated when a planned future student housing project is constructed on existing surface parking lot 7. Upon completion, the new parking structure will net 517 new additional stalls of which 417 will serve the new student housing. The project includes a walkway connecting it to parking structure C and a new 750 kW photovoltaic array will cover a large portion of the roof deck while providing shade for parking stalls at the top level. The project will be funded by parking revenues and reserves.

The not-to-exceed par amount of the proposed bonds is \$64,730,000, based on a total budget of \$62,224,000 with a contribution of \$3 million from parking reserves. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$5,506,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in April 2018 with completion expected in October 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$64,730,000
Amortization	Approximately level debt service over 25 years
Projected maximum annual debt service	\$4,509,170
Projected debt service coverage including the new project:	
Net revenue – Los Angeles pledged revenue programs: ¹	1.70
Net revenue – Projected campus parking program:	1.11

1. Combines 2016-2017 information for all campus pledged revenue programs with 2020-2021 projections for the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.02 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a parking program net revenue debt service coverage of 1.11 in fiscal year 2020-2021, the first full year of operations, which meets the CSU benchmark of 1.10 for the program. Combining the project projections for 2020-2021 with 2016-2017 actuals for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 1.70 which exceeds the CSU benchmark of 1.35.

2. California State University Maritime Academy Motel 6 Property Acquisition

The California State University Maritime Academy Motel 6 property acquisition is being presented to the trustees as a master plan revision, real property acquisition, and an amendment to the 2017-18 capital outlay program at its January 2018 Committee on Campus Planning, Buildings and Grounds meeting. The planned acquisition includes a 3.9-acre parcel of land with improvements including an existing Motel 6 with 145 guest rooms and 151 surface parking spaces. The property acquisition will extend the campus master plan boundary to the north of the campus and adjacent to Sonoma Boulevard (Highway 29). The facility will be renovated to meet current student housing demands, which may include converting rooms to double-room occupancy, and incorporating an administrative office, and/or academic space.

The not-to-exceed par amount of the proposed bonds is \$8,485,000 based on an estimated purchase price of \$8.3 million, renovation costs of \$655,000, and a campus contribution of \$900,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$430,000), are expected to be funded from bond proceeds. The acquisition is currently being negotiated with an anticipated closing in the spring of 2018. The renovated facility is expected to be opened for student housing in the fall of 2018. While the authorization for SRB is being proposed, the project may be kept in commercial paper and amortized over a three to five year period and paid down with housing reserves derived from net income of the housing program. The proposed bond authorization will allow the CSU to retain the flexibility to issue long-term bonds to amortize the debt over 30 years if necessary. The project, including the repayment of related financing obligations, will be funded from the rental housing fees under the housing program.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$8,485,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$553,015
Projected debt service coverage including the new project:	
Net revenue – Maritime pledged revenue programs: ¹	2.03
Net revenue – Projected campus housing program:	2.11

1. Combines 2016-2017 information for all campus pledged revenue programs with 2019-2020 projections for the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.22 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program

standard. The campus financial plan projects a housing program net revenue debt service coverage of 2.11 in fiscal year 2019-2020, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. Combining the project projections for 2019-2020 with 2016-2017 actuals for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 2.03 which exceeds the CSU benchmark of 1.35 for a campus but may be reduced by future campus borrowing.

Trustee Resolutions and Recommendation

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

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate amount not-to-exceed \$73,215,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for these projects as described in this Agenda Item 2 of the Committee on Finance at the January 29-31, 2018, meeting of the CSU Board of Trustees is recommended for:

California State University, Los Angeles Parking Structure E

California State University Maritime Academy Motel 6 Property Acquisition

COMMITTEE ON FINANCE

University Operational Effectiveness Initiatives

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Arun Casuba
Executive Director, Strategic Sourcing and
Chief Procurement Officer

Summary

The California State University challenges itself to continuously evaluate and improve its effectiveness and efficiency by reviewing programs, practices and processes that support the academic mission. Such efforts include exploring and implementing strategic procurement, simplifying and streamlining administrative processes, and organizing services in order to meet increasing workload associated with campus growth, student services, and compliance.

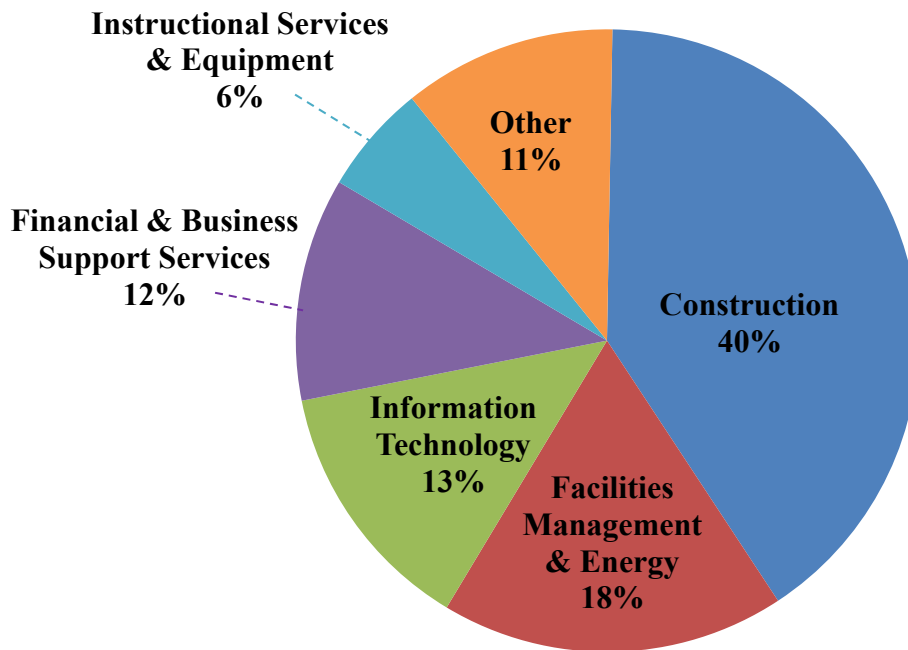
The CSU uses best value methods in purchasing goods and services to maximize benefits (cost, performance, service, etc.) to the institution. As student enrollment has grown and costs have increased for compliance, campuses continuously search for means to reduce cost while maintaining or improving quality. The size and scope of the CSU is leveraged through systemwide collaboration of activities. In addition, significant benefits are gained through the sharing of agreements with the University of California and California Community Colleges as well as leveraging consortia agreements. The CSU is committed to continuing this progress by developing resources, tools, and processes focused on strategic sourcing. This item provides an update on operational effectiveness initiatives since the presentation to the Committee on Finance in November 2016.

Breakdown of CSU Expenditures

This item is focused on the \$2.6 billion of the CSU's total expenditures (illustrated in Figure 1) that can be influenced by procurement and other administrative effectiveness initiatives. The remainder of the CSU's expenditures include salaries and wages, benefits, financial aid, and debt payments, which are addressed by other initiatives such as collective bargaining. The primary categories within the \$2.6 billion spend are construction, facilities management and energy, and information technology. Together these categories comprise over seventy percent of this spend.

In addition, other key spend areas include financial and business support services and instructional services and equipment. Categories within the remaining spend include communications and outreach, retail and wholesale, arts, sports and recreation, food, beverage, and catering.

Figure 1 – CSU Procurement Related Spend in 2016-2017



Current Initiatives

Many initiatives have been pursued to reduce costs while maintaining or improving the ability to deliver the core educational services of the University.

Construction is a significant area of spend and several methods have been developed to improve efficiencies in the management of construction projects at the campuses.

- The CSU has sponsored legislation that allows campuses to solicit project bids on a website and achieve savings that would have otherwise been spent on print advertising. This initiative has netted the CSU \$4.6 million in cost reductions per year.
- Previously the CSU had been piloting a new construction delivery method that utilizes one bid process to execute multiple projects at a single campus or across several campuses. This method has been implemented systemwide and has resulted in a savings of time, project efficiencies, and cost reductions to the CSU of over \$4 million per year.

- The CSU developed an Owner Controlled Insurance Program for construction contractors that could not provide their own insurance. To date, we have enrolled more than \$1.2 billion in construction value and generated savings of \$8.8 million. A renewal of this program is underway which will result in an additional \$900,000 in savings.

In the areas of energy and sustainability, the CSU has also been able to achieve savings or cost avoidance.

- The CSU has negotiated and purchased directly from energy providers rather than from local utilities at 10 of the 23 campuses. This initiative has rendered \$3 million in annual cost reductions.
- Other energy efficiency projects have resulted in \$2.9 million per year in incentives earned from energy efficiency partnerships with Southern California Edison and Pacific Gas & Electric, and \$1.2 million per year in cost avoidance.
- The CSU developed an energy information system to analyze building energy use to gain insight into energy waste. Such a system helps implement appropriate waste mitigation strategies and prioritize capital improvements related to energy management.
- In addition, the CSU has developed a program for energy futures, buying electricity for 10 campuses and the Chancellor's Office at \$3 million per year in savings. This program will be expanding to nine additional campuses next year.

This year, through leveraged buying, the University has reduced costs by \$2 million in facilities products for maintenance, repair, and operations, as well as \$2.6 million in medical supplies and lab equipment.

In the area of information technology, the CSU has delivered significant cost reductions through a number of initiatives.

- The CSU Common Network Initiative provides equipment and related services to ensure that every campus has a robust communications infrastructure. The University has avoided over \$7.5 million in cost per year since fiscal year 2011-2012 as a result of common standards, practices, and sound project management processes.
- In addition, \$15.7 million in costs were avoided this year through negotiations of systemwide hardware purchases and licenses on software purchases.
- The CSU bid out the systemwide data center this year and achieved savings of \$1.8 million per year over the next five years by utilizing a combination of a physical data center and utilization of cloud services.
- A partnership between the CSU and Amazon Web Services was created and a Collaboration Center is being developed at the Cal Poly San Luis Obispo campus. This partnership is providing the CSU \$5 million in credits for cloud innovation projects and has avoided \$8 to \$10 million in data center construction costs at the Cal Poly San Luis Obispo campus.

We have undertaken several initiatives in the finance and business support category to reduce operational costs.

- An average annual cash flow savings of \$1.0 million for the CSU during fiscal years 2017/18 through 2044/45 through the refinancing of debt.
- The CSU Risk Management Authority, which coordinates insurance and risk management across the 23 campuses and over 80 auxiliary organizations, has reduced overhead on insurance acquisition resulting in a savings of \$12.5 million annually and has reduced campus premiums by nearly \$13 million a year for the past 11 years.
- Through the negotiation of systemwide agreements for financial auditors, bank card services, and office supplies and printers, the CSU achieved \$8 million in cost reductions in 2017.
- The CSU has also created a common shopping website for catalog based purchasing. This system, driven at the campus level, ensures compliance with contracted rates for a number of goods by funneling purchases for these items through 24 vendor catalogs and has resulted in over \$1 million in cost avoidance this year.
- The CSU is piloting a budget planning system at three campuses utilizing a common set of practices and reporting that can be leveraged to serve other campuses in the future.
- The CSU is also rolling out a travel expense management system across six campuses and the Chancellor's Office harmonizing policies where appropriate. This implementation can be leveraged to serve other campuses in the future.
- The CSU and the UC are collaborating on a strategic sourcing suite that will provide visibility of spend, contracts, and projects across the 33 campuses of both systems with a combined spend of \$8-9 billion annually. This system will allow collaboration between individual campuses, groups of campuses, or entire systems across both the CSU and UC and provide more focused targeting of opportunities. It will be rolling out in February 2018. We will be seeking to include California Community Colleges in the future.
- The CSU bid for a systemwide recruiting tool that will provide enhanced capabilities for applicants, recruiters, and hiring managers. Currently campuses utilize a variety of tools and use of this single tool will result in \$200,000 per year in savings.

The University has focused considerable resources to be more effective in providing the proper infrastructure and delivering services to students geared towards assisting them in achieving their educational goals.

- The CSU has coordinated the purchasing of electronic library resources across the system to avoid \$15.9 million in costs per year.
- We have consolidated contracts for academic technology systems and standardized on learning management systems to net \$5.9 million in cost reductions this year. These include for student support including: online education services, clicker response systems, and Cal State Apply (a unified system to centralize student admittance applications across the CSU campuses).

- The CSU, California Community Colleges, and University of California collaborated to create a free and open library of eTextbooks for over 50 courses at www.cool4ed.org. The CCC and CSU are collaborating on a faculty development program for the adoption of free and open educational sources for course materials for teaching and learning. \$1M in grant funding was acquired to release another \$1M in state funding for the COOL4Ed project.
- The CSU has created Affordable Learning Solutions to assist in reducing the cost of textbooks and other learning resources to students. The solutions include free online instructional materials that faculty can use to construct the curriculum, free online materials that are formatted like eBooks, free access to campus and systemwide electronic library collections, and lower cost proprietary content in both electronic and hard copy formats.
- We have contracted for a systemwide student retention and success tool that will help campuses improve student retention, timely graduation, outreach, advisor support, and interventions focused on undergraduate students. Each campus will have the ability to configure the tool to support their specific student population.

Sustainable Procurement

The CSU is continuing to improve its sustainable practices in purchasing.

- For example, we participate in the State Agency Buy Recycled Campaign, which is a joint effort by California's Department of Resources Recycling and Recovery, and Department of General Services. This campaign requires that agencies place 50 percent of their spend in 11 specific categories on recycled products. On its general product purchases the CSU achieved 77 percent in aggregate and exceeded 50 percent in 6 of the 11 categories. In the future, we will be working towards collecting data for construction purchases as well.
- The CSU instituted a minimum purchase order of \$50 in office supplies to minimize deliveries, and several campuses have moved towards reducing the number of delivery days to further aggregate purchasing and reduce carbon emissions.
- The CSU implemented an auto substitution program for office supplies that replaces items in certain categories such as toners and paper with more sustainable alternatives. This change has resulted in improved sustainability as well as \$400,000 in savings per year.
- Where appropriate, the CSU has utilized criteria around sustainable practices in evaluating proposals from bidders for projects, and we will continue to seek opportunities to further this process.

Future Initiatives

The CSU will continue to explore more opportunities for reducing costs and enhancing effectiveness including:

- Expanding the use of cloud services from Amazon, Microsoft, Oracle, and others.

- Pursuing multi-campus opportunities including further rolling out and expanding functionality of the campus marketplace, budget planning system, and travel expense management system.
- Researching creative methods for buying energy.
- Focus on coordinated bid projects such as centralized facilities maintenance contracts for solar energy and chillers and centralized purchasing of wireless products.
- Work with the UC and CCC systems to collaborate on the use of common contracts such as for building supplies, furniture, and bankcard services.
- Collaborations with the UC on the strategic sourcing suite and will explore other opportunities.
- Continue to develop and standardize best practices across the CSU.

Factors such as reduced funding, increase in enrollment, the need to reduce time to graduation, and changing regulations continue to apply increasing pressure on the system, however, the CSU is committed to make use of its resources in the most effective ways. The University will continue to look for better methodologies to operate and achieve cost reductions wherever possible, while still maintaining our commitments to the students, faculty, and staff of the CSU and the State.

COMMITTEE ON FINANCE

2018-2019 Operating Budget and Consideration of Expenditure and Revenue Options

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The purpose for this item and subsequent presentation is to provide the trustees with the latest developments on the state and the California State University (CSU) budget plans for 2018-2019 and to consider CSU expenditure and revenue options. In short, state tax revenue is expected to grow over the next two years, but the governor's budget proposal from earlier this month did not match the previous funding commitment made to the CSU. Specifically, the governor's administration proposed a \$92.1 million increase, \$10 million less than indicated in May 2017. As a result, a budget gap of \$171 million exists between the trustees' budget request and the governor's proposal.

Consequently, the CSU is concurrently taking two significant approaches. The CSU's first priority and commitment is to make the case with state leaders that additional investment in the CSU is in the best interest of the state and students. The result is outside CSU's control with state leaders making the final decision. The other approach is to use CSU-controlled strategies—a potential tuition increase and a potential reduction to academic and non-academic programs and services. These two are not desirable strategies. However, it may be necessary to make use of these strategies to balance the CSU budget plan and to ensure that gains in student success and student access, realized since the end of the Great Recession, do not stall or diminish.

CSU Funding Progress since the Great Recession

Since the state began reinvesting in the CSU in 2013-2014, the CSU has been able to do more for students and the state. As an example, improvements in many key student success indicators such as graduation rates, retention rates, number of graduates, average unit loads, and average time to degree are better than ever. With their degrees in hand, students will, and CSU alumni do, personally benefit from greater earnings potential over the course of their professional careers.

Many students and alumni have saved time and money by finishing their degrees a term earlier than would have been possible during the Great Recession. One reason for this was the CSU's investment of nearly \$200 million (\$123 million recurring and \$73 million one-time funds) in student success and completion initiatives like Graduation Initiative 2025. The CSU anticipates that more can be accomplished if a multi-year, recurring investment in the initiative were to occur.

Another example is additional student access. Since the economic recovery, the CSU has increased funded student enrollment by over 31,000 full-time equivalent students, which is equivalent to creating two new CSU campuses—one the size of CSU San Bernardino and the other CSU Chico. This increase helps California in at least two ways. First, the number of high school students, particularly Latino/Latina students, who prepared themselves for CSU eligibility by completing the A-G course requirements has skyrocketed over the past decade. By offering additional student access in this way, the CSU is able to serve more of these college-ready Californians. Second, additional student access translates to more Californians with degrees—a critical need of the state, as suggested in the Public Policy Institute of California's anticipated 1.1 million degree drought.

The last example is faculty and staff salary enhancements. Since 2013-2014, CSU has regularly provided annual salary increases to all employees. This helps employees meet or slightly beat the effects of inflation, improves morale, improves retention and aids in recruitment of faculty and staff who teach, support, and care for students. Between 2008-2009 and 2012-2013 this was not possible. No salary increases occurred during that stretch and in 2009-2010 all employees were furloughed two days per month, equivalent to a ten percent salary reduction.

California's Fiscal Outlook

CSU's progress since the Great Recession has the potential to continue because the state's fiscal outlook is positive for 2018 and 2019. As the state's economy and budget go, so goes the CSU's budget and outlook. Since the trustees' November 2017 meeting, three reputable entities have published forecasts for California's economy and the resulting effect on the state budget—the Legislative Analyst Office (LAO) California Fiscal Outlook in November 2017, the University of California, Los Angeles Anderson Forecast in December 2017, and the Department of Finance 2018-2019 Governor's Budget in January 2018. All three forecasts conclude solid economic growth in calendar year 2018 and slightly less substantial, but positive growth in 2019. The associated growth in employment, real personal income, and other factors are expected to yield greater tax receipts primarily in personal income taxes in 2018. Similar factors are expected to persist in 2019 except for slightly less robust job growth and stock market gains.

To illustrate the short-term positive fiscal trajectory, the LAO's California Fiscal Outlook from November 2017 anticipates state revenues will outpace planned expenditures, resulting in a \$7.5 billion discretionary state surplus at the end of 2018-2019. The more guarded short-term fiscal trajectory provided by the Department of Finance in the release of the Governor's Budget on

January 10, 2018 reported a \$5.9 billion increase in state revenues for 2018-2019, a 4.6 percent increase. In May 2018, revisions to these revenue estimates will certainly change, but it appears likely that the state will have a significant amount of revenue that could be used for discretionary purposes such as filling the rainy day fund faster than required or investing more in CSU students.

The major difference in the fiscal outlooks is the level of growth by tax category, and the amount added to the rainy day fund, but all agree that California's economy will continue to grow. The timing of a future recession remains unknown at this time, but historic economic patterns suggest that a mild or moderate recession will affect the federal and state economies in the coming years.

One significant difference from past recessions compared to the next is that in past recessions the state had little or no reserves as it entered these recessions. For the next recession, the state already has approximately \$8.5 billion in its rainy day fund, which would grow to \$13.5 billion, or ten percent of the state's annual operating budget, if the governor's latest proposal is adopted by the legislature. This reserve should significantly soften the blow of the next recession.

Regardless of the differences in the economic forecasts today, the state is on track to receive more tax revenue in 2018 and 2019. The state also has a substantive reserve to mitigate the risk of hard economic times. This condition should allow for increases in state program expenditures (like the CSU) and could help the state save even more for future economic uncertainty.

Governor's Budget Proposal—State Overview

The Governor's Budget proposal anticipates a budget surplus and proposes to save a portion and spend the rest. As noted earlier, the Department of Finance reports \$5.9 billion of additional state revenue for 2018-2019. Of this amount, the Governor's administration proposes to deposit \$5 billion in the state's rainy day fund—a mix of mandatory and voluntary deposits—and maintain a \$2.3 billion discretionary reserve fund for unexpected budget purposes or emergencies. New investments are modest for higher education. Community colleges would benefit from a fully funded Proposition 98 guarantee, and the governor would create a fully online community college from that funding stream. Additionally, the K-12 Local Control Funding Formula would be fully funded by Proposition 98 two years earlier than scheduled. The Governor would invest new dollars in infrastructure, health care program caseload growth, state employee salary increases and health and pension rate changes, and court operations. Overall, the governor's approach is to maintain the status quo in spending and to save as much as possible through the rainy day fund.

Governor's Budget Proposal—Significantly Smaller New Investment in CSU Means a Significant CSU Budget Gap

The CSU 2018-2019 operating budget plan calls for continued and increased state investment in the CSU. This budget plan, which totals \$282.9 million in new resources, would address a modest

amount of necessary new investments in the CSU by sustaining the momentum built in recent years. The budget plan is comprised of a request of \$263.0 million in state general fund and \$19.9 million of tuition revenue from enrollment growth. The five areas of investment are:

- the second year of Graduation Initiative 2025;
- significant funding for compensation increases for all employee groups;
- enrollment growth of one percent, or 3,641 full-time equivalent students;
- investment in critical infrastructure; and
- mandatory cost increases for health care, minimum wage and retirement.

The CSU 2018-2019 operating budget plan would be a step in the right direction and represents a significant investment in a multi-year effort to help meet the education and workforce needs of the state. Yet, without increased investment from the state, the CSU cannot meet its obligations to the people of California or its mission to provide a high-quality, affordable, and accessible education to all students.

The governor's budget proposal continues to invest more in higher education, although not at the level requested by the trustees. Specifically, the governor's budget proposes a recurring augmentation of \$92.1 million of state general fund. The gubernatorial administration's preference is that these funds be used to make progress on the graduation initiative. Because state general fund supports approximately half of the CSU's operating budget, this increase represents a 1.4 percent operating budget increase and much less than the 2.8 percent inflation rate forecasted for California. Also notable is that the governor's proposed new investment in the CSU has decreased considerably since last year's proposal. Specifically, the governor proposed \$157.2 million for 2017-2018 compared to \$92.1 million for 2018-2019—\$65.1 million less than a year ago.

In sum, the proposed funding from the governor is significantly short of the CSU's operating budget request of \$263 million of state general fund, leaving a \$171 million budget gap for 2018-2019.

Closing the Budget Gap

While it is unfortunate that the governor has chosen at this stage to not invest more in the CSU, it is still very early in the budget development process and approaches and strategies remain open for state leaders, trustees, the chancellor, and campus leaders. Two financially significant approaches can materially affect and narrow the 2018-2019 budget gap and they are under consideration. However, due to the asynchronous budget cycle and certain statutory requirements, final decisions on these will not and cannot occur simultaneously. Following are the two approaches and their anticipated timing.

Approach A: Seek Additional State Funding

The CSU's first priority and commitment is to make the case with lawmakers and the governor that additional investment in the CSU is necessary and in the best interest of the state and students. The CSU will need the support of its constituents and partners across the system to make the case in Sacramento. With the historic gains made in four-year and six-year graduation rates, the success that campuses have had in providing students with opportunities to increase social mobility, and the state's need for more college graduates, arguments for increased state funding have never been stronger. CSU advocacy efforts will undoubtedly make compelling arguments, but state leaders will make the final decision on state funding levels of the CSU and the state allocation will not be known until a final budget agreement is reached in June 2018.

Approach B: In Lieu of Additional State Funding, Pursue CSU-Controlled Strategies

If our advocacy efforts do not end with full funding of the CSU budget request by the state, a combination of CSU-driven strategies will have to be concurrently implemented just to address mandatory and employee compensation costs, which together total \$153 million. This total excludes new investments for student access, Graduation Initiative 2025 and academic infrastructure. Under this particular scenario, the governor's proposal would only cover \$92.1 million of compensation and mandatory costs leaving a gap that would need to be covered by a combination of the following strategies. In order for these concurrent strategies to be useful for the 2018-2019 fiscal and academic year, CSU planning decisions will need to be made this spring and summer.

A Potential Tuition Increase

On November 21, 2017, the CSU Chancellor's Office provided a written tuition proposal to the California State Student Association (CSSA), included as Attachment A to this item. The proposal provides additional information on: the justification for a potential tuition increase, the purposes for which tuition revenue would be used, the potential financial impact to students, a description of efforts to mitigate the impact on financially-needy students, alternatives in lieu of a potential tuition increase, and potential systemwide tuition and fee rate changes for the 2018-2019 academic year.

A potential tuition increase of \$228 per resident undergraduate student would take the annual tuition price from \$5,742 per student to \$5,970. Coupled with potential increases to non-resident tuition, as well as graduate, doctoral, and teacher credential programs, the potential tuition increase would generate approximately \$69.8 million of new revenue in 2018-2019 to support the operating budget plan and \$34.9 million to increase state university grant funding. While the funding raised from a potential tuition increase would not fully fund the \$171 million budget gap, it would allow for some investments to be made in critical areas.

In addition to delivering the proposal to the CSSA, information about the proposal was posted to <http://www.calstate.edu/tuition-adjustment> to help students and their families plan accordingly. The site provides information about the possible tuition increase, potential tuition rate increases, financial aid resources, and other information. The site also provides the opportunity for students, their families, and anyone else to comment on the proposal. The trustees may consider approving a tuition increase in March and comments received on the site will be summarized for their consideration.

An alternative to adopting a single-year tuition increase could be a multi-year approach. Such an approach has been recommended by CSU and the state. In 2016, the Chancellor's Task Force for a Sustainable Financial Model for the CSU recommended that the CSU move away from the past practice of large and unpredictable tuition spikes and move toward a practice of smaller, planned tuition adjustments over time. The task force report concluded that when combined with increases in state general fund, modest tuition increases ensure the CSU's academic quality and fiscal stability. Also, small, planned tuition increases will allow students and their families to budget appropriately. On many occasions in the recent past, the Legislative Analyst's Office has made similar recommendations for similar reasons.

Reduce Academic and Non-Academic Programs and Services

If advocacy efforts do not secure the full operating budget request and if tuition is not increased, many priority areas of the operating budget request would be reduced or eliminated and campuses would have to redirect funding from existing programs, services, and priorities to fund mandatory cost obligations and employee compensation increases.

The Chancellor's Office has met regularly with campus leaders to prepare budget reductions in the event that additional state funds are not procured and a tuition increase is not approved. Based on the preliminary work in this area, there are very real, significant risks to reaching system and campus goals of the Graduation Initiative as well as the potential for very personal, catastrophic losses to many prospective and current students, as well as university faculty and staff. This includes the availability of fewer course sections, a decrease in student enrollment, fewer students receiving financial aid, limits to academic counseling and psychological well-being counseling services, and negative impacts on the operations and maintenance of central plant facilities, the delivery of utilities (heat, air, water, and electricity), classroom maintenance, and library services. Depending on the blend of potential reductions that could be employed by campuses, thousands of prospective and current students could be impacted by potential reductions in enrollment, course offerings, and available financial aid, and the livelihood of hundreds of temporary faculty and staff could be jeopardized.

Cost Avoidance, Efficiencies & Program Reallocations

Efforts by the Chancellor's Office and every campus to identify and employ administrative efficiencies and effectiveness will continue to be a high priority. Each year, inflation and other price increases have an effect on each campus' bottom line. Chancellor's Office staff estimate that inflationary cost increases over the past five years exceeded \$46 million. It is anticipated that these costs will increase further by \$17.4 million for 2018-2019.

The CSU will continue to pursue cost avoidance strategies and administrative efficiencies to be good stewards of state and tuition resources as well as address as many unfunded cost increases as possible. Campuses and the Chancellor's Office make decisions annually to redistribute budgets to cover increased costs, pursue and implement efficiencies and cost sharing across the system, and reallocate from under-utilized programs to the most pressing needs of the campus and system (for more information on accomplishments and future initiatives in this area, see Committee on Finance Agenda Item 3).

However, it is important to manage expectations and dispel misconceptions about improved efficiency and effectiveness. Past successes have yielded, on average, savings of tens of millions of dollars per year, but remaining opportunities are marginal in value. As a result, any savings opportunities that could culminate in 2018-2019 would not significantly narrow the \$171 million budget gap.

The details of the concurrent approaches and strategies required for closing the budget gap will be discussed in more detail at the trustees' January 2018 meeting.

Conclusion

Since the end of the Great Recession, the CSU has made significant gains in bolstering student success, improving time to degree, improving student access for first year and community college students, providing faculty and staff with necessary and well deserved salary increases, and addressing infrastructure needs and the deferred maintenance backlog. Those successes have only been possible because of greater state investment and revenue from the 2017-2018 tuition increase.

According to economic forecasters, the state will continue on its positive fiscal trajectory in calendar years 2018 and 2019. The Governor's Budget proposal affirms this and concludes that more revenue is available for mandatory and discretionary purposes. Unfortunately, the governor's current budget proposal does not align with the trustees' budget request and a funding gap of \$171 million exists between trustee priorities and proposed state funding.

Consequently, the CSU will concurrently pursue two approaches in an attempt to narrow or completely close the budget gap: seek additional state funding from lawmakers and the governor, and pursue revenue enhancement strategies, including a tuition increase. The possibility for campus budget reductions is real and, if necessary, will negatively impact the student experience and jeopardize built-in momentum that could under mind the goals of the Graduation Initiative, including improved time-to-degree and affordability, greater graduation rates, and narrowed equity gaps.

FOR CONSIDERATION
2018-19 TUITION
PROPOSAL:
PREPARED FOR THE
CALIFORNIA STATE
STUDENT ASSOCIATION
November 21, 2017

In accordance with the Working Families Student Fee Transparency and Accountability Act

Contents

The California State University (CSU) is initiating consultation with the California State Student Association (CSSA) about a possible tuition increase as part of the 2018-19 operating budget. If approved, the increase would take effect in the 2018-19 academic year.

In keeping with the timeline and requirements of the *Working Families Student Fee Transparency and Accountability Act*, the following information is included for consideration and to begin conversations as part of the consultative process with the CSSA.

The *Working Families Student Fee Transparency and Accountability Act* is codified in Sections 66028 through 66028.6 of the California Education Code. The act requires the CSU to consult with the CSSA before any increases to mandatory systemwide tuition are considered by the Board of Trustees (Board) and to ensure transparency in the process. The following areas are addressed in this proposal:

- 1) The justification for a potential tuition increase including facts supporting the increase
- 2) A statement specifying the purposes for which revenue from the potential increase would be used
- 3) A description of efforts to mitigate the impact of any potential tuition increase on financially-needy students
- 4) The potential impact to students including but not limited to:
 - a. Changes to the minimum workload burden for all students
 - b. Institutional financial aid awards
 - c. Average student loan debt
- 5) Alternative proposals that could be considered in lieu of a potential tuition increase

To orient the reader, each section of this document is numbered and identified according to the five required pieces identified above.

In addition to this required information, the CSU also provides the following:

- Potential Systemwide Tuition and Fee Changes for the 2018-19 Academic Year
- Timeline

1) JUSTIFICATION FOR A POTENTIAL TUITION INCREASE

Context

Every graduate has his or her own success story, and all 3.4 million CSU alumni are contributing to California’s economic prosperity and social mobility. The CSU is widely acknowledged by policymakers and the public as one of the most important drivers of California’s economy and society. To ensure that the CSU can continue to fulfill this role—while maintaining diversity, academic quality and rigor—investment is needed.

Unfortunately, state investment in support of the CSU has moved from approximately 80 percent in the mid-1990s to closer to 55 percent by 2017-18, with the remaining revenue provided almost entirely by tuition and fees. In spite of this fiscal trend, the CSU has remained committed to providing all of its students a high-quality education and admitting qualified students from California’s high schools and community colleges.

The CSSA has been a dedicated partner advocating with the CSU for increased state investment. Over the last five years, these advocacy efforts have coincided with an important increase in state tax revenues, which recovered by \$39.1 billion between the low point of the recession and today. It was not until 2016-17 that the CSU eclipsed the prerecession state funding levels of 2007-08—despite serving 20,000 additional students annually.

Also over the past five years, the CSU consistently made operating budget requests that would reinvest in our most critical priority areas. However, only once in the last five years since the worst days of the recession has that request been fully funded. Put another way, the state did not fund a total of \$577.7 million of recurring funding requested by the CSU since the recovery began (see below figure).

Fiscal Year	Governor's Budget	CSU Request	Final State Budget	Unfunded
2013-14	\$125.1	\$371.9	\$125.1	\$246.8
2014-15	142.2	237.6	142.2	95.4
2015-16	119.5	216.6	216.5	0.1
2016-17	139.4	241.7	154.0	87.7
2017-18	157.2	324.9	177.2	147.7
2018-19	102.0	263.0		
2019-20	105.0			
Total	\$890.4	\$1,655.7	\$815.0	\$577.7

in millions

Going forward, based on information from the governor’s administration, the governor will likely propose a three percent general fund increase for the CSU. This is down from five percent or four percent proposals in each of the previous five years. This proposed increase represents an increase of \$102 million to the CSU operating budget for 2018-19, or roughly a one and a half percent to the total

operating budget. This would be less than the projected rate of inflation, as reported this fall by the state Department of Finance.

The CSU anticipates limited new funding by the governor and it is one event in a confluence of events that has led to this proposed tuition increase. Other events—in particular, necessary obligations and new investments—coupled with state funding, are critical to sustain the capacity and maintain the quality of the student learning environment. Graduation Initiative 2025 commits to improving graduation rates and narrowing equity gaps over a multi-year period, but this can only be achieved by similarly investing funds over a multi-year period into new academic and support programs for students. This means investing in the people of the CSU with modest salary and benefit cost increases to keep up with inflation, as our faculty and staff are at the very core of serving our students academically and with essential academic and well-being support. Likewise, the state no longer pays for CSU infrastructure and deferred maintenance needs and thus require an ongoing portion of the annual CSU operating budget. Indeed, a safe, clean, functional, educationally-appropriate learning environment is critical to students, the faculty that teach them, and the staff that serve them. Minimal student enrollment growth is critical to build course capacity for new and ongoing students.

Students have regularly expressed their desire to improve their educational experiences and many student priorities have influenced and are aligned with CSU budget priorities. For example, the CSSA's 2017-18 Public Policy Agenda calls for an affordable, safe, inclusive, equitable, and supportive CSU educational experience. For that vision to come to fruition, it will require sustained, recurring investment in the university that, at a minimum, meets or slightly exceeds the rate of inflation. To put it another way, in order to balance all of the necessary investments and to more appropriately support the capacity and quality of the entire student learning environment, an operating budget increase of four percent—not one and a half percent as is currently signaled by Sacramento—is necessary.

The state's continued limited and incremental investment will result in a significant difference between the CSU's proposed operating budget increase of \$282.9 million—based on clearly identified university, student and state needs—and the governor's likely proposal. Without new, ongoing investment, course-taking opportunities for students will stall or diminish, faculty and staff salaries will stagnate leading to more difficulty in recruiting and retaining highly capable individuals, facilities will degrade, and the overall educational experience will ebb.

2018-19 CSU Operating Budget

Each September, the Board considers the CSU's preliminary operating budget request and identifies funding priority areas. A final operating budget request is brought before the Board in November for approval and is then submitted to the governor and legislature for their consideration.

At the November 7-8, 2017 Board of Trustees meeting, the Board approved a 2018-19 operating budget request to the state that identified five key priority areas that will require an additional \$263 million from the state. At this time, the CSU anticipates the governor will propose \$102 million in new funding to the CSU in his January budget proposal. Including other new revenue and efficiencies, this leaves a funding gap of \$161 million between anticipated revenue sources and the necessary investments at the university.

Board of Trustees Priorities:

- I. *Graduation Initiative 2025:* The CSU is committed to improving the opportunities for the more timely graduation for all students, including doubling the four-year graduation rate from 19 percent to 40 percent and achieving a 70 percent six-year graduation rate. To meet these goals, the CSU will continue to invest in people, programs, technologies, and strategies that have demonstrated success in improving graduation rates, shortening time-to-degree, and eliminating achievement and equity gaps. Each campus has developed multi-year plans to reach their Graduation Initiative 2025 goals. These campus plans will require multi-year investments across the system in tenure-track faculty hiring, increased course-taking opportunities, enhanced advising and education plans, academic and student support including health and well-being, and leveraging data for campus decision-making. The 2018-19 fiscal year represents the second year of a 6-year, \$450 million investment plan in support of the many underlying elements of Graduation Initiative. Over the course of this second year of the Graduation Initiative 2025, campuses would spend incremental recurring funding on their local priorities to improve student success and completion.
- II. *Academic Facilities & Campus Infrastructure:* Leading-edge academic facilities support quality degree programs setting the stage for CSU graduates to be workforce ready and equipped to excel in their chosen field. CSU campuses have several of these academic and laboratory spaces, but a significant portion of CSU facilities are dated and need improvement. Specifically, fifty-two percent of all CSU buildings are more than forty years old and the systemwide deferred maintenance backlog for these and other facilities total approximately \$2 billion. While the CSU has maintained its buildings as best it could with available funding, the state historically funded most of the costs associated with the construction and maintenance of academic buildings and campus infrastructure. The state shifted this obligation to the CSU in 2014, making facilities and infrastructure a significant consideration when developing and implementing the CSU operating budget. Dedicating a portion of the CSU operating budget to facilities and infrastructure is essential to address the most pressing facility and infrastructure needs on campuses.

- III. *Employee Compensation:* Central to the student experience is the ability to interact, learn from and be guided by outstanding faculty and staff. The CSU is proud of the thousands of its employees who are dedicated to students and their success. Modest compensation increases are a significant priority for the CSU to remain competitive to recruit and retain outstanding faculty, staff and administrators who are committed to students' well-being and academic success.

- IV. *Mandatory Costs:* Mandatory costs are the expenditures in the operating budget that increase annually due to inflation and other state, federal or statutory mandates that apply to the CSU and must be paid. These include increases in the cost of health care and retirement for employees, changes in state wage laws—including a multi-year incremental increase in the minimum wage—and the increased cost of operating and maintaining new facilities. Without funding for mandatory cost increases, campuses would have to make cuts and redirect resources from other program areas to meet these obligations.

- V. *Enrollment Growth:* The CSU confers the most baccalaureate degrees in the state and contributes to the California workforce in significant ways. Increased enrollment funding contributes to new sections of high-demand courses, hiring new tenure-track and temporary faculty, providing more academic and student support services, and bolstering overall institutional support and operation of the campus to serve existing and additional students. With a total student body of more than 480,000 students, the CSU continues to see increased demand from qualified applicants each year. New incremental funding would allow for growth in the average unit load for continuing students in support of graduation rate goals, and a steady number of new students admitted and served.

Possible Tuition Proposal for Consideration

To ensure the university has all revenue options available to meet its 2018-19 priorities, the CSU must begin a conversation about a potential tuition increase. That process begins with this notification and its submittal to the CSSA.

In the coming months, consideration of this tuition proposal by the Board will align with the CSU's shared governance model and there will be appropriate consultation with, and feedback from, the CSSA and other CSU stakeholders. The CSU also will engage with the CSSA, Academic Senate and other stakeholders to collaboratively advocate for full funding of the CSU's operating budget request.

The state budget cycle is asynchronous from the planning decisions of the CSU, as well as the planning that current and potential students must undertake to prepare for the 2018-19 academic year. Specifically, the outcome of the 2018-19 budget cycle will not be known until June 2018. To provide students and families adequate time to plan and to ensure the CSU is in alignment with the law, the administration, the Board and all constituents must begin a conversation regarding tuition. It is anticipated that this consultation period will include an information item at the January 2018 Board meeting and an action item at the March 2018 Board meeting. The tuition increase would take effect during the 2018-19 academic year.

The potential tuition increase is \$228 per resident undergraduate student for the 2018-19 academic year. This would take the annual tuition price from \$5,742 per student to \$5,970. Coupled with potential tuition increases to teacher credential, graduate, and doctoral programs, the potential increase would generate approximately \$69.8 million in new net revenue in 2018-19 to support the Board's budget priorities described above. State University Grant (SUG) funding would grow by almost \$35 million to accommodate eligible students' additional need resulting from a tuition increase.

Separately, the CSU proposes a greater tuition increase for non-resident students than proposed for resident students. The potential non-resident tuition increase of \$30 per unit would change the per-unit semester price from \$396 to \$426 (\$20 per-unit quarter price from \$264 to \$284), or \$900 for a full-time undergraduate non-resident student for the 2018-19 academic year. For full-time non-resident students, this would increase the supplemental fee from \$11,880 to \$12,780. The potential increase would generate approximately \$20.7 million of new revenue in 2018-19.

[Note: Notwithstanding the differential dollar and tuition rates proposed by level of education, for simplicity and illustration purposes only, we use a potential \$228 increase and a potential annual tuition price of \$5,970 per resident undergraduate student throughout this proposal.]

2) PURPOSED USE OF INCREASED TUITION REVENUES

The state general fund and student tuition and fees are the two primary revenue sources that support the educational endeavors of more than 480,000 CSU students. The current operating budget is made up of approximately 55 percent from state general funds and 45 percent from student tuition and fees.

State funding and tuition revenue support general operations of the university including instruction, academic support, student services, institutional support, operations and maintenance of academic facilities, and institutional financial aid.

The Board adopted an operating budget request for 2018-19 at its November 2017 meeting that would invest new resources in top priority areas described earlier and summarized below.

After this budget plan is submitted for the state's consideration, it is the responsibility of the governor and legislature to determine the amount of state general fund for the CSU. Subject to final Board decisions, and subsequent action by the governor and legislature on the CSU budget, revenue generated by a tuition increase would be used to partially support the categories of incremental expenditures in the table below.

2018-19 Budget Plan	
Incremental Expenditure Increases	
	In Millions
Graduation Initiative 2025	\$75.0
Enrollment Growth: 3,641 FTES	39.9
Employee Compensation	122.1
Academic Facilities & Infrastructure Needs	15.0
Mandatory Costs	30.9
Total	\$282.9
<i>Other Inflationary Cost Increases</i>	17.4
Anticipated Incremental Revenue Increases	
General Fund:	
Governor's Anticipated Funding Plan	\$102.0
Tuition Revenue:	
Tuition from Enrollment Growth	19.9
Potential Tuition Increase	69.8
Total	\$191.7
<i>Cost Avoidance, Efficiencies & Program Reallocations</i>	17.4
CSU Remaining Need	\$91.2

3) and 4) POTENTIAL IMPACT TO STUDENTS AND MITIGATION OF IMPACT ON STUDENTS WITH FINANCIAL NEED

The CSU remains committed to keeping costs as low as possible for students. More than 60 percent of all CSU undergraduates have their tuition fully covered by grants and waivers. Eighty percent of all CSU students receive some form of financial assistance. The CSU does not expect these percentages to change as the result of a modest tuition increase.

State Grants and Waivers

A student who receives a Cal Grant tuition award would not be affected by a potential tuition increase because the award amount for this state program is designed to pay the entire tuition cost. This would include students utilizing the California Dream Act Application. Similarly, a student who receives a state-mandated tuition fee waiver would not be affected by the potential tuition increase because these state programs are also designed to waive the entire cost of tuition.

Institutional Grants

The State University Grant (SUG) is available to undergraduates, teacher credential candidates, and graduate students. A student who receives a full SUG would not be affected by a potential tuition increase because this CSU-administered institutional aid program waives the entire tuition cost. For students who do not receive the maximum award to cover the full tuition cost and absent any other financial aid, SUG may cover the potential increase in tuition. However, individual SUG awards vary for each student. CSU doctoral programs and graduate business professional programs also offer need-based grant programs similar to SUG. As part of the potential tuition increase, SUG funding would grow by almost \$35 million to accommodate eligible students' additional need resulting from a tuition increase.

Federal Aid

The maximum full-time Pell Grant award for 2017-18 is \$5,920. Any changes to 2018-19 Pell award amounts are not known at this time. If tuition were increased by an additional \$228 per year, CSU tuition would be \$5,970, which means a resident undergraduate student who qualifies for the maximum Pell Grant award would have all but \$50 of the cost of tuition covered by this program. At the CSU, most resident students who are eligible for a full Pell Grant also qualify for the Cal Grant or SUG. For those students, the cost of tuition would still be fully covered by non-loan aid.

For those students who qualify for the Cal Grant or SUG, the Pell grant may be used for non-tuition expenses including campus-based fees, books, and other living expenses.

Pell Grant award amounts can vary based upon income and enrolled units. For students who do not receive the maximum award, and absent any other financial aid, the Pell Grant may partially cover the potential increase in tuition.

Loans

Loan programs can also be used to cover all tuition costs for a student. Based on CSU financial aid packaging policies in which grants and waivers are applied first, and loans second, it is unlikely that student loan debt would increase materially, if at all, in order to pay for a potential tuition increase.

Financial Aid Awareness

The CSU will continue its commitment to informing students and families of the availability of financial aid. Each campus maintains a robust internet site that provides information to students and families. Campuses will continue to communicate with students on a regular basis with reminders and notices of key application periods and deadlines. Information will continue to be available via the admission application site (i.e., Cal State Apply) and calstate.edu. Campuses will also provide information as part of student outreach, the admission process, and orientation events as well as provide workshops both on and off campus to prospective and current students and their families.

Employment

CSU financial aid packaging policies do not include or establish a minimum workload expectation for students. A student may work to cover tuition and other college-related expenses and if he or she qualifies, can participate in the federal work-study programs for this purpose. For students who work to meet their full cost of attendance, at the minimum wage of \$11 per hour during the latter half of 2018 and at \$12 per hour during the front half of 2019, a resident undergraduate student would need to work approximately 25 additional hours per academic year— equivalent to less than 0.5 hour per week—to cover a \$228 increase in tuition (assuming taxes and other withholdings).

Student Indebtedness

While 49 percent of all CSU students graduate with some loan debt for college-related expenses, the amount of the debt is substantially lower than the California and national average, as shown in the table below.

AY 2014-15	Amount of Debt
National Average	\$30,100
California Average	\$22,191
CSU Average	\$15,531

Average indebtedness would increase only slightly if a student needs to borrow additional funds to cover the potential tuition increase. For example, if a student borrows an additional \$228 a year for four years of enrollment (total \$912), the anticipated monthly payment upon graduation would increase by approximately \$10.50, based on a maximum interest rate of 6.8 percent (currently 4.45 percent) and a standard 10-year repayment schedule. Based on similar terms and conditions, if a student borrowed an additional \$228 a year for six years of enrollment (total \$1,368), the anticipated monthly payment would increase by approximately \$15.75. With these changes included, average indebtedness at the CSU would continue to be significantly lower than the California average or national average.

5) ALTERNATIVES FOR ADDRESSING THE OPERATING BUDGET SHORTFALL

The CSU has four primary options as alternatives for addressing its fiscal priorities in the coming year. These options are not mutually exclusive and may be combined in varying proportions by the end of the budget process. In general, the four options are described below.

Option A: Increase state funding to cover the full operating budget request

The CSU's first priority and commitment is to make the case with lawmakers that additional investment in the CSU is necessary and is in the best interest of the state and students. The CSU will work with partners across the system including students, faculty, staff, business, union leaders, alumni, and friends to make the case in Sacramento. With the historic gains made in four-year and six-year graduation rates, the success that campuses have had in providing students with opportunities to increase social mobility and the state's need for more college graduates, arguments for increased state funding have never been stronger. While additional state funding is the preferred option, the state allocation will not be known until a final budget agreement is reached in June 2018.

Option B: Increase tuition to partially cover the operating budget request while continuing to advocate for more state funding

A potential tuition increase of \$228 per resident undergraduate student would take the annual tuition price from \$5,742 per student to \$5,970. Coupled with potential increases to non-resident tuition, as well as graduate, doctoral, and teacher credential programs, the potential tuition increase would generate approximately \$69.8 million of new revenue in 2018-19. While the funding raised from a potential tuition increase would not fully fund the operating budget request, it would allow for some investments to be made in critical areas, coupled with continued advocacy efforts in Option A to fully fund the operating budget request.

Option C: Cost Avoidance, Efficiencies & Program Reallocations

Efforts by the Office of the Chancellor and every campus to identify and employ administrative efficiencies and effectiveness will continue to be a high priority. Each year, inflation and other price increases have an effect on each campus' bottom line. For the most part, annual operating budget requests address these types of increases on salaries and benefits through the mandatory costs category described above. However, in recent years, campuses have not received annual funding increases to cover inflationary costs in areas such as communications, information technology, contractual services, library subscriptions and instructional equipment. Chancellor's Office staff estimate that inflationary cost increases over the past five years exceeded \$46 million. It is anticipated that these costs will increase further by \$17.4 million for 2018-2019.

Above and beyond efforts to address regular inflationary pressures, the CSU will continue to pursue cost avoidance strategies and administrative efficiencies to be good stewards of state and tuition resources as well as address as many unfunded cost increases as possible. Campuses and the Chancellor's Office make decisions annually to redistribute budgets to cover increased

costs, pursue and implement efficiencies and cost sharing across the system, and reallocate from under-utilized programs to the most pressing needs of the campus and system.

However, it is important to manage expectations and dispel misconceptions about improved efficiency and effectiveness. Past successes have yielded, on average, savings of tens of millions of dollars per year, but remaining opportunities are marginal in value. As a result, any savings opportunities that could culminate in 2018-19 would not significantly narrow the \$161 million budget gap identified in the 2018-19 Operating Budget Request.

Additionally, CSU will continue to examine ongoing investments to ensure they are in line with the mission of the university so that the money invested in CSU by the state and students is spent thoughtfully and with student success at its core. For example, recently enacted law authorizes the CSU to invest in securities that yield a higher rate of return than fixed income securities. The Board established an investment advisory committee in November 2017 and the committee is developing a master investment policy as well as investment portfolios. The goal is to soon move a portion of CSU funds into those portfolios, earn a better rate of return, and use those returns on deferred maintenance or critical infrastructure needs, which is a key piece of student success. To do so then allows CSU to use more of the operating funds for direct academic offerings and support.

Option D: In lieu of additional state funding or a potential tuition increase, reduce programs and services, both academic and non-academic

The CSU's required financial obligations, along with critical priorities like the Graduation Initiative and enrollment growth, far exceed the amount of funding signaled from the governor's office for 2018-19. If advocacy efforts do not secure the full operating budget requests, and if tuition is not increased, many priority areas of the operating budget would be reduced or eliminated because campuses would have to redirect funding from existing programs, services and priorities to fund a portion of mandatory cost obligations and employee compensation increases. Fewer course sections would be available to students, average unit load would go down and less academic and student support services would be available.

POTENTIAL SYSTEMWIDE TUITION AND FEE CHANGES FOR THE 2018-19 ACADEMIC YEAR

Undergraduate, Credential and Graduate Programs

Table 1 shows the current and potential maximum tuition levels for undergraduate, credential, and graduate programs.

Table 1: Undergraduate and Graduate Tuition Changes for the Academic Year

	Current	Proposed	Change
Undergraduate Programs			
6.1 or more units	\$5,742	\$5,970	\$228
0 to 6.0	3,330	3,462	132
Credential Programs			
6.1 or more	6,660	\$6,924	264
0 to 6.0	3,864	4,014	150
Graduate and Other Post-Baccalaureate Programs			
6.1 or more	7,176	\$7,608	432
0 to 6.0	4,164	4,410	246

Summer rates would increase beginning with the summer 2019 term.

Doctoral Programs

The table below shows the current and potential maximum tuition rates for the three doctoral programs offered by the CSU.

Table 2: Doctoral Program Tuition Per Academic Year

	Current	Proposed	Change
Doctor of Education	\$11,838	\$12,546	\$708
Doctor of Nursing Practice	15,270	16,188	918
Doctor of Physical Therapy	17,196	18,228	1,032

Tuition for the Doctor of Physical Therapy program is mandated by state law (Education Code 66042.1) to be no higher than that of the University of California (UC).

The tuition for the Doctor of Education program is mandated by state law (Education Code 66040.5) to be no higher than the rate at the UC.

The law does not limit the tuition that may be assessed for the CSU Doctor of Nursing Practice program and does not link the CSU tuition and UC tuition and fees for doctoral nursing programs.

Non-Resident Students

Non-resident tuition is in addition to applicable systemwide tuition. Table 3 shows the current and potential maximum per semester and per quarter unit rates for non-resident students.

Table 3: Non-Resident Tuition

	Current	Proposed	Change
Semester Campus	\$396	\$426	\$30
Quarter Campus	264	284	20

Graduate Business Professional Program

The Graduate Business Professional Fee is in addition to applicable systemwide tuition. The Board resolution authorizing this fee requires that whenever the Board takes action to adjust tuition for graduate students, the same adjustment will be made to the Business Professional Fee. Table 4 shows the current and potential maximum per semester and per quarter unit rates.

Table 4: Graduate Business Professional Fee

	Current	Proposed	Change
Semester Campus	\$270	\$282	\$12
Quarter Campus	180	188	8

TIMELINE

Date	Action
Nov 21, 2017	<i>California State Student Association</i> -- Provide tuition proposal to student representatives
Nov 30, 2017	<i>California State Student Association</i> -- Hold consultation meeting with student representatives to discuss tuition proposal
Jan 30 – 31, 2018	<i>Trustees</i> -- Information Item -- Hold public meeting to consider tuition proposal
Mar 20 – 21, 2018	<i>Trustees</i> -- Action Item -- Hold public meeting to consider adopting tuition proposal
May 2018	<i>Campuses</i> -- Implement tuition increase in billing statements for continuing students for the 2018-19 academic year (if adopted)
June 2018	Outcome of 2018-19 state budget process
July 2018	Campus allocations made based on final budget decisions and available resources
Aug–Sept 2018	Fall 2018 classes begin

All dates and actions align with requirements of the *Working Families Student Fee Transparency and Accountability Act*.