

DRAFT

ENSURING SUCCESS

FOR CALIFORNIA'S STUDENTS

Creating a Sustainable

Financial Model for

The California State University

Draft Report of the Task Force for a

Sustainable Financial Model for the CSU



LETTER TO CHANCELLOR FROM THE CO-CHAIRS

The California State University (CSU) delivers over 100,000 new graduates into the state's workforce annually, and as a result is a critical player in our economic strength and success. The system receives over 400,000 new applications each year; students with a dream could be threatened by limited resources available to support the 23 campuses. And while the legislature and governor were able to fully fund the Board of Trustees' budget request in 2015-2016, K-12 education and community college funding requirements under Proposition 98, the state's new rainy day savings requirement, and growth in health and human services programs requires the CSU and the state to consider new approaches to funding the university. General Fund support should remain a primary source for the university but we must find new resources and tools to address our operating and infrastructure needs.

This report proposes a series of possible actions and new tools to support the university into the future. It is our belief that the current financial model is not sustainable in the long run and now threatens access to the high-quality education offered by CSU campuses. California's future is tied to having a well-educated workforce, and as an institution we must make sure we are fulfilling our obligation to the State and those who should have access to a college education.

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

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

Sincerely,

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EXECUTIVE SUMMARY

The California State University (CSU) remains dedicated to the vision of access and degree completion as outlined in the California Master Plan for Higher Education of 1960. The question today is how to pay for that vision. The commitment in the Master Plan to provide tuition free education for California residents depended explicitly on ongoing state general fund support from a growing economy. Since the Master Plan was enacted, the state's economic and population growth rates have slowed and tax receipts have been inconsistent. Referenda and court decisions have re-proportioned categories in the state budget resulting in fewer discretionary dollars in the state general fund budget. As a result, even in good economic times, CSU faces significant stagnation in state support as it competes for limited discretionary dollars each fiscal year. Yet demand by prospective and current California students continues to climb.

A new approach to funding is needed if the CSU is to maintain broad access to quality programs. We need to re-examine policies, beyond raising tuition and fees, that restrict the generation and use of non-state funds. The CSU must be empowered to become more self-reliant to achieve the public good.

While the economy is regaining strength, we should not plan on regaining the tremendous rates of growth seen in the post-World War II era. Enrollment demand continues to exceed capacity creating a dilemma for the CSU. Denying admission to eligible students or accepting them without the additional or sufficient funds to offer an efficient pathway towards graduation are not acceptable alternatives.

As we develop a stronger partnership with the state, and greater capacity for self-reliance, our guiding principle must be the public good. We must balance the individual good of the 23 campuses, each with unique strengths and regional responsibilities, with the common good of the system, and may also require providing additional support to help smaller campuses reach their potential.

Our planning must recognize that student success depends upon a sustainable financial model to support our faculty and staff who provide a high quality educational experience to students. Recruiting and retaining the best and brightest faculty and staff is essential to sustaining the university.

The Task Force on a Sustainable Financial Model for the CSU has explored five areas: Financial Effectiveness, Resource Allocation, Student Access to a Quality Education, Financial Aid, and Revenue. The draft findings and recommendations are presented in this report. Given the uniqueness of each of our 23 campuses, not all recommendations will work for or impact every campus in the same manner.

GUIDING PRINCIPLES

The following principles articulate the framework for a new, sustainable financial model for the CSU.

1. Take advantage of all possible options to advance the university's financial position, consistent with the university's mission.
2. Look beyond the university's historical budget methodology.
3. Budget allocation methodology should follow the priorities of the University.
4. Budget allocations should incentivize campuses to reduce time-to-degree and achieve higher rates of degree completion.
5. The budget processes and regulatory practices should provide campuses with maximum flexibility to address each campus' highest priorities, leverage the heterogeneity of the campuses, and ensure the system has a subsidiary role to support the campuses.
6. The financial model should encourage campuses to increase funding from non-state sources such as philanthropy, third-party partnerships, auxiliaries, enterprises, grants, contracts, and other activities.
7. Recognize that all campuses must have a critical mass of size and resources to adequately serve their campus mission effectively.
8. Ensure that there is critical mass, available resources, and demonstrated need prior to consideration of opening any new campuses.
9. Grow enrollment appropriately to the extent that there are adequate resources available to support student achievement, success, and graduation.
10. Changes to the allocation methodology should be phased-in so that campuses' base budgets are not significantly reduced.
11. The financial model should minimize dramatic swings in resource allocation from year-to-year, be predictable, transparent, and allow campuses to engage in longer-term planning.
12. Financial aid policies should be examined to determine whether all students should pay a portion of the cost of their education as an incentive to make timely academic progress towards their degrees.
13. The financial model should recognize that all campuses have to support and contribute to the system as a whole.

FINANCIAL EFFECTIVENESS

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

POLICIES AND PROCEDURES

Background

Over the past ten years the CSU has evolved significantly away from the state agency fiscal structure. Before this change, the Board of Trustees was limited in its authority to develop their own fiscal policies or establish financial management procedures. Since the implementation of the Revenue Management Program, the CSU has a greater ability to respond to changing financial conditions. There is still more work to be done but ultimately a common fiscal management system will ensure the system and campuses have the tools they need to successfully manage a more complex fiscal environment moving forward.

Proposal

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

Rationale

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

Recommendation

The task force recommends that a work group be appointed to review California codes, Title V, and all CSU policies and procedures with a financial or operational impact and recommend changes to the chancellor for consideration and presentation to the Board of Trustees as appropriate. The work group scope should include state-funded, self-support, and auxiliary activities. A comprehensive evaluation is critical to assure that the resulting recommendations strive to remove bureaucratic regulations and impediments regarding all aspects of the CSU's financial and operational management as well as the academic and student affairs functions of the university.

IMPROVING SERVICES AND CONTAINING COSTS

Background

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

Proposal

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

Rationale

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

Recommendation

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

MAXIMIZING USE OF FACILITIES

Background

Summer session programs have been very successful at several CSU campuses, however other campuses struggle to offer a robust summer term using a traditional summer-session model. Currently, five campuses offer state-supported summer session programs, down from the all-time high of 19 campuses in 2003-2004. There are many reasons for contraction of state-supported summer programs, but a common and significant reason was the loss of significant state resources during recent recessions. For those campuses evaluating a move toward year-round operations, the endeavor could be a responsible and effective approach to serving the CSU's mission to educate students in a timely manner.

Proposal

We propose that the CSU seek additional enrollment growth funding to increase enrollment generally and to further support campuses that choose to explore implementing a fully state-supported year-round calendar. CSU and the state should also explore positive incentives for students to take advantage of summer sessions.

Rationale

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

Recommendation

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

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

PUBLIC-PRIVATE PARTNERSHIPS (P3)

Background

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

Potential issues to consider with public private partnerships include: the loss of flexibility of control, exposure to new risks, increased financing costs and developer fees, the need to achieve an expected rate of return on investment, increased transaction time for negotiation and

development of legal documents, and greater possibility for unforeseen challenges. The Chancellor's Office recognized the need to reduce the transaction time for public-private partnership agreements and has executed master enabling agreements with selected appraisers to facilitate the process and is working on a master ground lease template with CSU counsel and external real estate professionals.

Proposal

Public-private partnerships offer and continue to expand their menu of services, ranging from split operations, shared revenues, and development of campus facilities that are flexible to the institution's needs. The use of these partnerships for the delivery of student housing projects has proven to be effective and beneficial on many campuses. However, public-private partnerships are no longer synonymous with only student housing, but include other revenue-generating facilities such as parking garages, research parks, sports facilities, campus-edge developments, retail stores, renewable energy projects, and recreation centers. Other projects have included the local municipality, which can add land or tax relief into the mix, making it a public-public-private partnership. These various forms of development can offer campuses additional resources to deliver needed projects as well as generate revenue for the campus and should be pursued where the opportunity exists.

Rationale

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

Public-private partnerships may be structured in a variety of forms including: straight ground lease, where land is leased to the private partner for development, and generates a revenue stream; ground lease/leaseback, where a private developer leases public land, builds improvements, and then leases back to the campus; master lease or lease with option to purchase; and, various other design/build options including design/build/operate, design/build/operate/maintain, and design/build/finance/operate/maintain.

In addition to capital project delivery, public-private partnerships can deliver various revenue streams to support operations as well as financing opportunities. Ground leases can provide a stable income stream while retaining ownership and may also include a monetization strategy to provide institutions with substantial cash infusions, improved balance sheet performance, or a needed campus asset. Private sector space leases in mixed-use university facilities provide another source of revenue and can help support fixed costs associated with capital development. IRS revenue ruling 63-20, allows governments to create a nonprofit entity to issue tax-exempt bonds to finance tangible public assets. Through this financing the institution "leases" the asset from the nonprofit, where the lease payment is equal to the principle plus interest. Once the debt matures, generally at the end of the lease, the title of the asset is transferred to the institution. Private equity may be used to continue to move projects forward as

well as to attempt to reduce the risk of affecting the institutional partner's balance sheet; some developers may offer their own equity to meet the funding gap. This private equity model can range from a partial financial contribution to full funding of the project.

Recommendation

The task force endorses increased consideration and use of public-private partnerships to advance the CSU's mission. In challenging times and with limited resources, public-private partnerships provide tested alternative tools to deliver facilities, generate revenue, as well as transfer project risks to private partners. Such partnership projects can also minimize or eliminate the need for public funds for capital construction, maintenance, and operations that can then be employed for other purposes. As the CSU seeks financial opportunities to support its mission, public private partnerships provide a viable method to leverage campus resources. The success of public-private partnerships depends upon a sound business plan with realizable revenues, a committed and knowledgeable team of personnel, and senior leadership to support its purpose in meeting institutional objectives.

RESOURCE ALLOCATION

The CSU support budget has two primary funding sources: state general fund appropriation, which is provided by the state legislature and governor, and tuition and fees, which are paid by students and their families. With severe budget cuts in the past decade and tuition freezes in effect since 2011-2012, the CSU must continue to creatively and strategically manage the allocation of all of its available resources.

INTERNAL ALLOCATIONS FOR CHANGES IN ENROLLMENT

Background

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

Proposal

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

Rationale

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

Making such allocations separately and transparently will enhance predictability and campus planning. There are, of course, many additional issues associated with enrollment management. These are addressed in the Access section of this report.

Recommendation

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

part of the allocation methodology, the chancellor may allocate additional funds to support specific needs of campuses to address financial or physical infrastructure challenges.

CAPITAL FINANCING

Background

The means by which the system can fund academic and core infrastructure capital projects has fundamentally changed with the legislature's and governor's approval of new capital financing authorities for the CSU in June 2014. Prior to 2014, it was the state's exclusive responsibility to pay for CSU academic buildings and infrastructure via pay-as-you-go or state financing. The new capital financing authorities are constructive in that they will provide the CSU with significant opportunities to control its own destiny. However, the new capital financing authorities do not come with funding to support this established program. While opportunities for revenue generation exist, these potential new sources will not provide the CSU with sufficient revenues to fund ongoing operations and meet all of its capital needs—at least not in the near to medium term.

Proposal

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

Rationale

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

Recommendations

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

1. CSU policy should acknowledge the new capital financing authorities and the impact on operating revenues by providing each campus with the flexibility and authority to allocate all of its available resources to meet its operating and capital needs. CSU policy should allow each campus to establish the priority of its needs, within the broader mission priorities established by the Board of Trustees.
2. In consultation with key stakeholders including students, faculty, and the state, the CSU should develop a sustainable student tuition and fee policy that acknowledges

the need for additional revenues to meet all of its operating and capital needs, including ongoing and one-time state funds, future general obligation bonds with debt service provided by the state general fund and, if necessary and only after broad consultation, a capital facilities fee to ensure campuses can sustain safe and adequate facilities to support student, staff, and faculty need.

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

ALTERNATIVE MEASURES FOR ALLOCATION OF FUNDS

Background

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

Proposal

The CSU should consider alternative allocation methodologies, in addition to enrollment growth. A small portion of the annual budget could be allocated to campuses based on a set of performance and outcome measures related to student success and completion, for example. Selected measures must take into account the context of the CSU mission, guidance from the Board of Trustees and the chancellor, and higher education goals established by the state. If successful, over time a larger portion of the annual allocation could be made according to the selected measures.

Rationale

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

Recommendations

The task force recommends that the CSU seek additional measures for funding and that the chancellor commission a work group to further analyze and develop a set of potential performance and outcome measures. The work group should consider the following:

1. Graduation rates are the most common performance measure. Analysis could be done that link state wage and unemployment data to academic records to quantify the impact of major, grade point average, university, etc. on earnings and career. Currently, Gallup¹ is piloting a complementary tool that samples graduates' attitudes. Along with tools like the National Survey and the Collegiate Learning Exam, CSU could assemble a robust package of end assessments.
2. Consider enrolled time to degree as a better measure of student achievement while also quantifying in real terms the actual impact of students' attendance patterns.
3. Ensure that measures do not result in unintended consequences that steer the campuses and system from the CSU's core mission.
4. Whether the entire allocation from the state will be subject to such measure(s) or whether it will be applied internally from the system to the campuses.
5. Ways for the system to support campuses that struggle with a measure, including awards, penalties, and support.
6. Facilitate broader comparison by using Integrated Postsecondary Education Data System (IPEDS) data or other national sources.
7. An implementation timeline allowing for development, data gathering, and analysis.

¹ http://www.gallup.com/topic/category_education.aspx

STUDENT ACCESS TO A QUALITY EDUCATION

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

Background

California's higher education system faces four inter-related challenges; 1) enrollment demand exceeds enrollment capacity at many public universities, 2) k-12 schools and community colleges are preparing more graduates seeking access to postsecondary education, 3) many eligible students enrolling at universities are not adequately prepared and have to take additional college preparatory coursework in math and English to ensure their success, and 4) public policy analyses indicate that robust economic growth will require a significant increase in the number of college graduates in California. CSU also should be cognizant of the need for families and students, policymakers and our segmental partners in understanding CSU enrollment policies including local admission areas, priority students (i.e. associate degree transfer students), and supplemental admission criteria.

Proposal

The CSU should support creative efforts designed to enhance preparation for college and implement a comprehensive redirection program to ensure that eligible students are accepted at a CSU campus.

Rationale

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

Recommendations

The task force recommends that a CSU access and student success workgroup be created to specify tactics to address the four inter-related challenges. First, build on current efforts to reduce the need for additional English and mathematics preparation for entering freshmen, within the context of the new Common Core State Standards and new K-12 assessments. Explore intersegmental strategies for addressing this need in an effort to reduce the numbers of admitted students who are not ready for college level work at entry. Explore development of systemwide implementations of best practices such as the current Summer Bridge and Early Start Programs to increase the numbers of students completing their college preparation work prior to beginning their coursework in the fall.

Second, develop a robust process for re-directing CSU-eligible students from campuses that are at capacity to other campuses in the system. A CSU admissions redirection program would provide denied eligible students, who find their preferred campus is at capacity, with additional

options. This also would help balance enrollment demand and capacity across the system. A review of regional demand and local service area policies will facilitate the conversation about where and when to redirect applications.

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

Fourth, limitations in the availability of campus facilities highlight the importance of identifying scheduling approaches that maximize the use of our facilities. Analysis should be done to determine to what extent these problems can be alleviated by alternative scheduling (e.g., extending the week, offering a full summer term). Consideration of alternative scheduling approaches should, of course, include consideration of the costs as well as benefits of not only space utilization, but also faculty and administrative staffing, utilities, and infrastructure costs.

FINANCIAL AID

The State University Grant tuition discount program was designed to provide institutional financial aid to students with demonstrated financial need. Over time, the program has changed from a grant program to a tuition discount program and its scope has expanded to address enrollment growth, changes in campuses' financial need profiles, and tuition increases.

STATE UNIVERSITY GRANT ALLOCATION PROCEDURES

Background

Over the last seven years, the cost of tuition discounts has grown dramatically. For fiscal year 2014-2015, the program allocated over \$644 million in tuition discounts; almost double the amount of fiscal year 2008-2009. This rate of growth is a significant financial commitment that reduces the university's revenue and thus its ability to provide a high quality education.

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

Proposal

The CSU should carefully review and revise the state university grant tuition discount program to ensure that the methodology used is clear, understandable, and predictable. Furthermore, the CSU should consider the effectiveness of tuition discounts in the context of the new pricing strategy discussed in the Revenue section of this report.

Rationale

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

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

Recommendations

Short-Term Recommendations

The task force recommends that the chancellor or his designee set the discretionary parameters for the State University Grant tuition discount program as part of the budget allocation process. We also recommend re-naming the program to the “State University Tuition Discount” program to accurately reflect its nature.

Long-Term Recommendations

The task force recommends the Chancellor’s Office monitor the rate of growth of tuition discounts from 2015-2016 to 2017-2018. During this period, the Chancellor’s Office should review and consider approaches for identifying funding sources for the program so that it can return to its original status as a grant program. If such sources cannot be identified and the rate of growth of tuition discounts is not slowed, more significant changes in the program, possibly requiring changes in Board of Trustees’ policy, should be considered.

REVENUE

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

STATE INVESTMENT

Since the California Master Plan for Higher Education of 1960 was enacted, the share of discretionary dollars in the state general fund has decreased considerably. As an illustration, the state general fund shrunk from 82 percent of the CSU operating budget to 54 percent over the past 15 years. The task force believes that investment by the state is critical to the financial stability of the CSU because the CSU relies on these discretionary dollars to offset the Master Plan's policy on affordable tuition and fees. Administrative and academic efficiencies have helped to save money and avoid costs but efficiencies cannot be the only solution. Without increased investment by the state, the quality of education will suffer.

LEGISLATIVE INITIATIVE TO EXPAND CSU'S INVESTMENT AUTHORITY

Background

Currently, Government Code restricts the CSU's authority to invest funds under its control in high quality, low risk fixed income securities that have historically generated lower returns compared to the returns of other potential investment opportunities.

Proposal

The CSU should consider options to expand opportunities to invest available funds to bolster investment returns and contribute additional resources to its core mission.

Rationale

By eliminating the restriction that limits the investment of CSU funds to high quality, low risk fixed income securities and providing the CSU with broader authority to invest funds, the CSU would have the ability to generate additional revenues to meet its educational, operational, and capital needs, and reduce the amount that may be sought from the state or students. This broader authority is consistent with the goal of giving the CSU greater autonomy and responsibility in making decisions on how best to utilize its limited resources and manage risks in meeting its educational mission.

Recommendation

The task force recommends the CSU seek legislative changes that will expand its investment authority and provide the CSU with broader opportunities to invest funds in securities other than those historically allowed.

THE CRITICAL ROLE OF PHILANTHROPY

Background

While the university must make a case for additional support from the state, it needs to recognize that it must also increase support from philanthropy on each of its campuses. The CSU, like many public universities across the country, does not have a long history of investing in the staffing and infrastructure necessary for a strong program that will significantly increase private support.

Proposal

CSU campuses should invest in development and fundraising infrastructure to increase philanthropic giving to achieve its mission.

Rationale

When budgets are tight, it is often difficult to make a case to invest in fundraising because it is perceived that the return on that investment is not quick and the resources can be used for other purposes. Revenue from the state and tuition will not provide all of the resources necessary to ensure a high quality education for our students.

It is critical that the CSU increase its efforts to develop closer relationships with students, before they arrive on campus, while they are in school, and after they graduate. To be effective at cultivating alumni relationships, the CSU must develop multiple strategies that are segmented to provide value to alumni of different age groups and at different stages in their careers. The campus experience and the messages they hear from the institution will set the stage for their support of the campus after they graduate.

Effective development strategies must be campus-based because alumni, corporate supporters, and communities will always have a closer relationship to their neighboring campus. However, the system can also add value by providing campuses with tools, facilitating campus best practices and philanthropic strategies, and sponsoring training. It is clear that the companies that hire CSU's graduates can be major supporters of the campus in their region. There are many examples where companies associated with our campuses have provided much needed resources to our campuses.

Recommendation

The task force recommends that the CSU develop strategies, including calculated use of state support, to increase its investment in corporate and foundation relations, focus on the support of critical programs and facilities, and increase internships for our students.

TOWARD A SUSTAINABLE MODEL OF TUITION AND FEE INCREASES

Background

Creating a sustainable approach to tuition increases in California has been a significant challenge. Historically, there have been many years in which tuition did not increase. For example, the coming fiscal year 2015-2016 will be the fourth consecutive year without a tuition increase in the CSU. Conversely, there have been years in which tuition has increased dramatically, by up to 30 percent. Both approaches are problematic.

Extended periods without tuition increases are not sustainable without increases in state appropriation to support operations including mandatory costs, enrollment growth, and now capital outlay needs. This is because the university faces inflationary cost increases each year such as health care, retirement, facility and construction, library materials, energy, salary, and others. As an example, funding a 2.5 percent inflationary cost increase on the CSU budget of \$4.9 billion requires an additional \$120 million in revenue. On a smaller scale, the \$55 application fee for the processing of the application by the campus was last adjusted in 1989. A modest \$15 increase in the application fee would generate an additional \$30 million in revenue to help cover inflationary cost increases. While the university continually strives to increase productivity and reduce costs, most inflationary costs are set by third parties or through contractual negotiations with represented employees and are outside the university's full control. Given limitations in state funding, the impact of inflation means that the university's costs will significantly exceed its revenues without tuition increases. This financial instability, over time, results in reductions in quality and large, unexpected tuition increases.

Dramatic, unexpected tuition increases are especially problematic and make it impossible for students and their families to financially plan for college expenditures. This also creates inequities in which students pay dramatically different tuition amounts depending on when they matriculate.

Proposal

In consultation with stakeholders including students, faculty, and the state, the CSU should consider predictable and incremental adjustments to tuition and fees that maintains purchasing power in the face of inflationary increases over time.

Rationale

When combined with increases in state general fund, modest tuition increases ensure the CSU's academic quality and fiscal stability. Small, planned tuition increases will allow students and their families to budget appropriately. The State University Grant tuition discount program will continue to ensure that such tuition increases have minimal impact on our financially needy students. Even a relatively modest annual increase could yield \$30 million in additional revenue for the CSU after tuition discounting. This additional revenue combined with annual increases in state general fund will contribute to the CSU's financial sustainability, supporting quality educational opportunities and predictable expenses for our students and their families.

Recommendation

The task force recommends that the Board of Trustees consider enacting small annual tuition and fee increases tied to the rate of inflation (e.g., on the order of two percent in periods of low inflation). Given current tuition of \$5,472, a two percent tuition increase is approximately \$50 per semester.

MARKET BASED NON-RESIDENT TUITION RATES

Background

CSU campuses can best serve students when they have the resources and flexibility to act on unique campus priorities and goals. In this context, CSU campuses must consider new sources of revenue, which could bolster educational offerings and experiences for students. CSU remains committed to serving Californians first but it is also true that nonresident and international students have been part of the CSU student body for decades. The CSU also has an obligation to serve military personnel and veterans and undocumented students who have graduated from California high schools. Additionally non-resident domestic and international students add to the learning environment as CSU students and faculty gain a greater understanding of the global marketplace and society. As such, CSU does not believe that artificially restricting access for non-resident domestic and international students is in the best interest of the state, but their number should continue to be closely monitored to ensure their numbers do not increase disproportionately to California students.

Proposal

The task force recommends that campuses be given the authority to propose market-based tuition rates for non-resident domestic and international students, who are not exempt due to their status under state and federal law

Rationale

Revenue raised from this source will vary across campuses due to differing strategic non-resident domestic and international enrollment opportunities and goals. In addition, the tuition rates the market can bear will vary from campus to campus. Nevertheless, additional revenue from charging market based non-resident domestic and international tuition rates has the potential to strengthen campuses individually and consequently, the CSU system as a whole by providing new resources to support campus programs and services. An increase to non-resident tuition will not negatively impact California residents, but on the contrary will provide additional revenue to increase resident enrollment, reduce the number of resident denied eligible students, and enhance our ability to serve all students.

Recommendation

The task force recommends that the Board of Trustees and chancellor give CSU campuses the authority to propose campus-specific, market-based tuition for non-resident domestic and international students. The task force proposes that increases in these non-resident tuition rates apply to incoming students so that currently enrolled non-resident domestic and international students would not be impacted.

SUMMARY OF RECOMMENDATIONS

FINANCIAL EFFECTIVENESS

POLICIES AND PROCEDURES

The task force recommends that a work group be appointed to review California codes, Title V, and all CSU policies and procedures with a financial or operational impact and recommend changes to the chancellor for consideration and presentation to the Board of Trustees as appropriate. The work group scope should include state-funded, self-support, and auxiliary activities. A comprehensive evaluation is critical to assure that the resulting recommendations address all aspects of the CSU's financial and operational management while also considering their effect on the academic and student affairs functions of the university.

IMPROVING SERVICES AND CONTAINING COSTS

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

MAXIMIZING USE OF FACILITIES

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

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

PUBLIC-PRIVATE PARTNERSHIPS (P3)

The task force endorses increased consideration and use of public-private partnerships to advance the CSU's mission. In challenging times and with limited resources, public-private partnerships provide tested alternative tools to deliver facilities, generate revenue, as well as transfer project risks to private partners. Such partnership projects can also minimize or eliminate the need for public funds for capital construction, maintenance, and operations that can then be employed for other purposes. As the CSU seeks financial opportunities to support its mission, public private partnerships provide a viable method to leverage campus resources.

The success of public-private partnerships depends upon a sound business plan with realizable revenues, a committed and knowledgeable team of personnel, and senior leadership to support its purpose in meeting institutional objectives.

RESOURCE ALLOCATION

INTERNAL ALLOCATIONS FOR CHANGES IN ENROLLMENT

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

CAPITAL FINANCING

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

1. CSU policy should acknowledge the new capital financing authorities and the impact on operating revenues by providing each campus with the flexibility and authority to allocate all of its available resources to meet its operating and capital needs. CSU policy should allow each campus to establish the priority of its needs, within the broader mission priorities established by the Board of Trustees.
2. In consultation with key stakeholders including students, faculty, and the state, the CSU should develop a sustainable student tuition and fee policy that acknowledges the need for additional revenues to meet all of its operating and capital needs, including ongoing and one-time state funds, future general obligation bonds with debt service provided by the state general fund and, if necessary and only after broad consultation, a capital facilities fee to ensure campuses can sustain safe and adequate facilities to support student, staff, and faculty need.
3. CSU policy should require that each campus contribute cash towards the funding of each capital project in an amount at least equal to an established minimum percentage of the project cost.
4. CSU policy should require that each campus set aside cash reserves annually, over and above the amount needed to meet debt service payments, to support such debt service payments in an amount at least equal to an established minimum percentage of annual debt service.

ALTERNATIVE MEASURES FOR ALLOCATION OF FUNDS

The task force recommends that the CSU seek additional measures for funding and that the chancellor commission a work group to further analyze and develop a set of potential performance and outcome measures. The work group should consider the following:

1. Graduation rates are the most common performance measure. Analysis could be done that link state wage and unemployment data to academic records to quantify the impact of major, grade point average, university, etc. on earnings and career. Currently, Gallup² is piloting a complementary tool that samples graduates' attitudes. Along with tools like the National Survey and the Collegiate Learning Exam, CSU could assemble a robust package of end assessments.
2. Consider enrolled time to degree as a better measure of student achievement while also quantifying in real terms the actual impact of students' attendance patterns.
3. Ensure that measures do not result in unintended consequences that steer the campuses and system from the CSU's core mission.
4. Whether the entire allocation from the state will be subject to such measure(s) or whether it will be applied internally from the system to the campuses.
5. Ways for the system to support campuses that struggle with a measure, including awards, penalties, and support.
6. Facilitate broader comparison by using Integrated Postsecondary Education Data System (IPEDS) data or other national sources.
7. An implementation timeline allowing for development, data gathering, and analysis.

STUDENT ACCESS TO A QUALITY EDUCATION

The task force recommends that a CSU access and student success workgroup be created to specify tactics to address the four inter-related challenges. First, build on current efforts to reduce the need for additional English and mathematics preparation for entering freshmen, within the context of the new Common Core State Standards and new K-12 assessments. Explore intersegmental strategies for addressing this need in an effort to reduce the numbers of admitted students who are not ready for college level work at entry. Explore development of systemwide implementations of best practices such as the current Summer Bridge and Early Start Programs to increase the numbers of students completing their college preparation work prior to beginning their coursework in the fall.

Second, develop a robust process for re-directing CSU-eligible students from campuses that are at capacity to other campuses in the system. A CSU admissions redirection program would provide denied eligible students, who find their preferred campus is at capacity, with additional options. This also would help balance enrollment demand and capacity across the system. A review of regional demand and local service area policies will facilitate the conversation about where and when to redirect applications.

Third, we should identify a set of best practices for campuses to adopt in using technology and data-driven decision making to enhance student retention and speed progress to degree. These

² http://www.gallup.com/topic/category_education.aspx

new techniques can support early identification, enhance advising strategies, and support students who are facing challenges.

Fourth, limitations in the availability of campus facilities highlight the importance of identifying scheduling approaches that maximize the use of our facilities. Analysis should be done to determine to what extent these problems can be alleviated by alternative scheduling (e.g., extending the week, offering a full summer term). Consideration of alternative scheduling approaches should, of course, include consideration of the costs as well as benefits of not only space utilization, but also faculty and administrative staffing, utilities, and infrastructure costs.

FINANCIAL AID

STATE UNIVERSITY GRANT ALLOCATION PROCEDURES

Short-Term Recommendations

The task force recommends that the chancellor or his designee set the discretionary parameters for the State University Grant tuition discount program as part of the budget allocation process. We also recommend re-naming the program to the “State University Tuition Discount” program to accurately reflect its nature.

Long-Term Recommendations

The task force recommends the Chancellor’s Office monitor the rate of growth of tuition discounts from 2015-2016 to 2017-2018. During this period, the Chancellor’s Office should review and consider approaches for identifying funding sources for the program so that it can return to its original status as a grant program. If such sources cannot be identified and the rate of growth of tuition discounts is not slowed, more significant changes in the program, possibly requiring changes in Board of Trustees’ policy, should be considered.

REVENUE

LEGISLATIVE INITIATIVE TO EXPAND CSU’S INVESTMENT AUTHORITY

The task force recommends the CSU seek legislative changes that will expand its investment authority and provide the CSU with broader opportunities to invest funds in securities other than those historically allowed.

THE CRITICAL ROLE OF PHILANTHROPY

The task force recommends that the CSU develop strategies, including calculated use of state support, to increase its investment in corporate and foundation relations, focus on the support of critical programs and facilities, and increase internships for our students.

TOWARD A SUSTAINABLE MODEL OF TUITION AND FEE INCREASES

The task force recommends that the Board of Trustees consider enacting small annual tuition and fee increases tied to the rate of inflation (e.g., on the order of two percent in periods of low

inflation). Given current tuition of \$5,472, a two percent tuition increase is approximately \$50 per semester.

MARKET BASED NON-RESIDENT TUITION RATES

The task force recommends that the Board of Trustees and chancellor give CSU campuses the authority to propose campus-specific, market-based tuition for non-resident domestic and international students. The task force proposes that increases in these non-resident tuition rates apply to incoming students so that currently enrolled non-resident domestic and international students would not be impacted.

APPENDIX

TASK FORCE CHARGE

Chancellor's Charge for the Task Force on

A Sustainable Financial Model for the California State University

October 21, 2014

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

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

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

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

The committee will refine the work plan at its first meeting and determine if membership is adequate and if a third-party consultant is required. The task force will decide upon meeting venues (e.g., in person; video conference; teleconference; hybrid) and schedule. It will also

suggest any modifications to the charge for Chancellor's approval. All necessary and reasonable costs (travel and lodging) will be borne by the Chancellor's Office.

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

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

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

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

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

TASK FORCE MEMBERSHIP

Convener & Co-Chair

Steve Relyea

Executive Vice Chancellor &
Chief Financial Officer

Co-Chair

Leroy Morishita

President
CSU East Bay

Co-Chair

Elliot Hirshman

President
San Diego State University

Kathleen Enz Finken

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

Harry Hellenbrand

Provost & Vice President
Academic Affairs
CSU Northridge

Ysabel Trinidad

Vice President
Business & Financial Affairs
CSU Channel Islands

Mary Stephens

Vice President
Administration & Finance
CSU Long Beach

Larry Furukawa-Schlereth

Vice President
Administration & Finance
Sonoma State University

Drew Calandrella

Vice President
Student Affairs
CSU Chico

Steven Filling

Chair
Academic Senate

Steven Stepanek

Faculty Trustee & Professor
of Computer Science
CSU Northridge

Talar Alexanian

Student Trustee
CSU Northridge

Ex-officio support:

Ryan Storm, *ex officio*

Assistant Vice Chancellor
Budget
Chancellor's Office

Rodney Rideau, *ex officio*

Deputy Assistant Vice Chancellor
Budget
Chancellor's Office

Robert Eaton, *ex officio*

Deputy Assistant Vice Chancellor
Financing, Treasury & Risk Management
Chancellor's Office

Dean Kulju, *ex officio*

Director
Student Financial Aid Services & Programs
Chancellor's Office