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March 11, 2002

The Honorable Dede Alpert, Chair
Joint Committee to Develop a Master Plan – K-University
State Capitol, Room 5050
Sacramento, CA 95814

RE: Final Report: Finance and Facilities Working Group – Postsecondary Education

Dear Senator Alpert:

On behalf of the California State University (CSU), I am pleased to provide you and the members of the Joint Committee with the CSU's response to the Final Report of the Working Group on Finance and Facilities – Postsecondary Education. The CSU supports the report, and offers these comments in the spirit of ongoing collaboration and discussion.

The report's findings and recommendations are particularly timely, because California is once again facing a serious challenge to meeting the policy goals that have served for 40 years as the cornerstones of the original Master Plan for Higher Education: access, affordability, and quality. As Chancellor Reed recently stated, "Tidal Wave II is not just on the horizon; it is already washing over our beaches." At CSU, accommodating enrollment demand represents our top priority, as well as our biggest challenge. In 2001/02, enrollment at CSU exceeded funded targets by nearly 8,000 full-time equivalent students (FTES), and campus projections for 2002/03 indicate that the system will have to accommodate enrollment growth of at least 12,030 FTES, a 4 percent growth rate.

But at the same time, California is suffering from its worst economic downturn since the early 1990s, and faces the difficult task of developing a budget that preserves funding for its highest priorities while also addressing a large projected deficit. When faced with a similar challenge a decade ago, all three of the major Higher Education Master Plan principles suffered: state funding for the institutions decreased, student fees increased, campus enrollments dropped, average class sizes increased, and expenditures on maintenance, instructional equipment acquisitions, and library resources were deferred. In short, access, affordability, and quality were all impacted. And even when the state enjoyed a period of economic recovery and expansion during the past several years, the accumulated deficits of the institutions were not fully addressed.

For that reason, CSU appreciates the report's recognition that large, current unmet needs in the operations and facilities budgets of higher education is a serious threat to the state's ability to meet Master Plan goals. We estimate the total budget deficiency at CSU to be \$716 million, comprised of such categories as long-term structural deficiencies (deferred maintenance, instructional equipment, and libraries), unfunded operational costs (new space, price increase), and faculty/staff compensation. Faced with a budget "hole" of such magnitude, CSU responded with several initiatives contributing to operational efficiency, including streamlined administrative processes, capital program improvements, and quality improvement initiatives.

Working Group Recommendations

Recommendation 1: *Adopt policies to provide more stability for finance and dampen the “boom and bust” swings of state appropriations for higher education.*

CSU strongly supports this recommendation, and the subsequent statement that state government should fund the “core” support promised in the Partnership Agreements for UC and CSU. The Partnership has provided predictability, stability, and accountability to funding for public higher education. It has provided the institutions with the resources needed to serve students, and appropriately focused on outcomes, rather than day-to-day operations, to hold them accountable. During this era of rapidly expanding enrollments maintaining the state’s support in all these areas is absolutely critical if CSU is to meet its Master Plan commitments.

CSU also supports the statement that state government should initiate a review of marginal cost funding to assess its adequacy. While the current marginal cost rate is expected to provide a sufficient base to sustain enrollment growth at comparable levels of service received by students in previous fiscal years, the factors included in the calculation have not been re-examined for several years and no longer reflect the real costs to serve students. For instance, the faculty salary rate used in the methodology dates back to a budgeted position used by CSU prior to 1993/94 for new faculty positions. This position (Faculty Salary Step III, \$44,800) is supposed to reflect the average cost for hiring a new faculty member. However, the actual new hire rate at CSU (on average, \$52,000) is significantly larger than the cost represented by this position.

The marginal cost formula also fails to recognize the cost of programs requiring intensive faculty resources, such as Nursing, Agriculture, Engineering, and graduate education. These programs also demand higher faculty salaries, and have specialized equipment needs. And finally, the current formula does not recognize that smaller campuses and off-campus centers have higher fixed costs.

Further recognition toward achieving equitable and rational funding for increased enrollment at CSU would be a redefinition of graduate full-time equivalent from the current 15 units to 12 units. This change would make this definition consistent with the University of California, and most other higher education institutions in the country.

The recommendation that the state adopt a consistent student fee policy is addressed in our comments on Recommendation 4, below.

Recommendation 2: *Improve the state’s accountability framework by modifying and expanding the “partnership” budget approach, currently applied to UC and CSU, to (1) include all higher education, (2) clarify the link between performance and funding, and (3) adopt realistic alternatives for times of revenue downturns.*

The report’s statement that the current partnership agreements are unclear about what happens if one side or the other fails to live up to them is accurate. The CSU always strives to meet its Partnership commitments and continues to provide the Administration and Legislature with an annual accountability report; however, we believe that our outcomes should be judged on the basis of the funding that is actually provided in each fiscal year. In considering this question, it may be useful to rely on an accountability principle identified by the Student Learning Working Group: that effective accountability systems call attention to needs, rather than initiating punitive measures.

Recommendation 3: *Change the way state government funds electronic technology to provide more access and choice for students.*

A world-class 21st century university requires a technology infrastructure that provides its students the tools necessary to compete in a global and knowledge-based economy. In recent years, CSU has laid the groundwork for this success by advancing an Integrated Technology Strategy (ITS). Today's students demand more distributed forms of learning and information retrieval in the form of network access and virtual universities. At CSU the ITS is an agent of institutional change, but it also has broader social and economic implications for the state as a whole. The effective deployment and use of information technology is a fundamental requirement for the survival of formal education at all levels and for the future growth of California.

Recommendation 4: *Reform the state's approach to student charges in the public segments and maintain the Cal Grant need-based financial aid entitlement.*

At this juncture, CSU does not support a specific proposal on how the state should set and adjust student fees. But as the report notes with accuracy, each public higher education institution suffers from current unmet needs, and will be unable to accommodate the demands of Tidal Wave II unless the long-term decline of state appropriations support is reversed. Given existing constraints on the state budget, the only realistic solution is to develop new sources of revenue. In that context, it is appropriate that student fees be a part of the discussion by state policymakers, and that new approaches such as differential fees for higher-cost professional and graduate programs be considered.

CSU strongly supports the recommendations to leave the proceeds from all student charges with the institutions of higher education to benefit students, and to continue funding the Cal Grant entitlement as defined in SB 1644 (2000).

Recommendation 5: *Review the state's methodology for determining and funding facilities in California higher education, and, as appropriate for each segment, make changes to emphasize multiple use facilities, comprehensive space planning, sharing of space among institutions, and incentives to maximize other sources of capital outlay.*

The CSU agrees with the report's proposed measures to expand year-round operations, increase the use of off-campus centers, and expand the use of joint facilities. All three of these strategies have been utilized by the system, and have resulted in increased opportunities for students and maximized access to impacted institutions.

In addition, we appreciate the report's recognition of the ASF/FTES approach being developed by the CSU as a better means to measure space utilization on our campuses. This approach shifts the physical planning perspective from classroom capacity to campus capacity, recognizing that some courses are delivered to students both in spaces outside the traditional classroom environment and via technology. This reduces the direct need for on-campus classrooms but does not reduce the need for spaces that enable and support the remote delivery. Overall, it is an improved space management tool that can replace the outmoded seat count capacity utilization studies that were produced from the early 1960s through the early 1990s.

CSU also supports the creation of a "sinking fund" to extend the useful life of buildings. This would provide institutions with a predictable source of funds to allow for the replacement of major building systems in facilities that should be renewed and/or replaced when they have reached the end of their useful life. It will also permit the segments to more effectively utilize limited maintenance dollars by concentrating resources on their intended

purpose, on-going day-to-day maintenance, instead of having to divert portions to fund deferred maintenance activities.

In conclusion, the CSU commends the working group for their efforts in identifying many key issues facing the state, and hopes that this initial response is useful in the committee's ongoing deliberations. We look forward to working with the members and staff of the committee, and providing additional information and feedback, as the process continues.

Sincerely yours,

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Assistant Vice Chancellor

KYZ/JV/csg

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