



The \$1.2 Billion Myth - April 2007

May 8, 2007

The California Faculty Association has recently referenced several dollar figures from our consolidated financial statements to justify their statements that there are sufficient monies to fund their salary increases. More specifically, the CFA has been citing the figure of \$1.2 billion to argue (1) there are sufficient monies to fund the negotiated compensation increase proposals, and (2) student fee increases are unnecessary. CFA arrives at this figure by adding the net revenue to depreciation expense on our annual financial statements for the last five years. This methodology misinterprets governmental accounting practices, leading to an inaccurate conclusion.

The CFA's key errors include:

- **Assuming that CSU operates like a for-profit business:** In business, all revenues flow to the bottom-line and may generally be used to fund all operations. In contrast, nearly all of the CSU funds referenced in the CFA-commissioned analysis are designated for use in program operations, debt service reserves and debt service payments of self-supporting programs, such as student housing, parking, health facilities, student unions and various other enterprise programs like food services. Some of these balances are from the sale of bonds for buildings, which are being held in bank accounts before the start of construction. The use of all funds in the University is governed by the Department of Finance's State of California Manual of State Funds and applicable state statutes. None of these funds can be used for faculty salaries. The CSU reports to the legislature annually all unencumbered balances in the general fund. For the 2005-06 year, that amount was approximately \$1 million. All general fund dollars are committed to be spent or have already been spent.
- **Relying on external reports that don't identify fund obligations:** The University must adhere to rules that govern the use of each fund, even though current financial statement practices are moving away from fund accounting to the Governmental Accounting Standards Board (GASB) for external reporting purposes. The CFA statements give the wrong impression that all funds can be used for any purposes. GASB recently published an "invitation to comment" seeking information on ways to clarify which funds are restricted for use by specific programs and not available for general use. The request implies that the current approach adds confusion and should be changed.
- **Using a bond rating report as an indicator of discretionary money:** CFA asserts that the upgrade in CSU's bond rating from Moody's indicates the University has \$1.2 billion "that administrators can spend as they please."

The role of Moody's and other bond rating agencies is to provide an analysis of debt issue by public entities and the risks of non-payment of that debt. The CSU only issues debt associated with its self-supporting services, such as student housing, parking facilities and student unions. The repayment of this debt must be from payments made by the users of these facilities. The security of the CSU's bonds is backed by reserves. The presence of these reserves restricted to specific types of facilities is one of the primary reasons why Moody's says that our credit rating is strong. Notably, if money from student dormitories, for example, could be used for non-housing purposes such as faculty salaries, CSU's credit rating would be reduced.

For these reasons, the analysis conducted by the CFA is overly simplistic and draws misleading conclusions. Using cash reserves and investments reported in a GASB-directed financial report (such as Moody's bond rating report) to propose such funds may be used by a governmental institution to fund increased compensation ignores existing restrictions and obligations against those assets.