

CALIFORNIA STATE UNIVERSITY (6610)

The California State University (CSU) consists of 22 university campuses and the California Maritime Academy. The university provides instruction in the liberal arts and science, and applied fields that require more than two years of college education. The CSU provides teacher education at both the undergraduate and graduate level, through the master's degree. (As a result of recent legislation, CSU is adding doctoral programs as well.)

For 2008-09, the Governor's budget proposes General Fund support for CSU of \$2.9 billion. This is \$97.6 million, or 3 percent, less than the revised current-year amount. When all fund sources are considered (including student fees, federal funds, and other funds), CSU would receive total funding of \$6.9 billion—essentially unchanged from the current-year level.

General Fund Proposals

Figure 1 (see next page) summarizes the Governor's General Fund proposal for CSU. As shown in the figure, the Governor first calculates a "workload budget" that is largely based on a multiyear funding plan (or "compact") he negotiated with CSU in 2004. The major components of this workload budget are a 5 percent base increase and funding for 2.5 percent enrollment growth, as well as various other adjustments. The workload budget exceeds CSU's current-year funding by \$215 million (7.2 percent). However, rather than providing the workload level of funding, the Governor's budget reduces this amount by \$313 million—roughly 10 percent. As a result, CSU would receive \$97.6 million less in 2008-09 than the revised current-year amount.

Figure 1	
California State University	
General Fund Budget Proposal	
<i>(Dollars in Millions)</i>	
2007-08 Budget Act	\$2,985.9
Retirement cost adjustment	-\$8.6
Lease-revenue bond adjustments	-6.6
Revised 2007-08 Budget	\$2,970.7
"Workload Budget" Adjustments	
Base increase (5 percent)	\$146.2
Enrollment growth (2.5 percent)	70.1
Lease-revenue bond adjustment	1.7
Other technical adjustments	-2.6
Subtotal	(\$215.3)
Governor's "Workload" Estimate	\$3,186.0
"Budget Balancing Reductions"	
10 percent reduction to institutional support	-\$43.2
Unallocated reduction	-269.7
Subtotal	(\$312.9)
2007-08 Proposed Budget	\$2,873.1
Change From 2007-08 Revised Budget	
Amount	-\$97.6
Percent	-3.3%

The \$313 million reduction to the workload budget includes two components:

- \$43 million would come from CSU's "institutional support" budget, which generally funds executive and other administrative costs. This represents a 10 percent reduction to the workload budget for these administrative costs.
- \$270 million would be unallocated, allowing the CSU Board of Trustees to decide how the reduction would be accommodated.

Student Fee Increases

The Governor's workload budget envisions that CSU would increase student fees by 10 percent for 2008-09, generating about \$110 million in new revenue. However, the budget proposal acknowledges that the university may increase fees above this level to backfill some or all of the unallocated General Fund reduction. The Governor defers the decision on actual fee levels to the Trustees.

INTERSEGMENTAL ISSUES INVOLVING CSU

In the "LAO Alternative Budget" section earlier in this chapter, we describe our recommended alternative to the Governor's higher education budget proposal. Figure 2 summarizes the CSU component of this proposal, showing the General Fund impact relative to the Governor's workload funding level.

Figure 2	
LAO Alternative General Fund Budget For the California State University	
<i>(In Millions)</i>	
LAO Recommendations	Change From Governor's Workload Budget
1.6 percent enrollment growth ^a	-\$22.0
No cost-of-living adjustment, but provide increases for utilities and other nondiscretionary costs	-101.2
10 percent reduction to administrative support	-43.2
10 percent student fee increase ^b	-108.7
Institutional financial aid (increased need due to fee increase)	28.5
Total LAO Recommendations	-\$246.5^c

^a Uses Legislature's marginal cost methodology.

^b Unlike the Governor's budget, we treat fee revenue as an integral funding source for the segment. As such, a fee increase has the effect of offsetting General Fund costs.

^c By comparison, the Governor proposes reductions of \$313 million from the workload budget.

In developing our alternative CSU budget, we gave priority to funding all anticipated enrollment growth, which we estimated at 1.6 percent. Consistent with our approach for most other budgets in our LAO alternative budget, our proposal for CSU does not include a cost-of-living adjustment (COLA) for personnel costs or a general base augmentation, but does include a General Fund augmentation (equal to about 1.5 percent of General Fund base support) to cover identified, nondiscretionary cost increases. Our proposal incorporates the Governor's proposed reduction to CSU's administrative support budget. However, unlike the Governor's proposal, our alternative does not include any unallocated reductions, which can undermine budgetary transparency and accountability. Finally, we recommend a student fee increase of 10 percent, as well as an augmentation to financial aid funding to fully cover increased fee charges for students who demonstrate need.

Overall, our alternative CSU budget would increase general purpose funding (General Fund and student fee revenue) by about \$112 million (2.6 percent) from the 2007-08 level. This funding level would cover expected increases in enrollment and nondiscretionary cost increases, as well as financial aid to cover increased fee costs for needy students. At the same time, our proposal would reduce General Fund spending by \$247 million relative to the Governor's workload budget.

CSU CAPITAL OUTLAY

The budget proposes \$358 million in bond funds for 24 CSU capital projects in the budget year. Most of this amount—\$315 million—would come from a proposed 2008 bond which would appear on the November ballot.

Implementation of Proposition 1D

Proposition 1D, the Kindergarten-University Public Education Facilities Bond Act of 2006, was passed by voters in November 2006. Among the various education segments receiving funding under the bond act, CSU was allotted \$690 million to construct new buildings and related infrastructure, alter existing buildings, and purchase major equipment for use in these buildings. As Figure 3 shows, almost all of these funds have already been committed to specific projects, in addition to providing funds for minor capital outlay (upgrades and renovations less than \$400,000) and capital renewal (for replacement of building components and systems). Only \$26 million of CSU's Proposition 1D allocation remains uncommitted.

Figure 3**CSU's Proposition 1D Spending***(In Millions)*

	2006-07	2007-08	Totals
Capital outlay projects	\$202	\$337	\$539
Capital renewal	50	50	100
Minor capital outlay	25	—	25
Totals	\$277	\$387	\$664

Past appropriations from Proposition 1D contributed funding to 36 CSU projects. Figure 4 shows that 22 of these projects will be completed with appropriations made to date. The remaining 14 projects will require additional appropriations. Since nearly all authorized bond funds for CSU are already committed, most of the 14 remaining projects will require new capital funding for completion. The total estimated cost to finish CSU's projects begun with Proposition 1D funds is \$272 million. (The Governor proposes to cover \$246 million of this in the budget year mainly with funds from the proposed 2008 bond).

Figure 4**Summary of CSU Projects Funded With Proposition 1D***As of 2007-08 Budget Act
(Dollars in Millions)*

Type of Project	Projects With Funding Complete	Projects Needing Additional Funding	
		Number	State Funds
New buildings	12	5	\$45
Replacement buildings	—	5	133
Renovations/modernizations	5	1	50
Seismic improvements	2	2	20
Campus infrastructure	2	1	24
Land acquisition	1	—	—
Totals	22	14	\$272

A review of the 36 projects funded by Proposition 1D shows that they cover a wide variety of purposes—new classrooms, teaching labs, and faculty offices; renovations and replacements; campus infrastructure; seismic-related improvements; and land acquisition. As shown in Figure 5, the projects funded with Proposition 1D will increase CSU’s systemwide capacity by almost 13,000 full-time equivalent (FTE) students.

Figure 5	
Proposition 1D Projects	
<i>Net Increase in Capacity</i>	
Instructional Space	Additional FTE Students Accommodated
Lecture	12,063
Teaching lab	879
Total	12,942
FTE = Full-time equivalent.	

The Governor’s 2008-09 Proposal

The budget proposes to spend \$358 million on 24 CSU capital projects including \$50 million for systemwide capital renewal and \$25 million for minor capital outlay projects. The proposed budget does not include any funding from Proposition 1D. The proposal relies heavily on the proposed 2008 bond, with 20 projects receiving at least partial funding from this source. The proposed funding would support new phases of 13 projects previously funded by the state and 11 new projects.

The 2008 Bond Proposal. The Governor’s proposal for the 2008 education bond would provide CSU with about \$2 billion in funding for capital projects over five years. This amounts to \$395 million per year, or \$50 million more than the annual funding CSU received from Proposition 1D. According to CSU, the distribution of 2008 bond funds would follow CSU Board of Trustees’ adopted categories and criteria, which gives highest priority to completing previous starts and addressing the capital needs outlined in CSU’s Five Year Capital Improvement Plan. The segment also notes that additional funds may be needed to fund off-site mitigation costs (an issue we discuss in the “Addressing Local Impacts of Campus Growth: Questions and Issues” section in this chapter) and energy matching grants in support of AB 32 (Nuñez) greenhouse gas reduction programs.

Governor's Proposal Increases Risk of Funding Shortfall. Rather than prioritize the completion of previously approved projects, the Governor's proposal allocates some existing bond funds to new projects. As described above, the available balance of authorized bonds is insufficient to finish all previously funded CSU projects and, regardless of budgeting choices, some will be dependent upon a new source of funding (such as a 2008 bond) for completion. However, by funding new projects with available bond balances—rather than focusing on the completion of existing projects—the Governor's budget commits the state to even more projects without a guaranteed source of funding for completion. For example, the budget proposal will expend some of the state's current bond funds on three new projects even if the 2008 bond is not approved. Although existing funds would start these three projects, the state would lack the \$143 million to complete them. In total, the Governor's proposal—by not prioritizing the completion of projects and relying so heavily on approval of a 2008 bond proposal—will result in 18 continuing projects that lack a guaranteed source for completion. The total amount necessary to complete these projects would be approximately \$398 million.

Use Remaining Bond Funds to Finish High-Priority Projects

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

Under the Governor's proposal, existing bond funds would be directed toward phases of projects for which sufficient funding for completion is uncertain (due to their reliance on the proposed 2008 bond). We recommend instead that existing bond funds be redirected to complete funding for previously approved projects, as well as one new project that is part of a legal settlement with disabled students. (This project can be fully funded with existing bond monies.) Redirecting existing bond funds in 2008-09 and 2009-10 to the projects shown in Figure 6 (see next page) would maximize the number of projects guaranteed funding for completion.

Even with these changes, some previously funded projects will still lack guaranteed funds for completion. Their later phases would need to be funded by the proposed 2008 bond or—if the 2008 bond is not approved—by another source, at an estimated cost of \$247 million. Also, in order to free up previously authorized bond funds to complete the projects shown

in Figure 6, most new state funded projects proposed in the Governor's budget would have to be funded exclusively with the proposed 2008 bond. Making new projects contingent on the approval of the 2008 bond limits the number of projects started without guaranteed funding for completion.

Figure 6		
Recommended Projects for Allocation of Existing Bond Funds		
<i>(In Millions)</i>		
Campus	Project	Funds Needed For Completion
2008-09		
Chico	Student Services Center	\$2.4
Dominguez Hills	Educational Resource Center Addition	3.7
East Bay	Student Services Replacement Building	2.0
Los Angeles	Forensic Science Building	0.6
Northridge	Science I Replacement	4.5
Northridge	Performing Arts Center	6.0
San Bernardino	Access Compliance Barrier Removal	10.5
2009-10		
Long Beach	Peterson Hall 3 Replacement	\$4.7
Los Angeles	Corporation Yard and Public Safety	0.7
Los Angeles	Science Replacement, Wing B	3.9
Pomona	College of Business Administration	1.9
San Marcos	Social and Behavioral Sciences Building	1.7
Total		\$42.6

Overall, realigning bond funds as outlined above would reduce the state's risk connected to the uncertainty of the 2008 bond proposal. As shown in Figure 7, our recommendations would increase the number of projects with funds for completion while simultaneously reducing the number of projects in need of future funds. By making all new projects requiring future appropriations contingent on passage of the 2008 bond, our recommendation would eliminate the risk of starting new projects without a secure source of funding. At the same time, if the 2008 bond is approved, our proposal for realigning bond funding could implement the same projects as the Governor's budget. (Below, however, we recommend the Legislature delete one new project proposed in the Governor's budget and reduce the scope of another.)

Figure 7**Status of CSU Capital Projects
If the 2008 Bond Proposal Is Not Approved***(Dollars in Millions)*

	Governor's Budget	LAO Proposal
Projects with sufficient funds for completion	2	12
New projects started in 2008-09	4	1
Total projects without funding for completion	18	6
Total Cost to Complete Projects	\$398	\$247

**Authorized Amount of the 2008 Bond Should Match State's
Commitments**

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

If it were to approve all of the projects in the proposed budget (whether under the Governor's proposal or the LAO proposal), the Legislature would commit to over \$692 million in spending from the 2008 bond to finish CSU projects—\$315 million in 2008-09 and approximately \$377 million in subsequent years. (This amount is greater than that shown in Figure 7 because it includes new projects that would begin with funding from the 2008 bond.) The Governor's proposal for the 2008 bond would provide sufficient funds to cover these projects. However, if the Legislature elects to authorize a different amount to CSU in a 2008 bond, we recommend it include sufficient money to cover the future funding requirement for CSU projects. For example, pending legislation to authorize a 2008 education bond (AB 100, Mullin) allocates \$690 million to CSU, which would almost cover the projects in the 2008-09 budget proposal. The Legislature would need to consider an even higher amount if it wishes to commit 2008 bond funds to new projects in subsequent years.

Sacramento: Science II, Phase 2

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

The budget proposes \$4.8 million in bond funds for preparation of preliminary plans and working drawings for an 81,490 assignable square foot (asf) science complex. This facility would replace Brighton Hall and Humboldt Hall, which would be demolished in a later capital outlay project. It would also allow the biological sciences and chemistry departments to relocate from Sequoia Hall to more modern laboratory space in the new science complex. The project would also include a science museum and 100-seat planetarium. An estimated \$87.6 million of state bond funds would be required to complete construction of the project.

Although we agree that the existing buildings are in need of replacement or renovation, we have concerns that this project would add unneeded capacity to Sacramento's campus and that certain project elements are not justified in comparison to the segment's capital outlay priorities. Rather than increase instructional space and include the museum and planetarium, we recommend the Legislature direct CSU to reduce the scope of the project so that the science complex only replaces the space removed by the demolition and renovation of the three vacated buildings. This reduction in scope would reduce budget-year spending on the project by \$490,000 and spending in subsequent years by \$6.1 million.

Increase in Laboratory Space Unjustified. Replacing the existing buildings with the proposed science complex would create additional laboratory capacity for the campus. Additional capacity at the campus is not justified since facilities are currently underutilized in the summer. The campus reports it only enrolls about 1,400 FTE students in the summer compared with over 23,000 FTE students in the fall term. If campus instructional facilities were utilized year round, several thousand more students could be accommodated without the need to expand physical capacity.

Museum and Planetarium Are Not a Programmatic Priority. In view of other statewide needs in higher education, we question the expenditure of limited bond funds on the museum and planetarium. These two portions of the project are not critical to the program of the university, and would not be a priority if they were not included with the replacement of instructional space in this project. We also have concerns with the process

in which these elements were added to the project. In the university's most recent five-year capital plan, the museum and planetarium were identified as a separate Space Science/Natural History Museum to be funded by donors. Unable to raise the private funding and facing a federal grant deadline for the planetarium equipment, the university reduced the project's scope and incorporated it into the science complex. Inclusion in an instructional building effectively allowed the museum and planetarium to move ahead of other capital outlay projects that—if compared to a separate facility encompassing only a museum and planetarium—would have received higher priority.

Chico: Taylor II Replacement Building

We recommend the Legislature delete \$2.6 million for preparation of preliminary plans and working drawings for a replacement facility to accommodate the College of Humanities and Fine Arts at the Chico campus because the increase in instructional capacity is not justified due to the underutilization of facilities during the summer term. Estimated future state cost to complete the project is \$52.2 million. (Delete \$2,637,000 from Item 6610-301-6074 [5].)

The budget proposes \$2.6 million in bond funds for the preparation of preliminary plans and working drawings for a replacement building to the 42-year-old Taylor Hall. Taylor Hall's mechanical systems are obsolete and the building requires renovations to meet current instructional requirements. Both Taylor Hall and the temporary Yuba Hall would be demolished and replaced with the 67,000 asf Taylor II Replacement Building. The replacement building would include lecture classrooms, instructional laboratories, and faculty and administrative offices for the College of Humanities and Fine Arts. It would also include a new recital hall, dance studio, recording studio, and art gallery.

Although we agree with the need to replace Taylor Hall due to its physical condition, we have concerns about the size of the replacement building. Currently Taylor Hall and Yuba Hall (the two buildings being demolished) total approximately 26,000 asf, while the replacement building will be 67,000 asf and add instructional capacity for 751 FTE students. The replacement building adds certain programmatic space that may well be justified—such as the recital hall and dance studios. As shown in Figure 8 (see next page), however, the replacement building still adds significant capacity above what is being replaced. Such additional capacity is not justified at Chico's campus since facilities are not being used in the summer. The campus reports it only enrolls 330 FTE students in the summer compared with over 15,025 FTE students in the fall term. If campus instructional facilities were utilized year round, several thousand more

students could be accommodated without the need to expand physical capacity. Since removing the excess capacity would significantly reduce the scope of the project, we recommend the Legislature reject the current proposal and direct CSU to return with a project of a smaller scope that matches CSU Chico's needs.

Figure 8	
Excess Space in Proposed Taylor II Replacement Building	
<i>(Assignable Square Feet)</i>	
Proposed Space	67,000
Space demolished (Taylor Hall and Yuba Hall)	-25,897
Additional programmatic space (recital hall, studios, and galleries)	-17,300
Excess Space of Proposal	23,803

