

**PRESIDENT'S BUDGET ADVISORY COMMITTEE  
MINUTES  
May 24, 2007**

**MEMBERS PRESENT:**

Larry Furukawa-Schlereth	CFO, Vice-President for Administration and Finance, Co-Chair
Eduardo Ochoa	Provost, CAO, Vice-President for Academic Affairs, Co-Chair
Elaine McDonald	Chair of the Faculty, Math Department
Tim Wandling	Chair Elect of the Faculty, Chair, English Department
Elizabeth Stanny	Past Chair of the Faculty, Business Administration
Elaine Leeder	Dean, Social Sciences, AABAC Representative
Katharyn Crabbe	Vice-President for Student Affairs and Enrollment Management
Janice Peterson	Senior Director for University Budget, A&F, CRC Representative
Bucky Peterson	Vice-President for Development
Henry Amaral	Staff Representative, Facilities
Andy Merrifield	CFA Representative
John Kramer	Professor, Political Science Department
Sam Scalise	Chief Information Officer, Administration and Finance
Whitney Diver	President, Associated Students
Tristan Kelley	Vice-President for Finance, Associated Students

**STAFF PRESENT:**

Ian Hannah	Administrative Project Manager, Administration and Finance
Bill Ingels	University Treasurer
Katie Pierce	Associate Vice-President for Academic Resources

**MEMBERS ABSENT:**

Dan Condon	Vice-President, University Affairs
Letitia Coate	Associate Vice-President for Administration and Finance

**GUESTS PRESENT:**

Brian Orr	Senior Accountant, Financial Services, Administration and Finance
Kathy Mahler	Budget Manager, Administration and Finance
Laura Lupei	Administrative Project Manager, Administration and Finance
Scott Miller	Director, Writing Center
Art Warmoth	Professor, Psychology Department
Robert Girling	Professor, Business Administration Department, APC Representative

**AGENDA**

- I: CALL TO ORDER AND APPROVAL OF THE AGENDA
- II: APPROVAL OF THE MINUTES (April 17, 2007 & May 3, 2007)
- III: AUDITED FINANCIAL STATEMENTS (continued)
- IV: PROJECTED ENDOWMENT EARNINGS DISTRIBUTION
- V: REVIEW OF CAMPUS RESERVE
- VI: REVISED CSU MARGINAL COST FORMULA CALCULATION
- VII: ANALYSIS OF THE MAY REVISION
- VIII: 2007-2008 GENERAL FUND BUDGET ADVICE FOR THE PRESIDENT
- IX: SUMMER MEETING

**I: APPROVAL OF THE AGENDA**

(Please see the May 24, 2007 Agenda Packet for this document)

Eduardo Ochoa brought the meeting to order at 8:10am. The agenda was unanimously approved.

**II: APPROVAL OF THE MINUTES: *April 17, 2007 & May 3, 2007***

(Please see the May 24, 2007 Agenda Packet for this document)

The minutes from the April 17<sup>th</sup> and May 3<sup>rd</sup> meetings were unanimously approved.

**III: AUDITED FINANCIAL STATEMENTS (continued)**

(Please see the May 24, 2007 Agenda Packet for this document)

Larry Schlereth described that during the last meeting, Brian Orr provided a presentation on the Statement of Net Assets (similar to a Balance Sheet) for the University. Orr has returned today to present the Statement of Revenues, Expenses, and Change in Net Assets (similar to an Income Statement).

The Statement of Revenues, Expenses, and Change in Net Assets includes the University's revenues and expenses in one column and its four auxiliaries (Student Union, Associated Students, Sonoma State Enterprises, SSU Academic Foundation) in a second column. The figures provided in the presentation represent the University column.

Total revenues of the University equaled \$162.7 Million for 2005/06. This is comprised primarily of \$54.7 M in State appropriations, non-capital, \$29.7 M in grants & contracts, \$27.3 M in student fees, \$20.7 M in State appropriations, capital, \$15.4 M in auxiliary funds (housing & parking) and \$6.9 M in financial aid.

Total expenses equaled \$142.3 Million in 2005/06 and consisted of \$137.4 M in operating expenses and \$4.9 M in non-operating expenses. The \$137.4 M in operating expenses is broken out as follows: \$35.9 M in instruction, \$31.3 M in research and public service, \$9.9 M in academic support, \$10.8 M in student services, \$14.7 M in institutional support, \$12.2 M in operation and maintenance of plant, \$5.1 M in student grants and scholarships, \$10.7 M in auxiliary enterprise expenses, and \$6.9 M in depreciation. The \$4.9 M in non-operating expenses is made up of interest on capital-related debt.

Total 05/06 revenue of \$162.7 M minus expenses of \$142.3 M equaled \$20.4 M. This is equal to the \$20.4 M increase in net assets between 04/05 and 05/06, primarily due to capital state appropriations for various projects. Schlereth added that the main take-away of this presentation is that in 05/06 the University had \$20 M in revenue more than expenses, mainly attributed to the GMC Music Faculty Office Building, and thus increasing the University's capital assets.

Elizabeth Stanny requested to see a link between the Financial Statements and the expenditure plan. Stanny also asked if the definition of the Marginal Cost Formula for Academic Affairs is the same as in the GAAP areas (i.e. Instruction, O.E. and Extended

Education). Orr stated that the financial categories are comparable to all institutions which follow GASB (Governmental Accounting Standards Board). Schlereth added that this means all the CSU campuses are comparable in this respect.

McDonald asked what is happening with the interest being earned on the funds being held for the GMC. Schlereth responded that some of the funds designated for the GMC are not earning interest as these funds are bonds issued by the taxpayers and held by the State Treasury. There are also donor funds and System-wide Revenue Bond funds which are being invested in a variety of investment vehicles. The interest associated with these investments goes back into the project and this interest is subject to arbitrage, meaning a tax penalty occurs for any interest earned greater than the interest paid on the debt.

#### **IV: PROJECTED ENDOWMENT EARNINGS DISTRIBUTION**

(Please see the May 24, 2007 Agenda Packet for this document)

Schlereth described that this item is part of the Budget Cycle as it is an important planning component, primarily for the schools to know what to anticipate in endowment distributions. A recommendation of an endowment distribution amount of \$1,028,618 for 2007-08 will be made to the SSUAF Finance Committee, to then be taken to the June SSUAF Board for adoption. It is the commitment of the Foundation to maintain a stable and predictable distribution amount from year to year with adjustments for new contributions. Not all interest earnings are distributed as interest earnings beyond that which is distributed are returned back into the endowment in order to maintain intergenerational equity and build up reserves to utilize during years with low or negative return. Stanny asked what was the current rate being returned. Schlereth responded that it is about four percent but the Investment Policy of the Foundation does not base the distribution off of a percentage. Instead, it is the policy of the Foundation to distribute a dollar amount equal to or greater than the previous year's distribution.

Andy Merrifield mentioned that there is some substantial variation to the distribution amounts to the various schools and asked for clarification as to the reason the variations exist. Schlereth responded that it depends on the gift as the donors typically restrict the gift to a particular purpose. McDonald asked why the increase between the 04/05 and 05/06 distribution was so large. Schlereth responded that this was a result of a rebound in the markets combined with more effective management of the portfolio with the adoption of the Commonfund as the Foundation's investment advisor and manager. Ochoa added that the above stated distribution policy had not yet been adopted and the financial markets were coming off of a period of negative growth.

Schlereth added that the amount going to the School of Business and Economics will be substantially increased when the pledged \$5M gift from an anonymous donor is received. Robert Girling asked for further information as to when this amount will be represented as part of the endowment distribution to the School of Business and Economics. Bucky Peterson responded that the gift will be coming in over a three to five year period. However, the donor also offered a gift of \$50,000 in lieu of the interest earnings.

Schlereth added that this is an important item to watch in the future because this is strategy the President has planed to address SSU's structural deficit relating back to the Orange Book formulas prior to 1994. Ochoa mentioned that one issue with relying on restricted Endowment funds is that there is not equal distribution among the schools. A way to compensate for this imbalance is to develop an annual fund that would then generate funds that would be largely unrestricted. With the expanded capacity in the Development office, a plan has been developed to launch the annual fund, targeting alumni and other friends of the institution with annual funds. This annual fund will help support the institution as a whole and reflect institutional priorities of SSU, as opposed to donor preferences. He added that President Armiñana does not accept gifts with restrictions that are incompatible with the mission of the University. Schlereth mentioned that in the coming year, the deans will be asked to demonstrate how the endowment funds were used in their particular schools for the interest of the campus and the donors.

Stanny asked for clarification on the distributions to the General Endowment. Bill Ingels responded, stating that some endowments have a stipulation to have the distribution be put back into that particular endowment in order to grow until reaching a specific amount. Peterson added that Jim Meyer has recently been doing internal audits, using his background and historical knowledge of the endowment funds to be sure the monies are being distributed in accordance with the endowment agreements.

Merrifield asked, as the annual fund monies grow to be a meaningful amount, how would these monies be allocated. Schlereth responded that for the funds that would be unrestricted, advice would be provided by the PBAC to the Foundation Board.

#### **V: REVIEW OF CAMPUS RESERVE**

(Please see the May 24, 2007 Agenda Packet for this document)

Schlereth described that the status of the reserve is brought to the PBAC at the end of the semester. There are a couple of changes from the last time it was brought forth in February. The first item being a reduction in the expenses related to the VP for Development search, from \$50,000 to \$15,000. The moving expenses for this item have not yet been recorded so they will hit the reserve in the next fiscal year. The other change includes covering the cost of the collective bargaining settlements in excess of budget for this year with one time monies. The CIHS disallowance will no longer be on the reserve as it will be financed differently, over many years. The total amount that will need to be financed is still being determined but it will be no less than \$1.7 M.

#### **VI: REVISED CSU MARGINAL COST FORMULA CALCULATION**

Schlereth had received a request to speak about the Marginal Cost Formula. He described two new changes. The first change being that the CSU is now incorporating in the MCF (after consultation with the Department of Finance) a component for Plant Operations. This has altered the percentages in the formula. The second change being that the Department of Finance has increased the formula by a particular amount of money

and then the CSU will decrease that formula to fund facilities and plant operations costs associated with new space on the campuses.

Tim Wandling requested to have detail on the MCF to be placed in the Expenditure Plan every year. Schlereth agreed to do so.

## **VII: ANALYSIS OF THE MAY REVISION**

(Please see the May 24, 2007 Agenda Packet for this document)

Schlereth provided in the packet a letter which he had received from Richard West regarding the May Revise, 2007/08 CSU Budget. There is not much change to the May revision. There is more money for Nursing but this will not affect SSU's numbers as money for nursing was not requested on our campus. The CSU's request for enrollment growth money and additional compensation above the compact was not granted. \$7M in Outreach and Academic preparation programs, which was taken away in the January budget, was not restored in the May revision (although there is a possibility it may still be restored). Overall, aside from the fact that the Compact for the CSU budget was fully funded, it was not a very good May revision for the CSU.

## **VIII: 2007-2008 GENERAL FUND BUDGET ADVICE FOR THE PRESIDENT**

(Please see the May 24, 2007 Agenda Packet for this document)

Schlereth described that a particular model has not been put forth for review. The idea would be to talk about some of the issues that are currently confronting the campus and to get some collective views of how we might address them. The Governor should sign the final budget in July at which time a specific list of recommendations should be finalized by the PBAC to provide to the President. A sheet was provided which presents the enrollment growth funds to SSU for 2007/08 as well as the identified various CSU mandates, unavoidable items and presidential priorities for the campus. SSU has a requirement to increase enrollment by 344 FTES in 2007/08, which will provide \$3,063,000 in growth funds via the MCF (at \$8,903 per FTES). From this growth money, there exist items to be funded related to CSU mandates, unavoidable items, and presidential priorities.

### *CSU Mandates*

Schlereth stated that have a legal agreement to fund the compensation and health benefits shortfall associated with the Collective Bargaining Agreements across all of the bargaining units which received increases. This equates to a cost of \$853,000. It is also likely that the CSU will require EOP Outreach even if the \$7M funding to the CSU from the State is not received. SSU's portion of this amount would be \$160,200. Ochoa and Schlereth attended a budget forum held by Chancellor Reed. Here it was emphasized that the Trustees were concerned and interested in the following items: maintain an on-going viable concern for the institutional integrity of the campuses, adhere to legal restrictions on campus funds, maintenance and enhancement of campus safety, and safeguard the physical assets of the campus. The costs of these items have not yet been determined.

### *Unavoidable Items*

The unavoidable items are a little more unique to our campus. Increased utility costs in the amount of \$100,000 (General Fund portion), are mostly related to increased sewage fees in the city of Rohnert Park and is not related to the sewage capacity issue currently facing the campus. The self-support entities are also paying their fair share of these cost increases. There will be some post retirement health care benefits costs in grants and contracts. Schlereth mentioned that this amount has not yet been determined and we are currently in negotiations with the CSU in an attempt to mitigate the dollar value of this item. Ochoa added that Faculty Subcommittee on Sponsored Programs (FSSP) has been meeting to develop a set of recommendations. The amount related to the debt service associated with CIHS is also still being determined.

### *Presidential Priorities*

President Armiñana is committed to making allocations of \$200,000 to the area of Faculty Development every year for the next five years, raising the budget by \$1 M for Faculty Development. Armiñana had initially planned for similar allocations for Instructional Technology but it now seems that a substantial amount of money has been placed in the Compact revenue at the CSU system level for Academic Technology funding. The commitment remains for Instructional technology but should these monies be available from the CSU system as apposed to campus growth money, it may prove a more effective strategy. Armiñana also remains committed to the no lay-off of any permanent SSU employee. In addition, a previous recommendation to fund the Contributor Relations module for Development has since been removed. The Development office will have to resolve the issue of finding an alternative system to the one currently being used through a different method.

Scott Miller expressed that the sewage issue looks to be a long term concern for the campus and requested further details. Schlereth responded that in addition to the increased costs of sewage, there is a second issue in regards to capacity. The housing program is paying for this issue by regulating their sewage with a more even flow over a seven day week instead of a four day week in order for the flows to be more manageable. The third issue will affect us in the future as we begin the Professional Schools Building, should funding be received for this. Following a City of Marina case, the State must now pay for any impacts that it causes to the community. Being that this will be a new cost, the intent will be to build it into the capital structure.

Girling mentioned that advice provided by this committee has limited impact if it is only looking at enrollment growth funds. Does the PBAC also look at larger pool of expenses of the university? Schlereth responded that of the \$162.7 M in revenues described in the earlier presentation, this committee looks at the \$54.7 M in General Fund State Appropriations and the \$27.3 M in Student Fees, which makes up the University's General Fund State appropriation. The vast majority of this money is then in University employee salaries.

Stanny mentioned that there does not really seem to be a barrier between SSE and the University and is would like to know if some of the discretionary funds within SSE could be allocated to the University for other priorities. Schlereth mentioned that each of the Auxiliary Boards (including SSE) have a fiduciary duty to ensure the viability of the

corporation and Ochoa added that faculty members are present on these boards. It would be beneficial for further communication lines to be drawn between these faculty representatives and the greater faculty should items wish to be brought to these boards on behalf of faculty members.

Wandling expressed the need to complete the University's strategic planning process so that a link can be made to the decisions made in the PBAC. Girling expressed concern with funding the compensation costs above compact revenue with growth funds, instead of using this money for growth. Schlereth stated that he is a big proponent of using the growth funding for growth related issues and that he believes the University should focus on funding the growth and repairing the base. The base was reduced by about \$6 M in 03/04 and 04/05.

McDonald and Stanny motioned that they would like to make a recommendation that the PBAC ask the SSE Board of Directors to use any discretionary funds that they have available to support the University's mission, specifically teaching and learning in order to make it possible for us to use growth money for growth and fund University-wide priorities as detailed in the packet. Merrifield spoke in favor of the motion, stating that this would not be unique as there were times in the past when SSE did provide funds to Academic Affairs. Discussion ensued regarding more specifically where this money would best be allocated and the significance of providing permanent as opposed to one time funding. Schlereth mentioned that this money should be allocated to the President and then this committee would advise the President of where they wish to see the money disbursed. Schlereth added that he would inform the President of the discussion at the PBAC to provide some sort of allocation for an auxiliary organization, particularly SSE to support other initiatives.

Ochoa mentioned that the university wide priorities should come off the top of the growth monies. Kramer requested to have another line item to be funded with growth money relating to hiring the number of professors necessary for the targeted growth in 344 FTES we will be receiving in order to maintain and lower our current SFR. Katharyn Crabbe added that she is worried about the increased cost of accommodations for students with disabilities and the impact of post-retirement health care costs combined with the increased costs of transportation on the Athletics program. Schlereth will gather the expressed advice and develop a formal proposal for the summer PBAC meeting.

Merrifield suggested that it would be beneficial for the President to attend the PBAC meetings. It would be helpful for the President to listen to recommendations from the committee in order to explain and discuss them. Schlereth responded that there was a time, years ago, when it was decided by the PBAC members that his presence on the committee was not in fact helpful for having free flowing conversations. Schlereth added that it might be helpful if the President could attend from time to time. Ochoa added that the President's involvement in the strategic planning process and the UPSC has been very helpful and useful.

## **IX: SUMMER MEETING**

Schlereth described that the summer PBAC meeting is currently scheduled for July 26<sup>th</sup> but this date may change depending on the finalization of the Governor's budget.

Ochoa adjourned the meeting at 10:00 a.m.

*Minutes prepared by Ian Hannah.*