

**PRESIDENT'S BUDGET ADVISORY COMMITTEE
MINUTES
April 24, 2008**

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
Scott Miller	Chair-Elect of the Faculty, Director, Writing Center
Elaine McDonald-Newman	Immediate Past Chair of the Faculty, Math Department
Janice Peterson	Senior Director for University Budget, A&F, CRC Representative
Dan Condron	Vice-President for University Affairs
Patricia McNeill	Vice-President for Development
Sam Scalise	Chief Information Officer, Administration and Finance
Letitia Coate	Associate Vice-President for Administration and Finance
Henry Amaral	Staff Representative, Facilities
Tim Wandling	Chair of the Faculty, Chair, English Department
Elaine Leeder	Dean, Social Sciences, AABAC Representative
John Kramer	Faculty Representative at Large, Political Science Department
Andy Merrifield	CFA Representative, Political Science Department
Tristan Kelley	Vice-President for Finance, Associated Students

STAFF PRESENT:

Katie Pierce	Associate Vice-President for Academic Resources, Academic Affairs
Bill Ingels	University Treasurer, Administration and Finance
Ian Hannah	Management Trainee – Administrative Services and Foundation Operations, Administration and Finance

GUESTS PRESENT:

Robert Rosen	Business Manager, Extended Education
Laura Lupei	Management Trainee – Budget, Administration and Finance
Brian Orr	Senior Accountant, Financial Services, Administration and Finance
David Crozier	Senior Accountant, Financial Services, Administration and Finance

MEMBERS ABSENT:

Matthew Lopez-Phillips	Interim Vice-President for Student Affairs & Enrollment Management
Whitney Diver	President, Associated Students

AGENDA

- I: CALL TO ORDER AND APPROVAL OF THE AGENDA
- II: APPROVAL OF THE MINUTES (February 21, 2008)
- III: PROJECTED ENDOWMENT EARNINGS DISTRIBUTION
- IV: PROJECTED EXTENDED EDUCATION EARNINGS DISTRIBUTION
- V: REPAIRING THE BASE INITIATIVE – UPDATE
- VI(a): ALLIANCE FOR THE CSU UPDATE
- VI(b): CAMPUS FORUMS – BUDGET
- VII: PRIOR YEAR EXTERNAL AUDIT

I: APPROVAL OF THE AGENDA

(Please see the April 24, 2008 Agenda Packet for this document)

Eduardo Ochoa brought the meeting to order at 8:10 am. A proposed amendment was made by Larry Schlereth to add an additional agenda item related to an update on the Alliance for the CSU. The agenda passed unanimously as amended.

II: APPROVAL OF THE MINUTES: February 21, 2008

(Please see the April 24, 2008 Agenda Packet for this document)

The minutes from the February 21st meeting were unanimously approved.

III: PROJECTED ENDOWMENT EARNINGS DISTRIBUTION

(Please see the April 24, 2008 Agenda Packet for this document)

Schlereth explained that the projected pooled endowment earnings distribution for 08/09 has been provided in order to allow the various Schools and Divisions to help plan their budgets for the upcoming fiscal year. The SSU Academic Foundation (SSUAF) Finance Committee has reviewed this item and will look to make a formal recommendation to the SSUAF Board of Directors in June.

Schlereth then turned to Ian Hannah to provide some background on the endowment and the upcoming distribution. Hannah informed the committee that the total SSUAF endowment has increased from \$18 M on 6/30/03 to \$37.4 M on 6/30/07, as a result of new contributions and investment performance. The vast majority of these funds (approximately \$32 M) is pooled and invested per asset allocation guidelines outlined in the SSUAF Investment Policy. As of 6/30/07, SSU ranks 7th among all 23 CSU campuses in endowment size. Additionally, due to SSU's comparatively smaller student population, it ranks 3rd in endowment dollars per FTES.

By the end of 05/06, the Foundation completed transitioning its endowment investments to its new primary investment manager and advisor, the Commonfund. A combination of this transition and an effective investment policy has allowed the SSUAF to achieve above average investment performance in recent years, when compared to the returns of other CSU campuses. A return of 18.5% on its pooled endowment in 07/08 was the highest return of all CSU campuses and outperformed the median one year return of 15.3%.

The current distribution policy of the SSUAF pooled endowment provides for a distribution amount equal to or greater than the previous year, which allows for predictability and reliability as opposed to fluctuating with the market. The distribution is made at the beginning of the fiscal year and is adjusted for new contributions as of December 31st.

Hannah also reviewed a document which outlined the 07/08 actual pooled endowment earnings distribution and the projected distribution for 08/09. The 07/08 distribution stood at just over \$1 M and the 08/09 amount is projected to increase to over \$1.1 M. The document provided the number of individual funds supporting each School or Division as well as the primary purpose(s) the funds are to be used for, based on donor intent. As of 12/31/07 the pooled endowment consisted of around 350 individual endowment funds.

Tim Wandling asked if the distribution is likely to decrease in the future due to the economic downturn. Schlereth stated that the SSUAF does not expect to achieve similar returns in the next fiscal year because of the recent substandard performance of the overall market, but the amount to be distributed is still expected to be equal to or greater than the 08/09 distribution. In addition, the SSUAF Finance Committee has established a reserve to shelter during down years. Schlereth also mentioned that in addition to the endowment's current value, SSU has many planned gifts that will add to this endowment total in the future.

Andy Merrifield asked where SSU stands in comparison to other campuses in terms of its endowment distribution percentage. Schlereth responded that SSU is currently somewhat more conservative. McNeill mentioned that the Commonfund has used a 5% distribution of a three year rolling average in their models. Schlereth stated that a similar model was used by the SSUAF in the past but this allowed for reductions in the distribution during down years. As a result, many of the larger campus recipients of the endowment funds expressed interest in moving to a more stable and predictable model. Hannah added that in the last few years the distribution has been between 3.5% and 4.0% of a one year valuation (December 31st market value of the previous year's pooled endowment).

John Kramer asked why it was that the endowment received a rate of return of 18.5% last year but only distributed around 4%. Bill Ingels stated that returns fluctuate from year to year. For example, the one year return as of 3/31/08 is only about 1.5%. However, the projected 20 year median return is around 8 to 9%. Ingels added that this long range projected return is a few percentage points greater than the distribution percent in order to guard against inflation and maintain the real value of the portfolio. This is in an attempt to achieve intergenerational equity.

IV: PROJECTED EXTENDED EDUCATION EARNINGS DISTRIBUTION

(Please see the April 24, 2008 Agenda Packet for this document)

Schlereth announced that Robert Rosen has come to speak about the projected School of Extended Education allocation projections for 08/09. Rosen indicated that this projection reflects a best estimate based on the current performance of existing programs and the expectations of upcoming programs. A total of \$420,065 is projected to be distributed to various collaborators in the Schools or other areas of the campus. Schlereth mentioned that the distribution amount from Extended Education has been similar to this figure for about the last ten years. Ochoa added that this program has the opportunity to grow significantly over the next few years.

Merrifield declared that this distribution from Extended Education is more of a substitute than a supplement in funding operating expenditures in the Schools. He further emphasized that this distribution is not being used to enhance the programs but rather to help them survive by allowing them to afford basic needs and patch General Fund shortfalls. Ochoa noted that this has been true in the CSU for a long time as many departments have relied on this source of funding to support their OE budgets. Elaine Leeder commented that this is also not just related to General Education. Ochoa added that Merrifield's comments lends support to a strategy of centralizing these funds in order to have the distribution of these funds be based more on need rather than on ability to generate revenue. However, this would undercut the incentives, thus creating a difficult balancing act.

V: REPAIRING THE BASE INITIATIVE – UPDATE

As part of process in the repairing the base initiative, Schlereth and Ochoa will next meet with the council of department chairs in each School as well as the standing committees of the Academic Senate and the Associated Student Senate to obtain their perspectives. Schlereth stated that upon conclusion of these meetings, a list could then be developed of the structural base issues throughout the campus. Many strategies should emerge and be considered. Hopefully a consensus could then be developed on the priority of items that should be addressed. Leeder suggested that perhaps this discussion could take place in multiple campus committees as opposed to just the PBAC. Schlereth stated that he would soon like to bring forward a financial plan for 08/09 that includes addressing some of these issues, particularly the crucial issues in desperate need for relief.

Scott Miller asked if Schlereth could explain the general format of these discussions. Schlereth responded that he typically asks the groups to focus on providing one or two areas of change that would most benefit the faculty in that area. Ochoa added that it has been clear that each School has varying needs. Now the added process of involving the Department Chairs will provide a refinement of the needs. Schlereth reminded the committee that these conversations are happening in the context of a very uncertain budget. Much of the ability to address the issues of this initiative will center on the success of the Alliance for the CSU in restoring the cuts.

VI (a): ALLIANCE FOR THE CSU - UPDATE

Schlereth asked Merrifield if he would provide an update related to the efforts of the Alliance for the CSU. Merrifield indicated that the Alliance is composed of individuals from the CSU at large. The group is predicated on the idea that the proposed \$386 M cut to the CSU system is not inevitable and that cutting all areas of the State the same percentage is not necessary. The main argument has been that the CSU is an economic engine for the State. The *23 Campuses, 23 Days* event put on by the Alliance kicked off at SSU on April 14th and a good mix of participants tabled in an effort to help bring people together and get the word out. As part of this event, all 23 campuses had Alliance meetings, each of which was successful in getting the message out to their interior campus communities. SSU has been successful in sending over 1,000 faxes to the Governor from various members throughout the SSU community. Kramer added that tabling for the Alliance was a very eye-opening experience as students participated in waves and expressed real tangible concerns related to the proposed cuts.

Merrifield mentioned that Richard West has been meeting with various employee groups. Also, Chancellor Reed and a number of CSU Trustees have been staying actively involved in the process. Currently about 15,000 Alliance cards have been signed by interested individuals. All of the action taking place has generated some editorial newspaper support and a student driven event in Sacramento also received much media coverage. Merrifield also mentioned that unintended positive consequences have resulted from the Alliance by allowing different constituents of the system to work together on something everyone agrees upon.

Wandling asked if SSU has been more effective in mobilizing than other CSU campuses. Merrifield said yes as SSU has generated lots of participation relative to its size. The CSU system is also far more organized than the University of California or California Community College systems. In addition, CSU has representation at the highest level, as Chancellor Reed is acting as spokesman for the whole Alliance. The argument is being made that higher education is the solution for the budget problems due to the high payback it provides to the State on each dollar invested. Wandling congratulated all those involved in organizing and participating in the campaign.

Merrifield repeated a statement by Richard West, in that even the Compact funding with the CSU is only bare bones and thus this is the first time receiving the Compact funding will be considered a positive level. Ochoa confirmed that the CSU system as a whole was already over-enrolled from the previous year. In addition, campuses are now not allowed to grow their targets for the 08/09 year, which will result in denying greater than 10,000 students in the next fiscal year.

VI (b): CAMPUS FORUMS – BUDGET

Schlereth stated that he provided a Campus Forum presentation on the University Budget on April 11th. He will also be presenting a financial briefing at another Campus Forum on May 19th which is planned to include the impact to SSU of the State's revised May budget for the CSU.

VII: PRIOR YEAR EXTERNAL AUDIT

(Please see the April 24, 2008 Agenda Packet for this document)

Schlereth stated that Brian Orr, Senior Accountant in Financial Services, has come to provide a presentation on the University's Financial Statements. Orr also introduced David Crozier who works closely with him in developing the financials.

Orr noted that the financial statements for our campus were audited externally by KPMG in accordance with Generally Accepted Accounting Principles (GAAP). Orr provided a PowerPoint presentation on the University's Audited Financial Statements as of 6/30/07.

He described that it is the responsibility of KPMG to provide an Independent Auditor's Report of Sonoma State's financials. For 06/07, KPMG's opinion was that the "financial statements present fairly, in all material respects, the financial position of the University and the respective changes in financial position."

For the purpose of this presentation, Orr focused on the Statement of Net Assets (similar to a Balance Sheet) and the Statement of Revenues, Expenses, and Change in Net Assets (similar to an Income Statement). The figures provided in the presentation represent the University and do not reflect the financials of the four campus auxiliaries.

The total assets of the University equaled \$290.4 Million for 06/07. This is comprised of \$195.2 M in capital assets and \$95.3M in current & non-current assets. The \$95.3 M is comprised of \$77.0 M in investments (with SWIFT and SMIF), \$15.9 M in accounts receivable, and \$2.3 M in prepaid expenses & student loans (Perkins) receivables.

Total liabilities equaled \$166.8 M in 06/07, broken out as follows: accounts payable of \$10.0 M, personnel of \$11.7 M, deferred revenue of \$12.8 M, debt of \$123.8 M, and other liabilities of \$8.5 M. Kramer asked what the amount was relating to post retirement health care benefit costs. Schlereth stated that this liability is off the University's books and is now on CalPERS' books. All auxiliaries are obligated to pay for this cost but IRA and Grants & Contracts are no longer responsible after covering these costs for a one year period. Schlereth added that Coate was integral to negotiating this scenario.

The University's \$123.8 M in long term debt obligations is comprised primarily of System-wide Revenue Bonds for Housing, GMC System-wide Revenue Bond (SRB) I, GMC SRB II, Parking, the Recreation Center, and bond anticipation noted for the Tuscany Housing project. Wandling stated that he is less confident of the funding sources related to the GMC SRB II debt obligation. He then asked if rating agencies look at the debt of the individual issuances differently. Schlereth responded that the campus's debt capacity is looked at as a whole and combined with other CSU campuses to receive a bond rating related the entire CSU system.

Orr discussed the Debt Service Coverage Ratios (DSCR) that each CSU campus is measured and monitored against. Per CSU Executive Order (EO) 994, the pledged revenues at the campus level for repayment of SRB debt are to include Housing, Parking, Student Union, Health Center, and Continuing Education funds. The minimum DSCR (Total Net Income / Total Annual Debt Service Payments) for an individual campus is 1.35. As of 6/30/07, SSU had a DSCR of 1.86, well above the minimum requirement under EO 994. Schlereth added that the Chancellor's Office of the CSU would not allow a campus to take on additional debt if it resulted in a campus DSCR of below 1.35. Ochoa added that even at a DSCR of 1.35, this shows there is 35% extra revenue available to utilize. Wandling asked if other revenues are pledged in case one entity is unable to pay their debt obligation. Schlereth responded yes, but there are specific funds pledged, which never includes the General Fund. Each project that has associated debt issuance is presented to the CSU Board of Trustees for approval. Schlereth noted an area of some concern or challenge is Extended Education in light of its re-positioning effort.

Orr provided that in 06/07, net assets were \$123.6 M, an over \$7M increase from the prior year. The \$123.6 M is comprised of capital net assets, net of debt of \$88.2 M, restricted net assets, expendable of \$6.7 M, and unrestricted net assets of \$28.7 M. Schlereth stated that from a GAAP perspective, the \$28.7 M is labeled under the unrestricted net asset category but the State still governs the use of these funds. The majority of these funds are held in Housing, Trust Accounts, Student Union, and Parking. Also a negative \$4.2 M relates to General Fund employee vacation accruals liability. Schlereth pointed out that the campus attempts to maintain a certain level of reserves sufficient to cover the debt. Kramer noted that Housing holds the majority of these assets and asked what they intend to do with this reserve balance. Schlereth indicated that Housing has a number of deferred maintenance projects and Letitia added that they are required to hold one year's worth of debt service payments as a minimum balance. Kramer declared that in the past he recalls some of these funds being used to support instruction. Schlereth responded that resources could be lent from these funds to support instruction but must then be paid back. He added that support can be provided in an indirect way such as with Housing covering the expenses of the Faculty in Residence Program and the International Themed Housing Program.

Orr then continued discussion of the Statement of Revenues, Expenses and Changes in Net Assets (similar to an Income Statement).

Total revenues of the University equaled \$160.5 Million for 06/07. This is comprised primarily of \$59.6 M in State appropriations, non-capital, \$30.2 M in grants & contracts, \$29.1 M in student fees, \$16.9 M in auxiliary funds (housing & parking), and \$7.4 M in financial aid.

Total expenses equaled \$153.1 Million in 06/07 and consisted of \$148.5 M in operating expenses and \$4.6 M in non-operating expenses. The \$148.5 M in operating expenses is broken out as follows: \$41.4 M in instruction, \$35.3 M in public service, \$9.8 M in academic support, \$12.0 M in student services, \$14.4 M in institutional support, \$13.0 M in operation and maintenance of plant, \$5.6 M in student grants and scholarships, \$9.8 M in auxiliary enterprise expenses, and \$7.2 M in depreciation. The \$4.6 M in non-operating expenses is made up of interest on capital-related debt.

VIII: ITEMS FOR THE GOOD OF THE ORDER

No items were reported.

Ochoa adjourned the meeting at 10:05 a.m.

Minutes prepared by Ian Hannah.