

# **PRESIDENT'S BUDGET ADVISORY COMMITTEE**

## **July 30<sup>th</sup>, 2009**

### **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
Dan Condron	Vice-President for University Affairs
Matthew Lopez-Phillips	Interim Vice-President for Student Affairs & Enrollment Management
Patricia McNeill	Vice-President for Development
Elaine Leeder	Dean, School of Social Sciences, AABAC Representative
Susan Moulton	Chair of the Faculty, Art Department
John Wingard	Chair-Elect of the Faculty, Anthropology Department
Nick Curry	Vice-President for Finance, Associated Students
Janice Peterson	Senior Director for University Budget, A&F, CRC Representative
Sam Scalise	Chief Information Officer, Administration and Finance
Andy Merrifield	CFA Representative, Political Science Department
Henry Amaral	Staff Representative, Facilities

### **STAFF PRESENT:**

Bill Ingels	University Treasurer, Administration and Finance
Laura Lupei	Budget Manager, Administration and Finance

### **GUESTS PRESENT:**

Kerry Benefield	Staff Writer, The Press Democrat
Ian Hannah	University Associate Treasurer, Administration and Finance
Kathy Mahler	Lead Budget Manager, Administration and Finance
Mike Ogg	Budget Manager, Administration and Finance
Sandy Ratliff	Administrative Manager, Student Affairs & Enrollment Management

### **MEMBERS ABSENT:**

Ruben Armiñana	President, SSU, Chair
Letitia Coate	Associate Vice-President for Administration and Finance
Heather Hanson	President, Associated Students
John Kramer	Faculty Representative at Large, Political Science Department
Scott Miller	Immediate Past Chair of the Faculty, Director, Writing Center

### **AGENDA**

- I. APPROVAL OF THE MINUTES
- II. BUDGET PLANNING: 2009-2010

### III. BUDGET PLANNING: 2010-2011

#### ***I. APPROVAL OF THE MINUTES: May 28, 2009***

Eduardo Ochoa called the meeting to order at 8:07 am. Ochoa called for a motion to approve the minutes of the May 28<sup>th</sup>, 2009 meeting. Dan Condrón moved; Janice Peterson seconded. The minutes were approved with no objections and one abstention.

#### ***II. BUDGET PLANNING: 2009-2010***

(Please see the July 30<sup>th</sup>, 2009 agenda packet for related documents)

Larry Furukawa-Schlereth welcomed Kerry Benefield, a staff writer from The Press Democrat to the PBAC meeting. Schlereth then told the committee that the California budget has been approved and the budget that was passed didn't significantly change what the CSU system had been planning and what we had been planning for the campus budget cuts. Schlereth provided a PowerPoint presentation outlining the SSU Reduction Plan for 09/10 and 10/11. The reduction for the 09/10 year from our 08/09 budget is about \$15.8M, which equates to about 17% of the 08/09 budget allocation. The reduction plan includes three ways of handling this cut, all driven by the CSU system. First, the Trustees increased student fees by approximately 30% and the student fee increase, less the 1/3 set aside for financial aid, is estimated to provide just over \$5M for our campus. Secondly, the estimated salary reduction from the furlough is \$6,351,000. All bargaining units except for the SETC has agreed to furlough. However, the SETC will have to make up the 9.5% cut which equates to about \$277,000 and this will be removed from the union in vacated positions. Additionally, the furloughs have an impact on campus utilities costs. Schlereth has reported a number of times that he anticipates that the campus utilities budget will be underfunded by about \$200,000 in 09/10. If the campus is able to agree to campus closure dates in the spring and work a 4/10 work week during the summer, the estimate is that we could save about \$200,000. If however, these closures are not agreed to, the campus will need to come up with another \$200,000 for the utilities budget. The third approach to handle the budget cut is associated with the directive from the CO to reduce enrollment by 450 FTES over the next two years. SSU plans to reduce by 378 in 09/10 and the remaining 72 in 10/11. The cost reduction associated with a 378 FTES enrollment decrease in 09/10 is about \$4.4M. This reduction has serious implications for access for students.

The cost reductions associated with the enrollment decrease is to be divided up between the divisions based on the marginal cost formula. Schlereth asked each of the Vice-Presidents to review how the cut would be handled in their division. Condrón explained that for University Affairs, the largest expense area is salaries. In order to make their cut of \$30,794, University Affairs will not replace a vacant position and will cut back on publications. Patricia McNeill explained that Development will meet their

cut of \$52,790 by using roll forward money, salary savings and by cutting back on publications and events.

Ochoa addressed the \$2,870,455 cut to Academic Affairs. The budget for the division is split up about 66% instruction, 22% support staffing, 6% reassigned time and 6% operating expense so the cuts have been allocated amongst these categories based on their percentage of the budget. Susan Moulton asked if the budget allocation was considered before or after the debt service on Stevenson Hall. Schlereth responded that the previous Provost and the Dean of the School of Education at the time, agreed to take out a loan from another fund to remodel the School of Education, so Academic Affairs pays the debt service from their budget allocation. Moulton asked if the Graton Rancheria endowed chair position is subject to furlough and Ochoa replied that it has not been specifically discussed, but since it is budgeted in the General Fund, he believes that it is.

Matthew Lopez-Phillips addressed the Student Affairs and Enrollment Management cut of \$394,165. Several vacant positions have been held open since last year. These total about \$235,000 with benefits and the rest of the cut will be from departmental operating expense, divided up amongst the departments based on their percentage of the budget. Schlereth explained that the Administration and Finance cut of \$1,050,960 will be taken from positions which have been held vacant. These positions, most of which were MPPs, will have the functions either be eliminated or reassigned.

Schlereth reviewed three items which are currently unfunded in the 09/10 year. The President hoped to add \$200,000 a year over five years to create a base for the faculty development program, but with the budget reductions, there is no funding source for this item in 09/10. Elaine Leeder asked if the first year's allocation of \$200,000 is still there and Schlereth replied that it is and will be allocated by Academic Affairs. The campus was attempting to set aside \$320,000 to invest in diversity programs. This seems difficult in this environment but the campus is discussing how to move forward in diversity initiatives without this funding. Lastly, the GIS lab has never been fully funded, but there is currently no funding to solve this historical problem. Schlereth emphasized the importance of these three issues and noted that they would be discussed at the Cabinet retreat the following day.

Schlereth then reviewed the non-operating fund budget issues. Extended Education is in a transitional year due to several factors, including the loss of the summer school. They need some interim financing in order to provide the distribution to the schools that many departments rely heavily upon. Leeder agreed that this distribution is vital to programs within the School of Social Sciences. Schlereth continued to report that Extended Education will be able to make all the distributions for the 08/09 year.

Schlereth then addressed the issue of the 09/10 endowment distribution. Schlereth clarified that this concern has nothing to do with the recent press on the Carinalli loans

because the endowment is not invested in Carinalli loans in any significant way. This concern is related to the endowment pool, which as he has been reporting is currently underwater. In order to make the annual distribution, the Foundation would have to sell undervalued assets. Schlereth has spoken with all of the Deans who rely on this distribution and they have collectively reduced the amount that they need to receive from the distribution in order to get by this year. Schlereth emphasized that student scholarships are not affected in 09/10 since the Foundation distribution is always a year ahead in student scholarship distribution. Schlereth hopes for recovery by 10/11. Merrifield said that it was reported that the Carinalli land is worth less than the loan. Schlereth responded that it is not clear if we sold the land today how much we would earn. Merrifield asked if we did sell it for less than the value of the loan, what would the effect be on the endowment. Schlereth responded that the loan is about 1% of the endowment. The loan was also issued for only half of the original assessed value of the land. The Foundation's strategy is to not sell anything that is undervalued. Ochoa said that it has also been reported that over half of the Foundation's assets were invested in personal loans. Schlereth replied that was true in 2003, but it is now a much smaller percentage. The diversification strategy of the Foundation was changed shortly after when he took over as COO of the Foundation in 2005. Ochoa added that these loans performed well over the years. Merrifield replied that there are issues other than performance such as ethics and transparency. Schlereth noted that all meetings of all auxiliary organizations are open to the public and the minutes are posted online. Ochoa explained that a local mortgage company was identifying potential investment opportunities in real estate loans and the mortgage company identified Carinalli as a candidate. Carinalli was not lobbying for loans and he stepped down from the Board prior to the loan decision being made. Schlereth continued to explain that the endowment distribution issue has not been solved and there are expenses that have to be covered, unless the Foundation board can be persuaded to sell assets that are very undervalued.

Schlereth explained that Athletics' participation in the NCAA Division II program requires certain expenditures which the campus has not been able to fund, creating both an operating deficit and a need for funds for Athletic scholarships. Moulton asked what has happened in Athletics since it has been moved to Administration and Finance. Schlereth replied A&F has a larger number of people who have financial experience and skill sets and has been able to redirect staff within the division in order to provide this support.

The final concern is maintaining the debt service coverage ratios in the self support areas. Normally this is not an issue, but as we reduce enrollment, these areas make less revenue. Moulton asked how these programs could contribute to the operating fund to mitigate the budget cuts and Schlereth replied that these areas are also having a budget reduction with reduced fees which will make it difficult for them to contribute to the operating fund. These implications are most serious for the Student Union and Housing funds.

### ***III: BUDGET PLANNING 2010-2011***

(Please see the July 30<sup>th</sup>, 2009 agenda packet for related documents)

Schlereth reviewed the preliminary plan for 2010-11 based on numbers from the CO. The reduction in costs associated with the enrollment reduction of 72 FTES is \$838,136. Additionally, there is another \$3.2M in unallocated reductions on top of the reductions already taken in 09/10. This means that the campus will have a reduction of \$4M in 10/11. This plan assumes that the furloughs will not continue into 10/11 and that the federal stimulus money which was one-time in 09/10 will be covered by the state in 10/11. Schlereth emphasized that much can change before 10/11 but it is likely that it will be an even more difficult year. Now the divisions need to move forward with reducing their expenditures in a consultative and concrete way for 09/10 and start planning for the 10/11 year. Moulton asked if there has been discussion about using the marginal cost formula for the budget cuts. Schlereth replied that when making cuts based on enrollment reductions, the marginal cost formula is used. Next year, the cuts are not all based on enrollment, so a different method will likely be used.

Schlereth adjourned the meeting at 9:49 am.  
Minutes prepared by Laura Lupei.