



University Budget Committee Meeting Minutes

DATE: Monday, February 4, 2019

LOCATION: ADM 560 (NEC Room)

MEMBERS PRESENT: President Les Wong, Co-Chair, VP Phyllis Carter, Co-Chair, Provost Jennifer Summit, VP Luoluo Hong, VP Jason Porth, VP Venesia Thompson, Dean Andrew Harris, Senate Chair Nancy Gerber, Sheldon Axler, Sheldon Gen, Genie Stowers, Jerry Shapiro, Ian Dunham, Singing Chen, AS Grad Rep Elizabeth Gandara, AS President Nathan Jones, Elena Stoian, Maria Martinez, Sutee Sujitparapitaya

Excused Absences: Andrew Ichimura

Guests Present: Megan Dobbyn, Procurement Director, Administration & Finance
Geoffrey Scott, Golden Gate Express newspaper

Committee Staff Present: Connie Tallerico (for Nancy Ganner)

Accompanying PowerPoint presentation for this meeting can be found here:

<http://adminfin.sfsu.edu/sites/default/files/Committees/UBC%20Presentation%20February%204.2019.pdf>

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❖ UBC Co-Chairs called this meeting to order at 10:00 A.M.

### **Agenda topic #1 Welcome and Announcements**

- ❖ **PRESIDENT WONG:** This is the next to the last UBC meeting for me, and VP Carter has a good presentation on where we are with the budget mid-term, so we'll look at that and look at some initiatives coming from the Chancellor's Office (CO). I do want to encourage everyone to attend the community forum tomorrow with the Board of Trustees and the Presidential Search Committee. I believe it's going to be live-streamed, if you can't get away from your desk. I think we have a healthy and robust Presidential Search Committee, and I think the Chancellor has put together a good group but as you would expect, it's a key process that all of you should be engaged in so please take some time tomorrow to tune in or attend it at McKenna.
- ❖ **NANCY GERBER:** Can I add to that announcement? We have a survey that students, staff and faculty worked on, and we encourage you to distribute that to your community in case you can't come to the forum. We're hoping to get the link on the Presidential Search website today.
- ❖ **PHYLLIS CARTER:** Thank you. Any other announcements before we proceed? If not we'll begin.

## Agenda topic #2 Approval of October 9<sup>th</sup> Meeting Minutes

- ❖ **PHYLLIS CARTER:** We'll proceed with the approval of the October 9<sup>th</sup> UBC minutes. Does anyone have any corrections or changes? If none, I'll move to approve.
- ❖ Motion to approve requested, seconded and passed.

## Agenda topic #3 SF State University Fall Financial Review 2018-19

- ❖ **PHYLLIS CARTER:** Our first topic will take a look at our Fall financial review for the 2018-2019 budget. Also, we'll be looking at the CSU budget request that was submitted in November, and the Governor's budget issued January of this year. We'll then move towards our planning for our 2019-2020 budget, then we'll look at our cost efficiencies and operational excellence coming out of the Chancellor's Office and what we're doing on of our campus, then we'll close with an open forum, and then look to our next meeting in May.
- ❖ As you may recall, last year was the first year the CO put out a new directive that each of the campuses have to formally engage in a financial review of their annual budgets. Our Budget office has led that charge and this is our 2<sup>nd</sup> year doing so. It's my understanding that SFSU does 2 – 3 reviews and this is our first review with the first four months of actuals, July - October and using that as the basis for the remaining nine months of the fiscal year to develop a forecast 2018-2019.
- ❖ *(See Slide page4-5):* Moving on to our expense outlook: salary we expect a bit of a negative variance based on the expectations of certain areas using not only carryforwards, but offsets due to cost recovery.
- ❖ Cost recovery is where we have a cost allocation plan that relates to when State General Funds provide services to non-State entities, such as housing and other self-supports. When we changed our model to service level agreements, our costs reduced and as a result, it impacts our way to recover the costs. Salaries: President Wong wanted me to explain why our salary variances are higher and what a negative variance is. This means we are expecting our salary expenses to be higher at the end of the year. One reason is that the University is evolving its budget process; we are moving from an incremental-based budget to an allocation-based budget based on prior year actuals, and this year we're moving towards budget planning. Last year, our hiring may have been higher than in prior years. Cabinets are projecting higher salaries than last year because the '18/19 budget was based on actuals, there was a lower level of staffing. This year we're planning a higher level of staffing which contributes to our salary variance.
- ❖ Operating expenses we expect to overrun at about \$4M with higher levels of spending which our Cabinet areas are expecting, as well as some unbudgeted CO allocations that are not included in our base budget, such as deferred maintenance. Our deferred maintenance comes into our General Fund and then we reallocate it out to the proper funding source, but it is reflected in our actuals for our operating expenses.

- ❖ Utilities we forecast to be right on target, and our risk pool we are expecting to be a little bit higher. We had been forewarned by the CO that we would see a higher level of expenses as it relates to premiums and claims in the first two quarters of the fiscal year. We're expecting that to be about \$700K.
- ❖ Federal and student grant expenses are trending pretty low right now but in consultation with Student Affairs, it will end the year on target. Financial Aid we expect to fully distribute that as well.
- ❖ *(See Slide page 7):* As you can see our state allocations are right on target at about \$68M. Our projection now is that the state allocation will match the budget and our higher ED fees by a positive variance of \$310K.
- ❖ **PRESIDENT WONG:** Does everyone know what a service agreement is? There are a lot of services that in the past we would contract with a vendor independently of the system. What the Chancellor's Office is doing is executing master agreements with them, so that rather than contracting with them on our own, there might be 3-5 vendors statewide that are approved and we go to them for services at a reduced rate, hopefully at a savings to the rate we would have received had we contracted on our own. Supplies, environmental safety, clean-ups, etc. Some of those are done through master agreements as opposed to putting out a bid and hiring them ourselves. It saves time, and often times those master agreements come in at a lower expense rate. For example, a couple of years back the Science Building closed because of contamination, a lot of that was contracted by us individually with a bid clean-up process. This year if something like that happened, we would probably get the same service, probably at a lower cost. So that's what these service agreements are all about.
- ❖ **PHYLLIS CARTER:** Adding to what President Wong said, we're going to have a presentation on what's happening on the level of service agreements and our vendors. This particular level of service agreements are between our self-supports and our State side.
- ❖ **ANDREW HARRIS:** You may have already answered the question I'm going to ask, but can you go back one slide; I can't read what's driving the decline in revenue from other sources?
- ❖ **PHYLLIS CARTER:** It's cost allocation and interest revenue. Cost allocation is because we're changing from cost allocations to service levels, so the revenue we expect to get is lower. The other component is our interest revenue. We had forecasted a higher level of interest revenue from the CO based on our investments, but it's coming in a little lower.
- ❖ **ANDREW HARRIS:** Interest on what?
- ❖ **PHYLLIS CARTER:** Interest on our daily cash balances that the CO invests for us to earn interest on. Cash that comes in from our tuition and fees, state allocations, the CO invests in different investment options in order to - so that you're being a good steward of the resources you're getting and you're not letting the money just sit and wait to be spent. So they invest in that and we get to interest on that. Then the CO gives us an annual allocation of that once a year. Previously they had allocated the amount out about once a quarter, now they're going to once a year allocations to be at the beginning of the fiscal year so we forecast for that in our budget.

- ❖ **ANDREW HARRIS**: Thank you.
- ❖ **PHYLLIS CARTER**: *(See Slide page 8)*: Budget and enrollment projections: The first section is based on the budget projections based on the dollar amount of the original budget for Spring, Summer and Fall and the second column under budget and projections is the projected amount where we expect to end the year.
- ❖ In the note section, which you may not be able to read, is while we are projecting to be a little higher on forecasted FTE, we also have a projected average unit load increase. That means we have more sessions that students are taking, not necessarily generating tuition but we're moving toward meeting those objectives of the Graduation Initiative to offer more sections to our students so they can graduate on time.
- ❖ **JENNIFER SUMMIT**: However that increase, even though it's good news also means they're taking more courses but they're not paying more, so we need to make up for that difference.
- ❖ **PHYLLIS CARTER**: And we make up that difference through the Graduation Initiative which provides the funding to hire more lecturers and faculty to support that initiative.
- ❖ **ANDREW HARRIS**: So does that then mean if we are spending more on more units per student, we're not getting more revenue that way, but the revenue we're getting is coming to us through performance funding.
- ❖ **PHYLLIS CARTER**: Yes, partially.
- ❖ **ANDREW HARRIS**: Does it net out? Are we making as much as we're spending?
- ❖ **PHYLLIS CARTER**: That's a good point. While we're creating more classes, the Graduation Initiative supplements that in the expectation of providing certain funding for certain purposes. Some of that is to hire more faculty to support that class growth, but you also have levels of expense that aren't necessarily supported. The Graduation Initiative serves a couple of different purposes, mostly to support the delivery of the curriculum, advising and other needs that students have but there are costs we aren't recovering in total.
- ❖ **PRESIDENT WONG**: So the answer is no, it doesn't pencil out.
- ❖ **SHELDON AXLER**: I want to point out it's not entirely obvious that the increased number of units per students does not mean more revenue. Suppose it's due to a lot more students taking more than 6 units, when they would have been taking under 6 units before – in those cases, they really are paying more.
- ❖ **PHYLLIS CARTER**: Well, it depends.
- ❖ **SHELDON AXLER**: I'm just saying it's not obvious.
- ❖ **PHYLLIS CARTER**: Yes, it's not obvious.

- ❖ **PHYLLIS CARTER:** I think there's an opportunity for us to do more analysis to determine what those true costs are, in answer to your question, to see where we are incurring a higher level of cost, but at this time we haven't measured that difference.
- ❖ **PRESIDENT WONG:** There is an interesting discussion among the 23 Presidents that as we've done here, enrollment as a total package, including what graduates, what comes in, and what transfers in, and 15 credits vs. the funded 12 point, etc. If you throw all those together, there's an interesting unintended consequence of graduating more students, and that means your revenue base declines. So you have to squeeze other buttons, like more transfers, more First-Time-Freshman (FTF). The Provost and I have been talking a lot. Our prime issue is retention. If we could really grab a hold of retention, then we can start seeing net revenue gain, because every student that leaves obviously takes a FTE cost plus tuition with them, somewhere else. Right now, if you looked at all the pots that link up, it's an interesting discussion by Presidents that the more you graduate - if you don't make up for it somewhere else, then you're losing money, to be quite honest with you all.
- ❖ **GENIE STOWERS:** First of all, I apologize for being late -- I was on a shuttle from Bart and our tire blew out. Whoever handles that unit, I want to commend the staff in that area, as it was handled so efficiently, quickly and safely.
- ❖ **LUOLUO HONG:** Thank you!
- ❖ **GENIE STOWERS:** At one point, we had a discussion here about the different levels of tuition and there was going to be a system wide analysis of perhaps doing tuition on a per-credit basis, not on these two different blocks of tuition. Whatever happened with that? Did the analysis happen? Because it still seems to me to be a way to capture those students who are taking over 6 units is to actually charge by the number of units they're taking.
- ❖ **JAY ORENDORFF:** Can I make a comment on that? That's a really good question. There's only two CSUs that I'm aware of that have State-supported Summer session, and that's SDSU and ourselves. They actually moved to a per unit fee for the Summer session, and we're currently exploring that option as well. We're doing some analysis to see what it would look like here. Not for this summer, but the following summer.
- ❖ **LUOLUO HONG:** I think it would be definitely good to explore, but I think we'll then have to resolve a dilemma we have, which is, part of what the CSU did was to follow some of the national best practices around promoting retention and graduation which is to actually endorse a concept that you can take more credits to graduate sooner, but not pay more. So, if we actually charge by credit that would not be an appropriate message to send to students. I'm not saying we shouldn't do it -- I'm saying we can't be in conflict with what we're saying to students. On the one hand, that's what we're saying now, and then I think the most important part of that analysis is that it could result in an increase to the cost of education to students, which then could have an unintended consequence of reducing access.
- ❖ I think that would be the core of the study, is that charging more might actually get you less revenue. We just don't know where the sweet spot is, and I'm sure the students in the room can speak to that better

than me. I just think we have to be careful about thinking about just recouping the costs because it could actually reduce our retention.

- ❖ **PRESIDENT WONG:** I think that's is a good summary of where the Chancellor and Presidents are as well. The commitment was affordable access to the University so they have looked at a per-credit model and I think it's still underway in trying to do analysis, but when your end product goal is not to increase attendance costs to students, it answers a lot of questions about per-credit stuff.
- ❖ **PHYLLIS CARTER:** In a few minutes, you'll hear a presentation on cost efficiencies and operational excellence, which is the other element of this equation. If revenue is not going to grow, then how do we manage cost? There are some initiatives that are taking place to help us direct our focus towards improving how we manage the resources that we have, given the level of revenue that we have.
- ❖ *(See Slide page 9):* Moving on to expenses and net activity, some of the reasons for the expected increase in salaries. A lot of that has to do with unbudgeted costs such as CO allocations that come to us by way of State Allocations. We received about \$3.9M in variances and about \$2M of that is deferred maintenance that comes from the Chancellor's Office that was not in the revised budget but was included in the projection. Mandatory costs we expect to be lower by about \$1.9M mostly due to our utilities coming in with a positive variance our costs recovery is going to be a little lower, but this is all going to offset against our risk pool being higher and benefits being slightly flat.
- ❖ **PRESIDENT WONG:** Are people aware of the aspects of risk pool and why it's so high? Lawsuits that are settled. San Francisco historically has always lead the CSU in lawsuits filed and settlements claimed and it's been particularly tough when your enrollment is down as we have seen for two or three years so that is becoming a campus-based cost for us.
- ❖ **PHYLLIS CARTER:** At President Wong's encouragement, we've undertaken two different initiatives. One, a task force to look at the drivers for those claims to be so high, and thanks to Jay's team under Michael Beatty, and my unit that looks at quality assurance and process improvements, we've evaluated and identified some opportunities to address reducing those claims this year so we can hopefully see a turnaround. The challenge with the risk pool is that the claim history remains with us for three years and it carries forward, so unfortunately, our costs will go up in the short terms but we hope to turn that around beyond that as we implement some of those improvements in how we deal with those risk issues.
- ❖ **JERRY SHAPIRO:** Are there faculty on that committee?
- ❖ **PHYLLIS CARTER:** I don't know the composition of that committee – Jay, do you recall?
- ❖ **JAY ORENDORFF:** I think we have faculty representation, and we have been interviewing people so there has been input from faculty.
- ❖ **JERRY SHAPIRO:** Because a part of that dynamic has been grievances that have gone through the system that haven't been. The finding has taken the matter to outside litigious dynamics so perhaps with some faculty input, especially in terms of mediation and how to internally review -- I think that's one area that can really be addressed. The other question I had is, is there any data on programs on campus who

have the application pool, or the inclination, to want to expand their program? Perhaps even utilizing summer, in consideration of plans to actually generate revenue. So, in addition to dealing with retention, which I can see is a critical area, are their pathways for innovative win-win things where programs grow and are able to demonstrate that they're going to bring in additional seats into classrooms, but also revenue?

- ❖ **JENNIFER SUMMIT:** That's precisely what the Marginal Cost of Instruction (MCI) budget model is meant to do, which is because now the money to the colleges follows the enrollment. That hasn't been the case in the past, and that's why there hasn't been an incentive, but that's precisely what the MCI was developed in order to encourage, as well as just overall course availability.
- ❖ **PRESIDENT WONG:** Jerry, you raise a good point. Chancellor Rocha at City College, his Chief of Staff and Alison and I met last week and a couple of surprises, as it's hard getting data sometimes -- if you look at the transfer-in rate this year, it's like *half* of what it was probably 5 years ago, so the actual transfer-in rate of the community college students is way down. Interestingly enough, enrollment at City College is up, but we're not sure what effect that has on us because Free City is a year, and if you look at the state aid to community college students, then you're looking at two free years of education.
- ❖ I think what the Provost and Deans are trying to do is map out a model and take that into account. City College enrolment is up in double digits, from what we were told. The issue is how do we improve retention but also rebuild the pathway that used to be our strength with transfer students, whether it's ADT (Associate Degree for Transfer), under go-credit transfers, so there's like three major categories of community college transfers. That's the modeling that I'll give the academic team a lot of respect for, because that's one of those fortune-telling globes that has to be better tuned. I think that's one way to going forward here.
- ❖ Chancellor Rocha is really interested in doing something that we talked about years ago; if a student enrolled at City College and did well, they would simply start taking classes from us and not have to register twice, and if the major had space, they could even step into the major. But they're like us; most of their students want to be in Business, Finance, Accounting, and I don't think we have any room in those programs; they're packed. So how do you navigate that balance, especially when you see retention needing to be solved and the transfer occurring at the same time – we should improve that as well.
- ❖ **JERRY SHAPIRO:** I think our four+one program is a wonderful transitional opportunity, especially in terms of professional development programs, where it's not just benefit in terms of seats in a classroom, but in terms of the opportunity structure. Really looking and selling it not just to City College, but other local community colleges programs. Based upon the job market and there are certain areas -- I know social work is one where there is a tremendous demand. I just posted 70 jobs last week for BASW students. Solid salaries. So how do we put together a package where it's articulated where it's win-win, maybe being able to utilize office space off-campus in some community programs who are really interested in utilizing City College and SF State to develop their workforce, because they're finding that they can't import the number of workers they need from outside the Bay Area. How do we internally build that workforce?

- ❖ **PRESIDENT WONG:** You mentioned something that's been a burr in my saddle, and it's that we don't have the space. One of the discussions we had with Chancellor Rocha was, if he could open up a couple of floors at their 4<sup>th</sup> & Mission campus, or their Chinatown campus, to give us capacity to do those very things. Good point; I think there's a transfer study that just came in., right Jennifer?
- ❖ **JENNIFER SUMMIT:** Yes that's right. There is and good point Jerry about offering classes, as the President said, for transfer students onsite so that they can start taking classes toward their degree at SF State, but offering them on the community college campus. We're actually piloting this right now, which you may know, with a couple of programs that are in your college at College of San Mateo. It's a promising model, and not only because the community colleges have much nicer facilities than we do.
- ❖ **MARIA MARTINEZ:** In light of the decline in transfer students, I just wanted to share with everybody an article in the Chronicle (of Higher Ed) this January. It's a very interesting article about transfer students with regards to the UC trend. I think I alluded to it in a previous meeting. The Governor's come down on the UC's for not delivering on their mandate to enroll more transfer students, at least in the Chronicle it talks about UC Riverside and UC Santa Cruz now being asked to expand and reach out widely to transfer students. That would be a real threat to us because now even the community colleges knowing this trend and this mandate from California is now sending their students to the UC's because the message is "you can go to a UC because they have now brought their admission requirements lower". If you have time please read it. <https://www.chronicle.com/article/Inside-the-UC-System-s-New/245216>

#### **Agenda topic #4 CSU Budget Request and Governor's Budget**

- ❖ **PHYLLIS CARTER:** Thank you, everyone, for that great discussion. (*reviewed slides 10-12*)
- ❖ **ELENA STOIAN:** I'm going to present on the CSU budget plan and the response to our budget request from the Governor. (*reviewed slides 13-24*)
- ❖ The 2019-2020 Board of Trustees investment focus is the Graduation Initiative 2025, fair employee compensation, maintaining and expanding our higher education affordability, and repair of our aging structures and infrastructures to provide a safe environment for our students, staff and faculty.
- ❖ California's economy is experiencing slower than average growth, and this trend will continue through 2020. In general, the challenges for a changing economy are stock market levels are off, as we remember we experienced levels of ups/down at the end of 2018. .
- ❖ **ANDREW HARRIS:** Is the state budget forecast based on perspective revenue collection or retrospective? Is it what they expect to get in the next 12 months, or is it what they got in the last 12 months?
- ❖ **ELENA STOIAN:** It's looking forward.



- ❖ Governor Newsom announced his budget plan in January. This slide (page 23) shows the agencies and their budget percentages, again showing the highest expenditure in K-12 education at 41% of his budget, second is Health services at 21%, , and in third place, Higher Education at 12%.
- ❖ **ELENA STOIAN:** In this next slide, we show the request from the Board of Trustees and the Governor's response. It's a little confusing because in the first column, the CSU budget required a 5 % growth in enrollment. However, the Governor came back with a 2% enrollment growth plan, and I think its good news for our campus.
- ❖ **ELENA STOIAN:** This is broken down into one-time or base funds - base meaning "on-going" costs vs. a one-time allocation. \$250M for infrastructure was requested for on-going costs, with an additional \$890M in one-time funds, which is a big part of our campus maintenance, but you can see they didn't adequately fund this, which is interesting because they provided funds for a study for a new campus in Stockton.
- ❖ **GENIE STOWERS:** When is the new Stockton campus supposed to open? That's a shock.
- ❖ **ELENA STOIAN:** I think it's just a proposal.
- ❖ **PHYLLIS CARTER:** It's just a feasibility study.
- ❖ **GENIE STOWERS:** Stockton is just a 20-minute drive from CSU Stanislaus.
- ❖ **PRESIDENT WONG:** We should aware of two pieces that implicate strategy for the system, and for San Francisco State. Number one: in my 7 years, this is the first time the linkage between us and the UC is dramatic. The Governor's proposal for the UC is quite modest, and you would expect a full court press from them to equalize, from now to the May revise. So it's unheard of to unhook us, if you may. The second piece you should know, is in the modern era, this is the largest increase to the CSU ever. I think there is the political question of being strong about our request, but also being grateful. As you know the Chancellor took student tuition increases off the table, and that's just not an issue in 2019/2020, but keep in mind there are two major labor contracts that we will begin negotiating this summer; Faculty, and the CSUEU. Even though it is the largest we've got, it's still a proposal. It's interesting to be grateful and yet still persistent, and I think that's the real fine line that the Presidents and Chancellor are taking right now. I just wanted to mention that because it really was a surprise when Gov. Newsom revealed his proposal, but there's clearly a lot of politics going on between now, and the May revise.
- ❖ **ANDREW HARRIS:** I have a few questions please: first, the May revise is always a chance to get the Governor up, or closer to, our request. Is it a possibility that revenue projections could go down and we can go in the other direction?
- ❖ **PRESIDENT WONG:** I think that it's always a possibility, and I think because the CSU is delivered on the Graduation Initiative and enrollments, I actually optimistic that it will actually stay pretty close to his proposal. You know the politics. There are a lot of social service agencies that will be knocking on the door as well. The UC's, in opening up to transfers, probably will ask for more money, but I actually think the success of the CSU will bode well for us.

- ❖ **ANDREW HARRIS:** My second question is: is there an awareness of whether the strategy will be to press on one-time funds to increase, or on the base, or both, in this gratitude-but-persistence-model? What 'part of the balloon are you looking to inflate'?
- ❖ **PRESIDENT WONG:** I think, and this is from me and not the Chancellor's Office: if you remember at the last UBC, I mentioned that I thought this year's budget was strange, because the one-time dollars were so closely connected to General Fund dollars. I think what's happening now, in the face of a potential recession, there is going to be more of a play with the one-time dollars than the General Fund dollars. My path that I've been working on, Project Rebound and sentencing reform, you might see some increases there, because any time we serve more Project Rebound students, we save the state an enormous amount of money. That's one-time dollars, and this year was interesting because you will see one-time dollars spread over three years, which is really odd.
- ❖ **ELENA STOIAN:** You have to fund enrollment in one-time money, and I don't think it's the best idea.
- ❖ **PRESIDENT WONG:** It's really unusual, because you might get one-time dollars for 5% growth, then 5% enroll but you don't get that money in year 2,3 and 4, so that's an additional expense to us. Assuming the academic people have 100% retention rate. That's what the political process is all about and I do think there's going to be more flex on the one-time side than the General Funds. There is also talk - we got a little hint there might be a General Obligation Bond for construction - that's got to be financed somewhere, so there are a lot of question marks.
- ❖ **SUTEE SUJITPARAPITAYA:** So do we commit to a 2% & growth as a target for next year for California residents, or are they still thinking about it being flat?
- ❖ **PRESIDENT WONG:** For me, for that 2 % growth, if my wish came true, and with my confidence in the academic people, it can be covered by retention. When you think of as 2% growth -- don't think of us going out to get 2% new students: think of us as holding onto 2% more than we did last year. That's more controllable for us; we have our hands on retention, so if we have a boost in 3%-4 % retention, that would be sweet.
- ❖ **SUTEE SUJITPARAPITAYA:** So far, our next year California resident target remains at 24,099 but I heard that since the CSU allowed for 2% growth, officially, we're going to shoot for 24,099 plus 2%. Is that right or does it stay flat for next year?
- ❖ **PRESIDENT WONG:** I think the system is thinking 24,099 *plus* 2%, and that can be challenging.
- ❖ **ELENA STOIAN:** Yes, this is the way we received our 2% allocation.

#### **Agenda topic # 5 SFSU Preliminary Planning and Budget Calendar**

- ❖ **PHYLLIS CARTER:** *(reviewed slides 25-29)* We're looking at multi-year budget planning. As our Provost will tell you, this Fall was the first year that the cohort will be measured toward the Graduation Initiative, and beyond that it's all of the support services and other campus operating expenses

- ❖ We requested from the Cabinets a forecast for three years, but we really have to look at aligning that with their action plans and operational plans that will take place in each of those years, and then looking at what that support would require and the revenue level we should be achieving to cover that cost.
- ❖ Same thing for enrolment. As we just had in the discussion, it's necessarily the enrolment growth, but retention. It might be a different composition of support cost and operational expense to retain those students that we have today, and those scenarios would have to be reflected in the budget.
- ❖ Then we look at how are we managing our costs in general, and some of those efficiencies we talked about at the last UBC meeting. Our challenge as a university, as the rest of the CSU's, is how we measure those cost savings, how do we value them, and how do they flow to the bottom line. We're going to be moving forward this year looking at how to do that.
- ❖ We are also looking at scenario planning within each year, a best, medium and worst case scenario. As Andrew, mentioned if the revenue forecast for the state declined but we prepare our budget at the level that was proposed from the Governor, what do we do? We are recommending we look to multiple cases and multiple budgets scenarios, and then forecasting the staffing and operating expenses. To that level, we've had some significant activity in the pre-planning for the budget, and meeting with the colleges and learning about how they fund their operating expenses. A certain number of them base them on carryforwards, and we want to work toward reducing the dependence on carryforwards and set up the university to start planning towards a reserve-planning process. Where we set a target reserve that we want to achieve at the end of each year.
- ❖ What that means is funding for staffing plans and operating expenses, and setting reserve targets where we're taking a percentage of those reserves and setting it aside contingencies or emergencies; planning for those strategic initiatives where we can fund those unique programs that might happen, and generate more FTEs as well capital.
- ❖ **PRESIDENT WONG:** The UBC can become incredibly instrumental with the new President, and your role in all of the things VP Carter said are true. I do want to emphasize one thing that will require a different level of awareness: it's taken us all of my seven years to get much better clarity of our expenses, assets, carryforwards, etc., but we aren't there yet. We still use a lot of carry forward money for General Fund instructional activity, and I think that's part of the old model where you had 'hoard' money to pay for bills, curriculum and do a lot of programing things as well.
- ❖ As we try to develop some metrics on appropriate levels of reserve and carryforwards, it does take a little different attitude about budget management. I'll pick on Andy because he's right here: For example, LCA is our biggest college and, I'm not saying this true, but perhaps the enrollment in a particular area of LCA goes up, so he will use historically reserve accounts, or one-time dollars, to pay for extra courses or whatever he needs. All of a sudden, those extra courses become institutionalized, and the institution never gives him General Fund dollars so that he can take that reserve money and put it back in reserves. We're not very good at that. With our General Fund dollars going up under Governor Newsom, it requires us to be more systematic about reserve accounts, one-time dollars, etc.

- ❖ When you spend one-time dollars, they're gone, so the whole use of using reserves, for example, to pay for curriculum and ongoing dollars -- that's the correction. We don't know what an appropriate amount of reserve account is for LCA, or Science, or Business, for example.
- ❖ One of my goals as I get ready to depart, is working with finance, some of the Deans and Provost obviously, is trying to get our arms around what is an appropriate reserve account, and how it's managed. Because we've had three decades of using reserves and one-time dollars to pay for General Fund expenses, we've never pulled those back and pay those off again. The next step is to get our arms around the question of reserve accounts and then as you step forward into a new budget area, then you have a much better feel for what you can and can't do, or how do you pay for new courses, etc.
- ❖ That was a small sermon, but it really is a big question. In my former state, we had to identify how many operational days we could fund if the General Fund stopped, much like Wisconsin and Illinois. Right now, we would have no way of knowing that. We would have a guess, but we really don't know how many operational days we could go, if all of a sudden the government shut down and there was no more General Fund or any kind of one-time funds coming from Sacramento. We should be ready for that anyway. Sorry for the sermon, but the UBC becomes critical in that discussion.
- ❖ **PHYLLIS CARTER:** When looking at what the opportunities and challenges are as we move forward to our 2019/2020 budget, one of our goals is to be more integrated in our planning. Working more closely with the Enrollment Management team, as we identify those opportunities in retaining students and how does that become reflected in our revenue projections in next year budget. Then, looking at our General Fund and the composition of the revenue streams: is there opportunity to diversify revenue has been mention early with developing new strategic measures allowing us to offer new and different programs to bring in different levels of revenue.
- ❖ We also need to finalize how we allocate those resources so that we can put more performance and metrics around the investment the university makes in those unique programs or other initiatives, so that we can determine if they're successful or not, and continue to fund them or not.
- ❖ As President Wong so eloquently stated, developing a formal reserve policy that can be embraced by the university and implemented, going forward. There are a few challenges, one of them being the 2%, if mandated, enrollment growth and how we're going to meet that, and then optimizing the right mix of classes and program offerings, student services and administrative support so that we can live within our financial means of the revenue that we earn each year.
- ❖ There is always that looming increasing mandatory cost that may or may not get funded right now. The Governor's proposal shows it as being funded and we're hopeful that's going to be approved by the legislature, in conjunction with the Governor.
- ❖ Then we have looming deferred maintenance and aging campus facilities, which we're slowly making dents in as we bring on new buildings, thanks to our capital planning team. Then of course, its access to financing those capital plans which lends itself back to the need for the reserve policy.

- ❖ There's an expectation from the Chancellor's Office where they're increasing the percentage by which campuses have to contribute toward new buildings. That reserve policy is critically needed now so that we can show we're making the contributions to build a reserve to support our contribution toward future capital projects.
- ❖ **PRESIDENT WONG**: For any new people at the table; if you're a history buff, prior to 2012, the State provided 80% of the building cost and we did 20%. As of today, it is completely reversed: we provide 80% of construction costs, and the State may or may not provide the other 20%. You see a lot more mixed-use projects, like the Holloway building across the street. Andy Harris is raising much-needed, significant portions for the Creative Arts building. For the Master Plan, where we want to build far more housing than we have now, it will come through revenue and system revenue bonds. The whole idea that the State would put up 80% of the cost is antiquated, and I don't think that will ever come back again.
- ❖ **ANDREW HARRIS**: I want to focus on an important word there of "today": the 80/20 under the new LCA building. My understanding was that about 80% of that cost came from the State. My understanding is we only borrowed.
- ❖ **PRESIDENT WONG**: Yes, that's the last building on this campus.
- ❖ **ANDREW HARRIS**: I'm thinking about the Science Dean and the candidates on campus today, and they ask always about buildings. So, buildings going forward, including a potential new Science building, will be 20% State, and 80% campus funds?
- ❖ **PRESIDENT WONG**: No; my gift to the campus, with Jason and his team, was a Science building. We got a Chancellor's Office commitment of funding for about ¾ of it.
- ❖ **JASON PORTH**: \$100M from the State, and we expect another \$50M of that we'll have to come up with as a campus - either from philanthropic, private use, carryforwards, or whatever the case may be. \$50M total would be our responsibility.
- ❖ **PRESIDENT WONG**: The reason I say the rules have changed as of today, is because you do tend to use up your fundraising capacity pretty quickly. Our ability to raise \$100M for any new construction beyond the Science building I think will be minimal, and I feel good about the success Jason's team, our Admin team and the President's office in getting some system commitments now, for the Science building. I'm just not confident that kind of money will be available anymore, but you never know. This GO Bond talk that's going on totally stunned us. Jason, when was the last time there was a GO Bond, prior to my coming?
- ❖ **JASON PORTH**: The Library had some GO Bond support, but nothing since then. It's a very new approach and then of course with any GO Bond, the question is, who covers the debt? What's being talked about for the first time ever is that the State would cover it, and not the system, which would be fantastic, and there are talks right now between the State, the UC and CSU about a GO Bond that would support both systems.

- ❖ **PRESIDENT WONG**: Its one reason why we made a strategic hire this year: to get a corporate real estate person full time on board in Jason's area. Hamid...
- ❖ **JASON PORTH**: Hamid Ghaemmaghami, Executive Director of Real Estate Development
- ❖ **JASON PORTH**: He's been golden, because now we have to start thinking as if we were an independently-aided entity in the San Francisco, Bay Area market, and see what we can do to generate funds to finance buildings and repairs. I probably should say repairs, and then buildings.
- ❖ **SINGING CHEN**: Did the current real estate tax change - would it affect the revenue for the government as well?
- ❖ **PRESIDENT WONG**: We're keeping an eye on that because real estate taxes are major sources of revenue for the State. It's hard for me to worry about it, but every time you hear of companies leaving San Francisco to head to Texas – if you get a lot of those across the State, the revenue picture changes for the Governor.
- ❖ **PHYLLIS CARTER**: The last thing I'd like to share -- we talked a little bit about some of our budget planning for this upcoming year and our top three initiatives, are to implement hiring plans and position management - early position budgeting, so that we can do a better job of managing the salary expense that we have. Any savings that we recognize during the course of the year, we can always reallocate to other more important initiatives as they arise over the year. Position budgeting will help us with that, as well as allowing us to really track what our forecast will be based on our hiring plans.
- ❖ I talked about our reserve policy and the budget request prioritization process. It helps us identify those initiatives in advance of the budget process so that we can plan for them as we develop the budget coming up this year, as opposed to receiving requests during the course of the year and having to find funding. My hope is that we can become an organization that plans for those well in advance and we recognize that in our planning process.
- ❖ A couple of other initiatives that we are going to be working on at President Wong's request, is to really look at those cost allocation plans and the recharge process and how efficient are they and do we need to look at or what's considered a base level of service as we charge costs between departments. For example, Facilities costs: are we charging from base levels of services or what are the unique situations where we charge one department across the General Fund with fees from Facilities. We need to analyze that we actually have our Chancellor's Office Audit Advisory services helping us with that, and they hope to generate a report within the next month or so.
- ❖ The other thing we're looking at, as we try to refine and dig deep into what are the cost drivers for the university: we're looking at the analytical model. The first company we looked at is Grant Thornton, which is a national accounting firm and they developed a model that's being used across the country at several universities including the UC's. They're not the only provider, and we're going to see what will be the best solution for us to help us really forecast down to the program level or the academic degree level

- what are the cost and the revenue drivers. Once we choose, we hope it will help us a great deal managing our costs.
- ❖ (see Slide page 29) This is a new way of presenting information, so we want to get people's feedback. Typically we do a linear timeline but our budget office is being creative and so I'm going to let Elena speak to our budget development timeline.
  - ❖ **ELENA STOIAN:** In the past, we showed one fiscal year to the other fiscal year, and it was very hard to figure out what the planning process was in a PowerPoint, so we thought because it is a cycle, it will be much easier to be represented in a circle.
  - ❖ **PHYLLIS CARTER:** and you can see how they overlap.
  - ❖ **ELENA STOIAN:** This is Governor's timeline in gold, the Chancellor's Office in blue, and SF State in purple. I'd like to highlight February, when we call for the campus budget framework. My office is we encourage the campus units to develop their budget plans, and my office supports every Cabinet with developmental budget plans, which include staffing and positions budgeting as well. This year we are going to add operating expenditures, even though we do not have that line item right now in the base budget, but we're going to build it.
  - ❖ In April we start budget meetings with the Cabinets to understand their plans and centrally support their plans. In June/July we complete the budget meetings with the President, CFO and Cabinet leaders. My office commits to upload the base budget in the system in June, even though the Governor or the CSU may not provide us with the final allocations. We're going to have the adjustments moving forward, but we are committed to June to have base budgets for the Cabinets in the system. In August, as every year, we're mandated to submit all-funds budget transmission to the Chancellor's Office.
  - ❖ **SHELDON GEN:** I liked the cycle a lot more than the linear. Although this just focuses on the planning, the budget cycle is 24 months, not 12. Maybe for the purposes of campus discussion of budget planning is all we're interested in, but that's mainly what we talked about when we did the budget transparency study, but I just wanted to throw that out there.
  - ❖ **ELENA STOIAN:** If you go to our Budget website, we have the timelines, deliverables, expectations and responsibilities so this is to start the conversation on the campus budget framework.  
<http://budget.sfsu.edu/>
  - ❖ **PHYLLIS CARTER:** You raise a good point, Sheldon - not to add another circle, but it might be wise to add the review process: Fall, Spring and mid-year reviews, as an element to the yearly budget process
  - ❖ **ELENA STOIAN:** We have the Capital budget as well, which we keep separate because it adds another level of complexity, as it's a different time table and process.
  - ❖ **JENNIFER SUMMIT:** This isn't a question, but an enthusiastic endorsement: I appreciate so much that in reaching this model, A&F and Academic Affairs have been so collaborative which has been so valuable so the goal of including operating expenses, particularly the budgets for the colleges, it's going to be huge.

It would really help stabilize our planning, and it's going to take a lot of work for us to develop those budget plans, and we're gearing up for that, but I think this is absolutely the way to go, so I just wanted to share appreciation.

- ❖ **ANDREW HARRIS:** One of the first questions I asked after I got the position was 'what an articulated budget page showing the budgets for each of the area', but this only says salaries -- where is the other 5% or 8% or whatever it is? I've been trying to figure out the answer to that ever since I got here, and so thank you for making it easier for us to recruit new Deans.
- ❖ **ELENA STOIAN:** We figured the answer was in the carryforwards but as President Wong and VP Carter mentioned, we want to have it budgeted up front, instead of building it in the carryforward as the year goes on. It's a shift having it up front, rather than reconciling through the year and making sure we have enough funds to support operating expenditures.

### **Agenda Topic #6 Cost Efficiencies and Operational Excellence**

- ❖ **MEGAN DOBBYN:** Good morning, everyone. We're going to be talking about cost efficiencies and business excellence. Starting back in July 2018, the Chancellor's Office and Procurement office decided to go with a new initiative called the 23C Procurement Plan. This was a combination of the Chief Procurement Officers Association (CPOA), and there is one for each campus and the Chancellor's Office.
- ❖ (see slide Page 32) We put together this initiative working collaboratively to come up with a successful plan, and here is our vision for it. The CSU is the largest State-run campus system in the county, so we have a lot of purchasing power behind us. Here is our mission and here are our values. We're changing the actions of procurement; we used to be reactive, and now we're being proactive. We're going out to departments to offer our services on campus and what we could do to help. We have 5 strategic directions:
  - ❖ People: we want to be able to develop, retain and recognize our team. There are over 180 procurement professionals throughout the campuses, and we want to do this by promoting professional development and annual recognition of procurement professionals.
  - ❖ Technology: we want to leverage existing technology to align key business processes.
  - ❖ Collaboration: work as a system towards shared standards and maximized value for all. Procurements as a strategic function and trusted partner and also allies the CSU
  - ❖ Market procurement as a strategic function and trusted partner
  - ❖ Align the CSU and campus procurement structures to impact shared objectives
  - ❖ So what are we doing for SF State? We are coming up with cost efficiency and operation excellence. The Chancellor's Office has given each campus a strategic goal to try to meet for each fiscal year. With this,



we are showing cost savings, not cash in-hand, but this is more as cost-avoidant and cost-containment. This could be through efficiencies, incentives and efficiency gains.

- ❖ As of July 2018, we have almost \$500,000 in cost savings -- cost avoidance, really. We're very excited as a procurement team, working very hard together to come up with these cost containments and avoidance. These are comprised by cost reduction and avoidance incentives and revenues and efficiency gained, and all of the cost savings are vetted through the Chancellor's Office. We have an entire system where we send all the information down to the Chancellor's Office where they vet it, approve it and they pull it up into an overall dashboard, so we're really excited for this new initiative.

### **Agenda Topic #7 Open Forum: Ten minutes, 3 minute limit per speaker**

- ❖ **PHYLLIS CARTER**: Now we have our open forum. We don't have any scheduled speakers, but we welcome any questions you have about the presentations or any other comments.
- ❖ **NANCY GERBER**: Not a question but a comment: is there any way to get this material ahead of time? I couldn't read a vast majority of it, as the font size was very small. In the past we've had files on the Box site, so if that could be done in the future that would be helpful.
- ❖ **PHYLLIS CARTER**: Yes, we will make sure of that. Thank you.
- ❖ **SHELDON AXLER**: Since we have a bit of time, I want to go back to the really good question Genie raised earlier about the possibility of changing the tuition structure, so it's by the course. You said that CSU Presidents are thinking about it. I have taught in a system that used that, and there are some advantages you may not have thought of. In terms of the question of students: yes, we don't want to charge the students more, but you can try and figure out a rate that makes the whole thing revenue-neutral. I don't think that's an issue, but there are some efficiencies that you gain if you move to that system. One is we have a huge W withdrawal rate on this campus. That means students are taking courses twice/three times, and they're taking up seats. They may withdraw 7, 8, 9, 10 weeks into the semester. A lot of students will enroll in one more course than they intend to take, if they don't get the dropped by the 3<sup>rd</sup> week, they will take the W, it's not a big deal as it doesn't count on their GPA.
- ❖ When I taught at a university where you paid by the unit, past a certain point of a week or two, you didn't get a refund, so you didn't see that behavior. There could be a huge efficiency there in terms of students taking their courses more seriously. They might look at it this way; "I paid for this so I really should pass it", rather than just fluff it off and try to take it again. I know there are disadvantages to this also, but I see that as serious advantage in student behavior.
- ❖ **PHYLLIS CARTER**: Thank you. Anyone else?
- ❖ **ANDREW HARRIS**: I can't speak to that issue, but I can see another version that we might consider, is changing the tuition cost where the demand is less elastic and where the cost of instruction is higher. For example, I have one really expensive program: Design. The demand is high, and the cost of growing that

program is probably to build another lab. There are facilities costs, and then you open it to the whole world of health sciences disciplines that have simulators, and all the different expenses there. Where the demand is high, there might be less possibility of revenue declining if you add a surcharge, where the actual cost of the program is higher. That's a different way of approaching this issue that don't quite threaten the retention goals of the system in the same way. Programs that are expensive; you charge more for engineering.

- ❖ **LUOLUO HONG:** "differential tuition"
- ❖ **ANDREW HARRIS:** Yes that's it. There are programs that have higher costs
- ❖ **PRESIDENT WONG:** Let me share with you that it's already being discussed at the President's Council. As Presidents, we aren't even sure how much autonomy we have to set tuition models at our own campus. It's like the problem of the cost of living; there is no cost of living in the system but yet, certainly it's more expensive here than in Stockton, so the notion of differential tuition, and charging models -- part of what drove the CSU to so fee-dependent was campuses had more control over the fees, but not the tuitions. The difference between us and SLO, for example, my guess is probably about \$2,000 - \$3,000 per semester more to go to SLO than here, because of the fee charges. That's a wild guess - I don't know if I'm accurate. The differential between SLO and SF - the reason I picked SLO is because of the student fees. They are the highest, and we are the lowest, and the tuition is the same. To be honest with you, I'm not really sure how much authority a campus to mess with the tuition model.
- ❖ **ANDREW HARRIS:** But it wouldn't matter to the campus whether you called it a tuition dollar, or a fee dollar.
- ❖ **PRESIDENT WONG:** That's correct, yes.
- ❖ **LUOLUO HONG:** We are, right now by impact, somewhat charging a differential cost of education and that is through the Category III miscellaneous course fees. I'll be honest, after reviewing them for 5 years, they're clustered in certain areas. You named some of the areas where we are more likely to get those to offset the operational cost of delivering that in a particular major. The problem with the fee model is it doesn't come out in calculating the cost of attendance for the student, so when Maria's folks package financial aid, that doesn't get counted -- only the mandatory fees get counted. So there's a cost that is literally unfunded.
- ❖ My concern is if you think about the students whom we serve, and/or wish to serve, and even Jerry's earlier comment about how we make sure there is a pipeline into high-demand areas: my concern is that differential cost levels for different majors will have the unintended consequence of diminishing access for some students who we have stated we have a commitment for increasing participation. For example, the Sciences - that would be an area that's higher cost, if we charge a higher tuition or assess more fees.
- ❖ Do we then actually end up decreasing access to some of our students who would most benefit from being able to get a degree in Science? My personal feeling, from a student services perspective, is that

we figure out how to better allocate costs, so that the cost of doing business follows the costs of running it.

- ❖ If a major cost more, like Design, then we allocate the funding operationally and instructionally, to make sure that we make deliver that major, but not create differential access at the student level, because I think it will exacerbate the have-and have-nots, and certain majors will get priced out for some students, I think, by income. I'm not insensitive to the fact that not all majors cost the same to deliver, I just think that I would prefer that it's incumbent on us, as a university, to do that better rather than hand off that difference to the student.
- ❖ **PRESIDENT WONG:** Keep in mind: the benefit I've seen here over the last three years is how much more systematic we are, and knowledgeable about budgets, and that helps you think through what you can and cannot do, and where to gain those marginal efficiencies that we're supposed to report the cost-avoidance.
- ❖ **LUOLUO HONG:** And by the way, by policy you are correct: only the Chancellor has the right to set tuition, but you do have authority over a certain number of fees.
- ❖ **JENNIFER SUMMIT:** I just want to agree with my colleague VP Hong, but also back to the budget planning level that we've been hearing about: the goal is precisely to be able to capture some of those differential costs of some of our high expense majors that have in the past, or before we moved to this model, they've had it cover their own costs through some extraordinary means. Hopefully the goal is to equalize them. Another one of the things we've discovered doing the marginal cost for each major, is that actually some of our most expensive programs are not where you would think. It depends on so many variables and there are in fact, low-enrolled in programs that are much more expensive than high-enrolled programs with high equipment costs.
- ❖ **JERRY SHAPIRO:** I wonder if there isn't some mechanism to have departments be able to contribute a plan of innovation that's tailored to their specific unit. For example, I know I have many agencies who would be interested in a way subsidizing a pathway towards specialization or a particular summer activity, so they would be ways of generating revenue that covers the internship costs that's so essential to social work practice. So, some way to create a conversation where people can contribute, rather than conform to a pre-established format. Let's open-source it and see what we can come up with.
- ❖ **JENNIFER SUMMIT:** A number of campuses are doing that, as you probably know.
- ❖ **PRESIDENT WONG:** Jerry, what a great idea. There is a little bit of that, in the way we're thinking about the Science building; if everyone wants 8 floors high, I want it to be 10 stories high, so that you can rent out two floors. Simple-minded, but it's easier to add two floors than it is to build a new building. Put those two floors in at the get-go. That's what you're thinking – programmatically, I think it would be hugely successful. That way, faculty and department members could get in the game to be innovative. Very good idea.

- ❖ **PHYLLIS CARTER:** If no one has any other comments, I think this has been a very lively and innovative discussion. As President Wong mentioned earlier, we're going to be engaging the UBC more in these types of discussions to bring forward ideas that we, as a Cabinet, can explore to move our university forward and upward.
- ❖ We're going to post the PowerPoints right after the meeting, and we're going to remind everyone that the next meeting is on May 13<sup>th</sup> at 10:00 AM.
- ❖ We're adjourned. Thank you, everyone.