

Cal State says hoarding more than a billion dollars was ‘nothing nefarious.’ Yeah, right

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The state auditor says California State University kept \$1.5 billion in discretionary reserves while raising tuition at its 23 campuses and lobbying the Legislature for more funds. (Damian Dovarganes / AP)

About the last person any government bureaucrat wants to see knocking at the door is veteran State Auditor Elaine M. Howle. Her latest protesting target is California State University.

Howle has been auditing anguished, embarrassed state agencies for nearly 36 years, skillfully rooting through their books and uncovering dark secrets.

There's a long list. Just a few recent examples:

Blaming mismanagement of the bullet train project for billions of dollars in cost increases; accusing University of California campuses of failing to consistently discipline faculty who had several sexual harassment complaints against them; citing poor state regulation of sloppy care at nursing homes; and accusing the Department of Motor Vehicles of failing to crack down on misuse of disabled parking placards.

And there was this: Howle found that UC used misleading budget practices while amassing a secret \$175-million surplus.

Howle's latest discovery was reported last week when she alleged that giant CSU had hoarded a \$1.5-billion surplus, hiding it from legislators and students while hiking tuition and poor-mouthing the state for more money.

CSU also built parking garages with student fees that really didn't provide much more parking for students, the auditor found.

The CSU chancellor's office, she wrote in her report, "has failed to fully disclose financial resources that it holds in outside accounts...."

"As of June 30, 2018, CSU had accumulated a surplus of more than \$1.5 billion, which consisted primarily of unspent tuition revenue. During the same decade that this surplus was growing, the annual tuition for students ... nearly doubled. And the state increased annual appropriations to CSU as a result of additional voter-approved taxes."

"By failing to disclose this surplus," Howle continued, "the Chancellor's Office has prevented legislators and students from evaluating CSU's financial needs in light of its unspent financial resources."

Cal State Chancellor Timothy P. White went into full defensive mode, denying all.

"Those who think we're doing something on the sly just really are totally, totally inaccurate," White told Los Angeles Times higher education writer Teresa Watanabe. "There is nothing nefarious here."

White insisted the money is not really a "surplus." It's more like a rainy day reserve, he said.

In a prepared statement, the chancellor called the report “irresponsible” and added: “Reserve funds are like a family savings account or the much acclaimed state of California’s Rainy Day Fund, which is ...used to ... protect against uncertainties.”

But here’s one key difference: The Legislature, governor and voters approved the state rainy day fund in a statewide election. CSU’s fund wasn’t discussed publicly because few apparently knew of its existence.

White denies that.

“Detailed information about monies held by the university is readily available for review by Californians and our state lawmakers,” the chancellor wrote.

“We have gone to great lengths to publicly report information about investment balances, net assets and reserves ... The report’s incorrect claim that the CSU failed to fully inform its stakeholders ... overlooks dozens of presentations.”

Maybe that information was printed in small type and written in mind-numbing accountant lingo. Any verbal presentation was garbled and muted.

Gov. Gavin Newsom, who has been a CSU Board of Trustees member for nearly nine years, mainly while he was lieutenant governor, hasn’t said a peep publicly about the auditor’s report.

Newsom spokesman Nathan Click would only say that the CSU board “was given notice of reserves” in 2017 “as the audit indicates” and that Newsom has opposed all tuition increases.

I called the new lieutenant governor, Eleni Kounalakis, who says higher education is her top priority. She has been a board member since January.

“There has been nothing in the [CSU] paperwork the last six months that talked about this reserve,” she said. “And there hasn’t been anything before the trustees since 2017 that discussed a reserve.”

“One question is how big a reserve should there be,” she said. “The trustees should be engaged in that discussion, especially after they raised tuition the last few years and the Legislature has been allocating more funds.”

She added: “I will fight all tuition increases.”

Tuition and fees at CSU total \$7,300 annually. CSU’s annual budget is roughly \$11 billion, including around \$4.3 billion from the state General Fund.

“The second question is transparency,” Kounalakis said. “It’s pretty clear the accumulation of a reserve was not as transparent as it should have been.”

I called some legislators and no one remembers being told anything about a CSU surplus.

“I don’t know whether \$1.5 billion is the right amount or wrong amount, but it wasn’t out there for us to talk about,” said Assemblyman Kevin McCarty (D-Sacramento), chairman of the Assembly Budget Subcommittee on Education Finance.

McCarty found it “really interesting” that during the recession, CSU apparently didn’t dip into its reserve. It kept growing. Meanwhile, tuition climbed and student programs were dramatically cut.

“I had no idea about the money,” Senate Education Committee Chairman Connie Leyva (D-Chino) said. “It is very shocking.”

Assemblywoman Sharon Quirk-Silva (D-Fullerton) asked for the audit on behalf of a university union. CSU is “using different terminology,” she said, “but the reality is they raised tuition and asked us for more money many times while they had a big surplus.”

Howle, who has a staff of 125 auditors, says: “We’ve been doing this for a long time. Our job is disclosing facts and the truth.”

There’s no reason to believe she hasn’t disclosed it again. CSU should listen up.