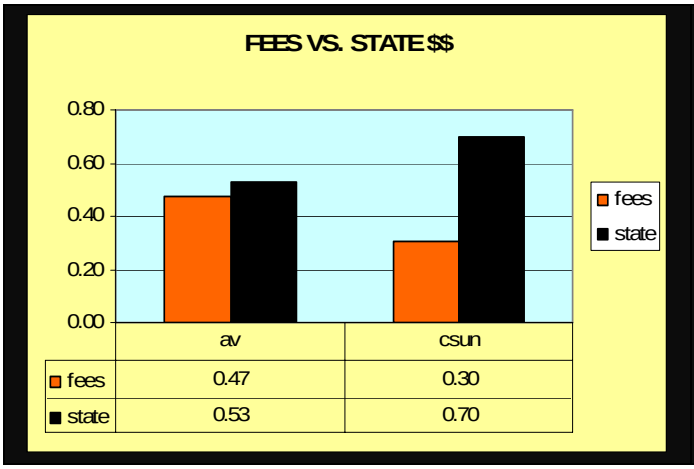
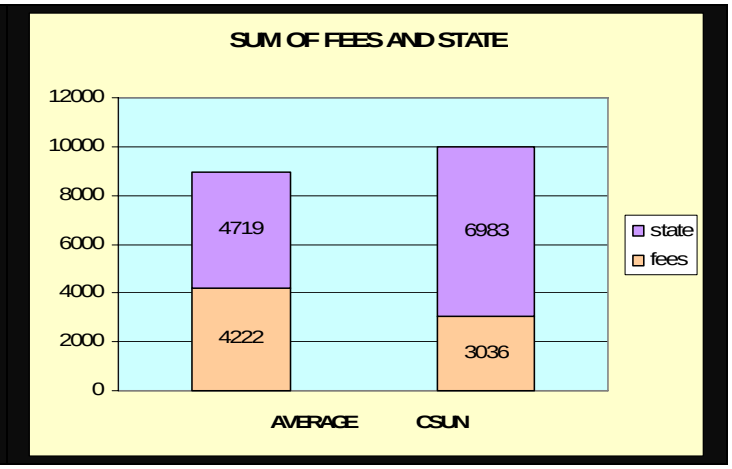
THE CHALLENGE

The new contract for faculty, while well deserved on salary issues, poses a challenge that we must overcome. The state pledged to fund a 16% increase through the Compact. The contract, though, records a 27% increase, excluding the 3% that CSU and CFA are to request as an addition from the state. On top of that, one has to account for accrued benefits, as well as a deserved but unfunded partial match of 1% to other CSU unions as a result of the negotiations with CFA. So, we are the beneficiaries of two incongruent bargaining processes, on different time lines: CSU and CA in Compact; CSU and CFA in contract. It is simplistic to blame any one entity for these differences; they are embedded in the business practices in the political sphere and—in a way—characteristic of American economic practice. Revenues and expenditures never match. Spenders are from Venus, and funders are from Mars.

To confront this challenge, to capitalize on its good—the salary increases—we must be clear-eyed about facts. I have been surprised by the claim that the CSU does not need a 10% fee increase to fund the Compact, even before we start to redress its gap with the contract. The CPEC peer universities, whom we use for salary comparisons, have student fees much higher than the CSU; indeed, of our twenty peers in IPEDS, CSU has nearly the lowest fees. Look at the charts in which CSUN proxies for CSU:





Now, higher fees might not be fair ethically; but these charts reflect politics. Further, CSU has suffered cuts of $500,000,000 in the last ten years. We have cut $15,000,000 in the three years since I've been at CSUN. So, we cannot lose 20% of the system budget, including 10-12% in academic affairs units recently, and then afford to raise salaries by 27% without raising something. If we do not recognize the facts, we cannot act pragmatically.

RICH MAN, POOR MAN?

CFA has hired an accountant who argues that the CSU Chancellor's Office and campuses are sheltering rivers and reserves in excess of a billion dollars. CSU disagrees. Nothing in the current audit trail within the system indicates this, nor do the state audit reports suggest this. The Legislative Analyst, Elizabeth Hill, claims that the CSU is over-budgeted, but she links that to a lower FTES target. She implies that fees, not general fund dollars, must rise. Were there such a pool—an Owens Valley aquifer and lake—to quench CSU's thirst, the state itself would build a dam and diversion project upstream. The Governor has prioritized many projects above the CSU. In fact, the May Revise effectively diverts $42,000,000 from CSU, generated by the 6,000 FTES in excess of system targets. If the billion dollar surplus existed, it too would be viewed as an excess over target, subject to confiscation.

I really do hope that like the “Beverly Hillbillies,” we discover “bubbling crude” under the Chancellor’s Office at Golden Shores. But many alleged details do not add up. It is accurate, I think, to claim that CSU’s schedules of depreciation exceed funds for renovation. But CSU is a public entity, not a private enterprise that writes off depreciated assets against debt or taxes. Rather, depreciation largely registers the extent to which the system must continue to repair facilities and operations past their life cycle, because there are insufficient new funds to replace them. It is true, I believe, that accounts across the system build up one-time reserves; but managers, down to chairs, do so to aggregate funds for purchases and to mass reserves against anticipated cuts, among other purposes. In fact, across the system purchases occur *en masse* in June, when funds have been gathered after normal expenditures and the budget weather for the next has been gauged.

Further, many of these reserves—in housing, construction, operations—are constrained by the fund sources that generated them. We must discount from such totals the estimates that are associated with CSU lands and buildings. Are these truly fluid assets—salable commodities—as they would be in the corporate world? Also, with construction and technology costs rising at rates in excess of personnel costs, big reductions in these accounts would not be wise, especially if we tie a series of one-time accumulations to recurring personnel costs. Linking one-time funding to permanent expending is a root cause of disequilibrium in the California budget. Finally, we must be careful not to draw funds excessively out of operations for people costs, as justifiable as this can seem. We want new buildings, hardware, travel, research funds, as well.

Nonetheless, below I assume that it is possible for the CSU to liquefy its revenues; it should be able to identify the time gaps between when revenue enters and expenditures go out. If authorized to do so, the system then can make short term investments using the difference due to lag, while paying the state a rate for using the resources. In fact, CSU has gotten the right to invest student fees this way. Annually, various fees at CSUN total nearly $90,000,000. But let’s be liberal; let’s hope that the entire budget can throw off interest, not just fees. See pg 4. Still, were $1,200,000,000 available system-wide, it would not be all available to spend then and there. More likely a modest percentage could yield interest on the lags between income and outgo while we pay user rates to the originating accounts and/or the state itself. To solve a recurring $140,000,000 problem, the short-term yield rate would need to be in the range of 10%, excluding a rate for usage. Enron, anyone?

So can CSU beg, borrow, or bully the $140,000,000 needed for all it contracts and benefits from legislators? Many supported strong raises for CSU faculty, wisely. But the legislators want to fund health insurance as does the Governor. Both Democrats and Republicans want to lock up more and more alleged criminals and raise the salaries of guards. The Governor advocates for more child care. The community colleges propose to lower fees and then suck up the equivalent from the state general fund. Besides health and child care, the Governor has made a very intelligent decision to fund transportation infrastructure. Will these leaders reverse priorities, waggle fingers at police and construction unions and say, “Prison guards and construction workers, throw down your utility belts because the CSU needs money.” This is not likely.

WHAT THE CONTRACT COSTS AND HOW WE WILL RESPOND

Below I deal with the unfunded cost of the faculty contract, only in Academic Affairs: nearly $7,000,000 for CSUN. For, the moment, I will spare you my $13,000,000 to $15,000,000 scenario that tallies costs in counseling, athletics, benefits and other contract obligations. $7,000,000 for CSUN Academic Affairs means $100,000,000 for the CSU. If you sluice in these items, the water rises to at least $140,000,000. $140,000,000 probably equals the general fund budget of a 10,000 to 12,000 FTE campus.

As I figured it, the Compact costs this:

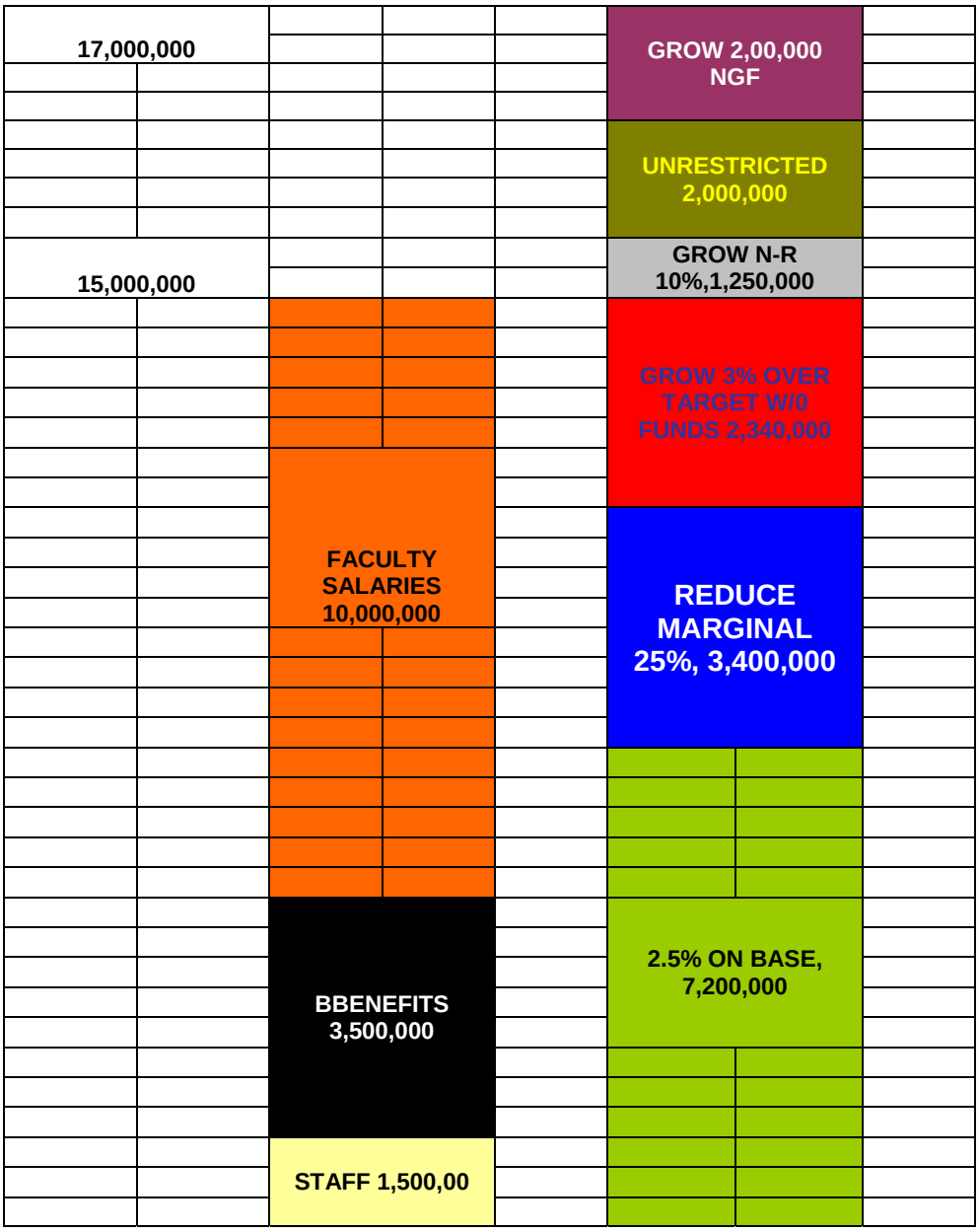
	COMPACT	SAL	78,000,000.00	
Payout #1				
2006/07	0.03		2,340,000.00	80,340,000.00
Payout #2				
2007/08	0.04		3,213,600.00	83,553,600.00
Payout #3				
2008/09	0.04		3,342,144.00	86,895,744.00
Payout #4				
2009/10	0.05		4,344,787.20	91,240,531.20

And the contract calculates this way, I think:

	CONTRACT	PERCENT		INCREASE	COMPOUNDS
YR1			BASE	78,000,000.00	
gsi	7/1/2006	0.03		2,340,000.00	
gsi	6/30/2007	0.01		4,333.33	
ssi	Anniversary	0.01		780,000.00	
				3,124,333.33	81,124,333.33
YR2					
	6/30/2007	0.01		780,000.00	
gsi	7/1/2007	0.037		3,001,600.33	
gsi	6/30/2008	0.02		9,013.81	
equity				506,100.00	
ssi	Ann	0.01		811,243.33	
				5,107,957.48	86,232,290.81
YR3					
	6/30/2008			1,622,486.67	
gsi	7/1/2008	0.03		2,586,968.72	
gsi	6/30/2009	0.02		9,581.37	
equity				506,100.00	
ppi				506,100.00	
ssi	Ann	0.01		862,322.91	
				6,093,559.66	92,325,850.48
YR4					
	6/30/2009			1,724,645.82	
gsi	7/1/2009	0.04		3,693,034.02	
gsi	6/30/2010	0.02		10,258.43	
ppi				506,100.00	
ssi	Ann	0.01		923,258.50	
				6,857,296.77	99,183,147.25

So, the contract exceeds Compact at least by nearly $7,000,000 in Academic Affairs. If fees do not win support, we lose our share–roughly 70%, $4,700,000. $11,750,151 approximates our ’05–07 10% cut. Think on it.

PLANS



Now, there are several ways we can go about dealing with such a sizeable re-allocation. The chart to the right exhibits how. I inflate the problem to $15,000,000 for CSUN as a whole, out of caution.

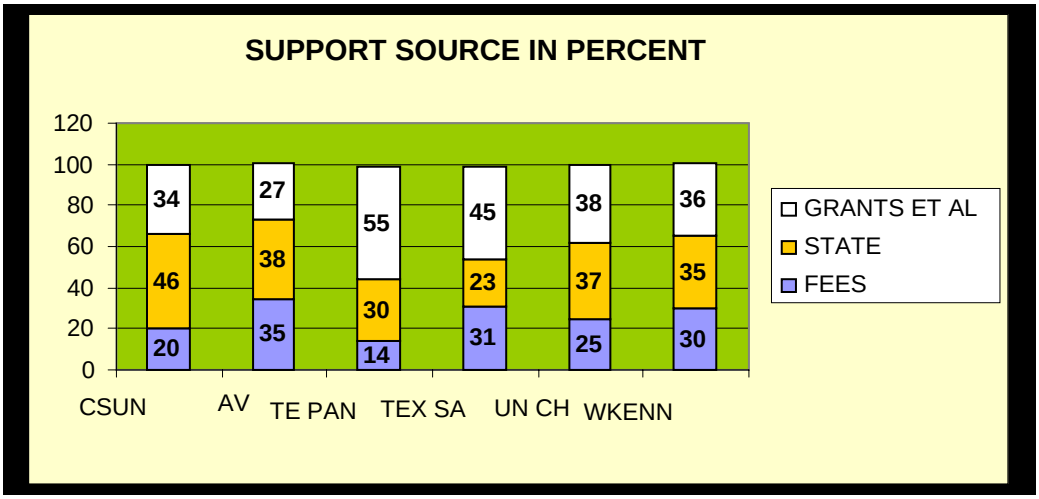
The column on the left illustrates the problem by source. On the right is a compound of solutions:

First, we might be granted the ability to generate and retain interest on general fund accounts, not just fees. That is not certain. A 2 1/2 % rate on a $288,000,000 base would yield over $7,000,000. I presume a low yield because general fund accounts can be taxed by the state, obviously. If we only can use fees as a source for interest, this sum drops by two-thirds.

Second, we can trim our internal funding ratios. Each year that we grow by 3%, we bring in resources for new hires at an full-time student to full-time faculty (SFR) of 22:1, with positions funded at @$60,000. (The University receives funds at a richer rate—19:1— than it expends on positions, 22:1, to cover other expenses. Perhaps we can capture some of these funds to soften the blow of this approach.) Over four years, we can remove 25% of new positions—$3,400,000 of the anticipated $13,600,000—and apply this amount to the salaries of faulty already on board. This reduces new positions by thirty-four probably; it raises CSUN SFR by at least one to 23:1. Alternately, we could achieve the same savings by dedicating a share of these funds to hiring lecturers who, on average, teach more classes. At the end of four years, this would raise our percent share of lecturer faculty would increase from 43% to 45%, but might be able to preserve SFR.

Third, because we end this year 4% over the FTES target, we can project revenues above target in years ahead. This is a gamble because we know that LAUSD high school numbers shortly will trend downwards. The University could provide one-time funds for temporary hires in three of the next four years to conserve this excess margin. The state will keep the general fund dollars that come with growth. We keep the student fees—rather, two-thirds (one-third set aside for student aid). This strategy can produce at least $2,000,000 over three years; but it, too, increases SFRs at the end of the day, when the one-time funds are retired to accommodate the need for permanent re-allocations for faculty already on board.

Options four, five, and six are appealing but difficult. Non-resident enrollment appears robust. Can we grow that by 10%--150 FTES—to generate at least $1,000,000? The state no longer underwrites such enrollment, but we keep the student fees plus $340 per credit, without having to discount for student aid. Or, could we redirect $2,000,000 in operating funds to salaries? That would be close to a 20% reduction in such funds in Academic Affairs. Or, could we generate $2,000,000 more in Advancement and grants and contracts? As the following chart shows, some comprehensives get a noticeably higher percent of funds from these resources than we do.



Nonetheless, $1,000,000 gained in grants and contracts requires an indirect expenditure of $400,000; and such income has strings attached that restrict usage. Similarly, philanthropic gifts usually are restricted to donors' aims; and the University expends interest, not principal, from endowments--$50,000 on %1,000,000, not $1,000,000 on $1,000,000.

A 10% fee increase would total over $5,000,000. It could replace options four through six; or, it could substitute for strategy to redirect funds associated with FTES growth to salaries of faculty already on board. Why would we foreclose this option?

IMPLICATIONS

These re-allocations will not cause us to abandon divisional plans. Actually, they impel us to accelerate elements of our plans. Hybrid courses, self-paced modules, and out-of-class projects are means by which we can reduce seat-time for faculty. Shared rubrics and holistic scoring can reduce the burdens of grading. Standardizing desktops, automating rote aspects of advising, and offloading proprietary technologies for open and "free" ware can be ways of saving time and dollars. Thee tactics can offset and perhaps reduce the impact of increases to the SFRs.

Further, we cannot—should not—become a lower-division FTES factory, shying from advanced degrees like the DPT that are keys to increasing regional relevance and attracting grants, gifts, and contracts. Hence we must cut judiciously, re-allocate smartly, grow where there are opportunities, and base decisions on facts and reasonable probabilities, not speculation.

These are not easy propositions. But we have the plans and talent to convert this system-wide financial challenge into an opportunity to break away from a befuddled and dismayed pack. So, let’s weave to the outside, gather the reins, lean forward, and go.