

One Billion Dollar Bet to CSU Board of Trustees, Address to the CSU Board of Trustees Finance Committee, November 2009

How many of you believe that the Dow Jones average will return to 14,000 or real estate values will increase 30% before June 2010? Probably not too many. So why do you gamble our budget on the state's promises that were made under economic conditions that no longer exist?

In November, CSU BOT asked for \$884 million from the state, on top of \$2.3 billion in general funds. Seems unlikely we will get it. The Legislative Analyst Office predicts 20%-25% decrease in state funding from 2008 levels through 2014.

Perhaps we might get \$305 million plus an additional \$60.6 million for enrollment growth. Perhaps the federal government will come through with "jobs act" bailout funds for California, but it is expected to be less than the 2009 American Recovery and Reinvestment Act funds.

Meanwhile the CSU is throwing out guaranteed funds from a 25% fee increase this year and enrollment of 358,000 FTES. Why? Just to make the political statement ... the statement that we refuse to be more self-sufficient. I doubt that the legislature will give us MORE money for teaching LESS students this year.

How can the BOT bet on uncertain state and federal funds over guaranteed earned revenue? Look at the UCs. They are increasing fees 30% this year to raise an additional \$500 million. I don't think that a 10% fee increase this summer will not take care of the CSU's financial problems.

The decision to cut enrollment limits accessibility and necessitates greater fee increases in the future to make up for lower overall fee revenue. My students tell me that they would rather pay more now and get the classes they need to graduate, than be jobless and unable to pay back their student loans. Do you think that these students will advocate for us in the future?

Good financial decisions are based on quantification and numbers, determined by the patterns of the past. Good outcomes come from realistic planning. Bad financial decisions are based on more subjective degrees of belief about the uncertain future.

How can risk be defined? Risk is the probability of an unfavorable outcome, the actual return being less than expected return. The CSU should be a risk averse institution. Risky financial decisions brought on the financial crisis. But the CSU is not like the banks. The US and global economy is not going to implode if the CSU is short \$400-500 million dollars. In fact, there really is no reason why folks in Louisiana should send us money when we make financial decisions that increase our losses.

Obviously, nothing was learned from the financial crisis...the Chancellor wants to gamble on the future and the BOT says OK.