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August 2, 2019

The Honorable Rudy Salas
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The Honorable Jose Medina
Chair, Assembly Higher Education
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The Honorable Richard D. Roth
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Vice Chair, Joint Legislative Audit Committee
State Capitol, Room 2080
Sacramento, CA 95814

The Honorable Connie M. Leyva
Chair, Senate Education Committee
State Capitol, Room 4061
Sacramento, California 95814

Dear Chairs and Committee Members:

On behalf of the board of trustees of the California State University (CSU), I am writing to you regarding the state auditor's recently concluded audit of CSU accounts held outside the state treasury, as well as parking and alternative transportation programs at four CSU campuses.

The board appreciates and agrees with the audit report's recommendations, and has been assured by Chancellor's Office staff that they will be implemented in a timely fashion. However, the board is concerned with mischaracterizations contained within the report regarding the nature and reporting of the CSU's designated reserve funds.

I assure you that the board is fully supportive of the CSU's reserve policy, and that the policy has been implemented at the board's direction and under its oversight. Ensuring that the university has adequate reserves to mitigate against inevitable economic downturns is a critical element of the board's fiduciary responsibilities, and it is one that we take very seriously. The Chancellor's Office staff has been fully transparent with the board regarding its reserve funds. In fact, I have consistently been impressed with the comprehensive and detailed information staff has shared and presented on this matter throughout my nearly six years on the board.

I am also concerned with the manner in which the audit has been covered by the media, which has, predictably, amplified and distorted the report's headline – implying that the CSU has “hidden” or “concealed” funds while raising tuition – misleading the public and risking unfair damage to the CSU's reputation.

Chairs and Committee Members

August 2, 2019

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The board appreciates this opportunity to correct the record and affirm, for all of its stakeholders, that the CSU is a careful steward of the funds with which it is entrusted.

As confirmed by the early results of Graduation Initiative 2025, the CSU is realizing its mission in transformative and historic ways for the benefit of all Californians. The support of the public – and the legislature – is critical to ensure that the CSU maintains this momentum and continues to meet the needs of the state and its citizens.

Sincerely,

A handwritten signature in black ink, appearing to read 'ADAM DAY', with a stylized flourish at the end.

Adam Day
Chairman

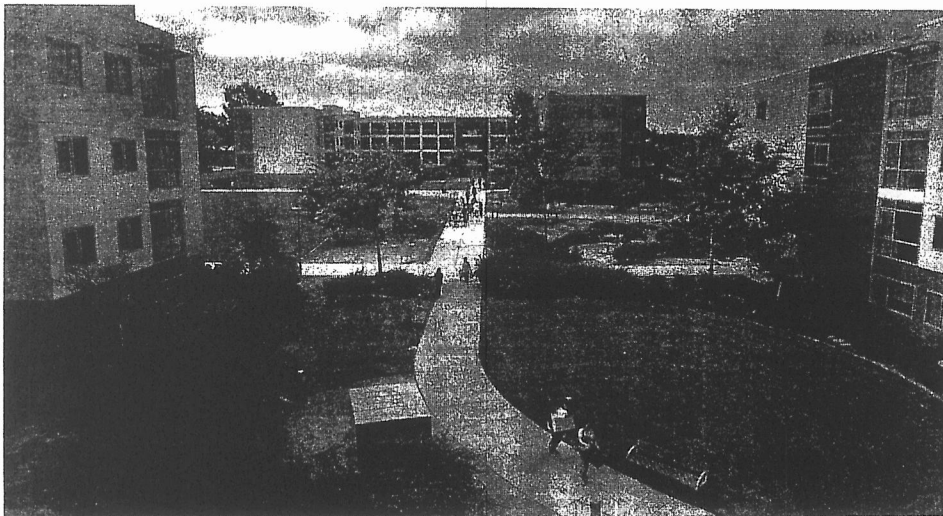


VIEWPOINTS

Does CSU have lots of money saved in reserves? Yes, and it's never been a secret

BY TIMOTHY WHITE *SPECIAL TO THE SACRAMENTO BEE*

JULY 02, 2019 08:01 AM



California State University kept \$1.5 billion in discretionary reserves while raising tuition and lobbying for new funding, according to a report from Auditor Elaine Howle. CSU Chancellor contests findings

BY [AKIRA OLIVIA KUMAMOTO](#)

The claim that California State University has a secret stockpile of surplus funds in outside accounts is a sensationalistic take on common – and responsible – fiscal practices. It is wrong to characterize designated operating reserves as “secretive massive funds.”

The audit verified that CSU follows the technical reporting procedures dictated by the Department of Finance, the State Controller’s Office and the State Treasurer’s Office. Governmental fund reports can be hard to interpret for some people. But information pertaining to CSU’s finances, including money invested by the CSU, has always been accessible by the public, including on our Financial Transparency Portal.

Unfortunately, the recent audit failed to mention that more than 30 public reports published by CSU – during the 10-year audit period – included detailed information about investment balances and net assets, including what the report refers to as “surpluses.”

Moreover, this report failed to include letters to state legislators in 2017 and 2018 that addressed balances in state funds invested outside the state Treasury. CSU is legally required to deposit revenue from tuition and other student fees into bank accounts held in trust – what the auditor calls “outside accounts.”

Information about money CSU invests outside of the state Treasury are reported during CSU Trustees’ meetings. These public meetings are streamed live, and then are archived and accessible on the CSU website. In fact, during a September 2017 CSU Board of Trustees’ meeting, a specific presentation was devoted to the topic of reserves. Gov. Gavin Newsom, other legislative staff, students, faculty and staff leaders were all in attendance at the meeting.

OPINION

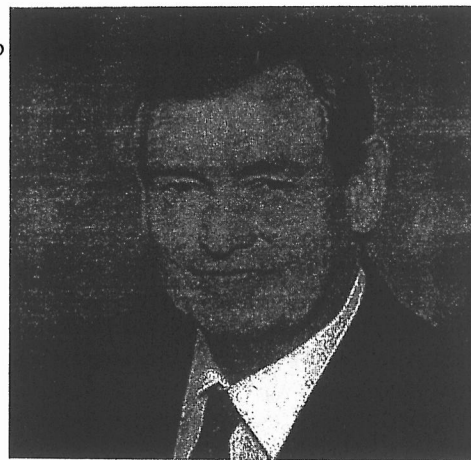
There’s still one key point that was buried by the media headlines: Nowhere did the audit report find that the CSU misused funds or that our strategy to build a prudent reserve was not appropriate.

Ironically, this audit report was made public a week after the non-partisan Public Policy Institute of California (PPIC) issued a report, “CSU’s Prudent Saving Strategy,” concluding that “building operating reserves is key to preserving access and maintaining strong student access during the next recession.” The PPIC also recognized the CSU’s new online Financial Transparency Portal as an important step in “making important information available to public officials and the attentive public” about the allocation of resources and the CSU’s reserve strategy.

Still, the auditor’s report begs the question: Why has CSU been building its operating reserves?

One critical use of operating reserves is to fund capital projects. In 2014-15, the state transferred responsibility for capital projects to CSU and directed that the university use operating funds for those projects. CSU then revised its reserve policy to encourage campuses to build designated reserves explicitly for this purpose.

Reserves are also used to pay a portion of the more than \$700 million in Cal Grants and \$1 billion in Pell Grants the CSU distributes to students each year. Many payments are made by the CSU and then later reimbursed by the California Student Aid Commission and the federal government. Reserves are also used to pay for purchases and contracts that span a fiscal year.



Perhaps most important, about 30 percent of our reserves are a hedge against economic uncertainty. During the Great Recession a decade ago, CSU’s budget was slashed by nearly \$1 billion, leading to cuts in enrollment, programs and services, and required furloughs for

7/9/2019

CSU does have money in its reserves. Stop calling it a secret | The Sacramento Bee

employees. Designated reserves are absolutely critical to protect current operations of the university and for when we are confronted by the next recession.

When a student enrolls on a CSU campus, we enter into an implicit agreement to provide the educational programs and support services for that student to graduate, even against the backdrop of a recession. Our designated reserves and policies that lead to those reserves will allow us to deliver on that agreement.

Timothy P. White is chancellor of the California State University.

RELATED STORIES FROM SACRAMENTO BEE

JUNE 20, 2019 10:57 AM

JUNE 21, 2019 08:01 AM

California State University Designated Reserves

Designated reserves in CSU's operating fund are used in several ways to deal with non-recurring expenses by managing short-term obligations and commitments, provide funding for capital infrastructure repairs and maintenance, and to help ensure that operating costs can be paid during times of economic and budget uncertainty. Reserve designations are determined and reported annually by the campuses and the system office and are published on CSU's financial transparency portal.

On June 30, 2018, reserves in the operating fund totaled \$1.5 billion and were designated for three primary purposes: short-term obligations, capital, and operations. Reserve balances by category are displayed in the chart in solid bars compared to the need shown as a vertical line for each reserve category.

Short Term Obligations

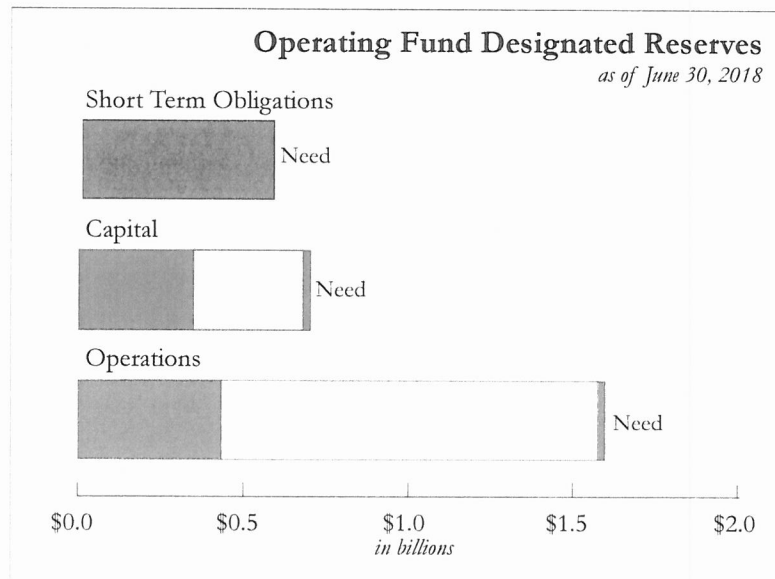
Reserves for short-term obligations are designated for payments for open contracts and purchase orders, near-term debt service payments, financial aid obligations, and programs that are in development. Reserves for short-term obligations are sufficient to cover expected needs and are typically used in the following fiscal year.

Capital

Reserves for capital are designated for new capital projects and repair of current buildings, as well as planning costs and equipment acquisition associated with those buildings. Capital reserves fall well short of the expected need, which is least ten percent of the cost of academic projects approved in the most recent five-year capital plan.

Operations

Reserves for operations are designated to provide a prudent reserve to sustain operations during periods of economic uncertainty such as short-term recessionary cycles or state budget fluctuations, and catastrophic events such as floods or earthquakes. Operating reserves are intended to be used in the future as a one-time supplement to help manage the often rapid decline in state resources, allowing time to adjust operating budgets appropriately to balance reductions, and minimizing disruptions to our students' education as much as possible. Designated reserves for operations total less than one month of operating fund expenses, well below the need to maintain three to six months of operating expenses.



CSU Policy

Operational Content

Section Title: Budget

Policy Number: 2001.00

Policy Title: Campus Reserves

Policy Effective Date: 10/1/2015

Last Revision Date: 12/09/16

Policy Objective

It is the policy of the CSU that the campus chief financial officer must annually direct the distribution of reserves in order to designate reserves for various purposes in accord with this policy.

Policy Statement

Each campus and the chancellor's office must designate reserves in amounts and for purposes described in this policy.

The campus chief financial officer (CFO) is responsible for establishing reserves to ensure that amounts are consistent with campus plans and requirements for each of the CSU operating funds listed in Table 1.

Reserve for economic uncertainty may be established in each of the CSU operating funds in order to limit impacts of cyclical state recessions and to support year-to-year consistency in the university's operations. Designations for "reserve for economic uncertainty" may accumulate up to an amount that is no more than one-half of the projected annual operating budgets in each of the CSU funds for which the reserve is established.

In addition, other reserve designations should be established as applicable in each of the CSU operating funds for specific capital projects, capital renovation, facilities maintenance, and repair, encumbrances, catastrophic events, or any other specified purpose consistent with the underlying funding requirements and restrictions. Designated reserves must be accounted for annually using the appropriate Financial Information Recording Management System (FIRMS) reserve object code. The current primary designated reserve object codes are listed in Table 2. Annually, after year-end legal closing, the System Budget Office in the Office of the Chancellor

will prepare a summary of the campus CSU operating funds reserve designations for the CSU Executive Vice Chancellor and Chief Financial Officer's review.

Table 1

CSU Fund	CSU Fund Description
441	TF-Extended Education Operations
444	TF-Campus Partners
452	TF-Facility Revenue Fund-Health Facilities Fees
463	TF-Instructionally Related Activities Trust
464	TF-International Programs Trust
471	TF-Parking Revenue Fund-Fines and Forfeitures
472	TF-Parking Revenue Fund-Parking Fees
481	TF-Lottery Education Fund
485	TF-CSU Operating Fund
531	TF-Housing-Operations and Revenue
534	TF-Campus Union-Operations and Revenue

Table 2

Reserve Object Codes
304010 Designated for Capital Improvement/Construction
304011 Designated for Equipment Acquisition
304012 Designated for Program Development
304013 Designated for Future Debt Service
304014 Designated for Facilities Maintenance and Repairs
304016 Designated for Outstanding Commitments
304017 Designated for Catastrophic Events
304018 Designated for Encumbrances
304021 Designated for Financial Aid
304022 Reserve for Economic Uncertainty
304023 Designated for CE/EE Campus Partners

**Executive Vice Chancellor and Chief Financial Officer Business and Finance Approved:
12/21/2016**



PPIC

PUBLIC POLICY
INSTITUTE OF CALIFORNIA

Public Policy Institution of California (PPIC)

A nonprofit, nonpartisan think tank, dedicated to informing and improving public policy in California through independent, objective, nonpartisan research.

Published on June 12, 2019 a blog post entitled *CSU's Prudent Savings Strategy*.

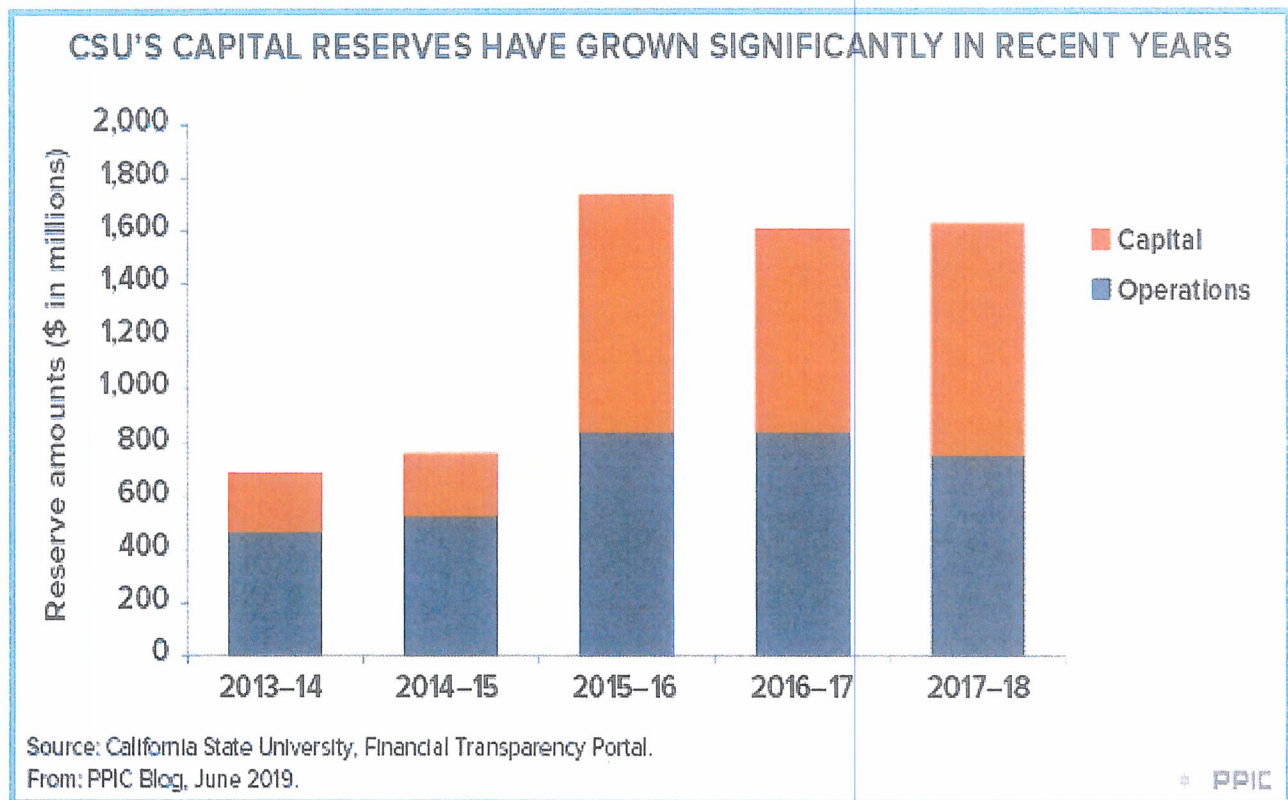
The blog found here: <https://www.ppic.org/blog/csus-prudent-saving-strategy/> contained details in which PPIC praised the CSU for taking significant steps to improving its financial position and increasing transparency to the public regarding their operational reserves.

CSU's Prudent Saving Strategy

KEVIN COOK, PATRICK MURPHY, RADHIKA MEHLOTRA JUNE 13, 2019

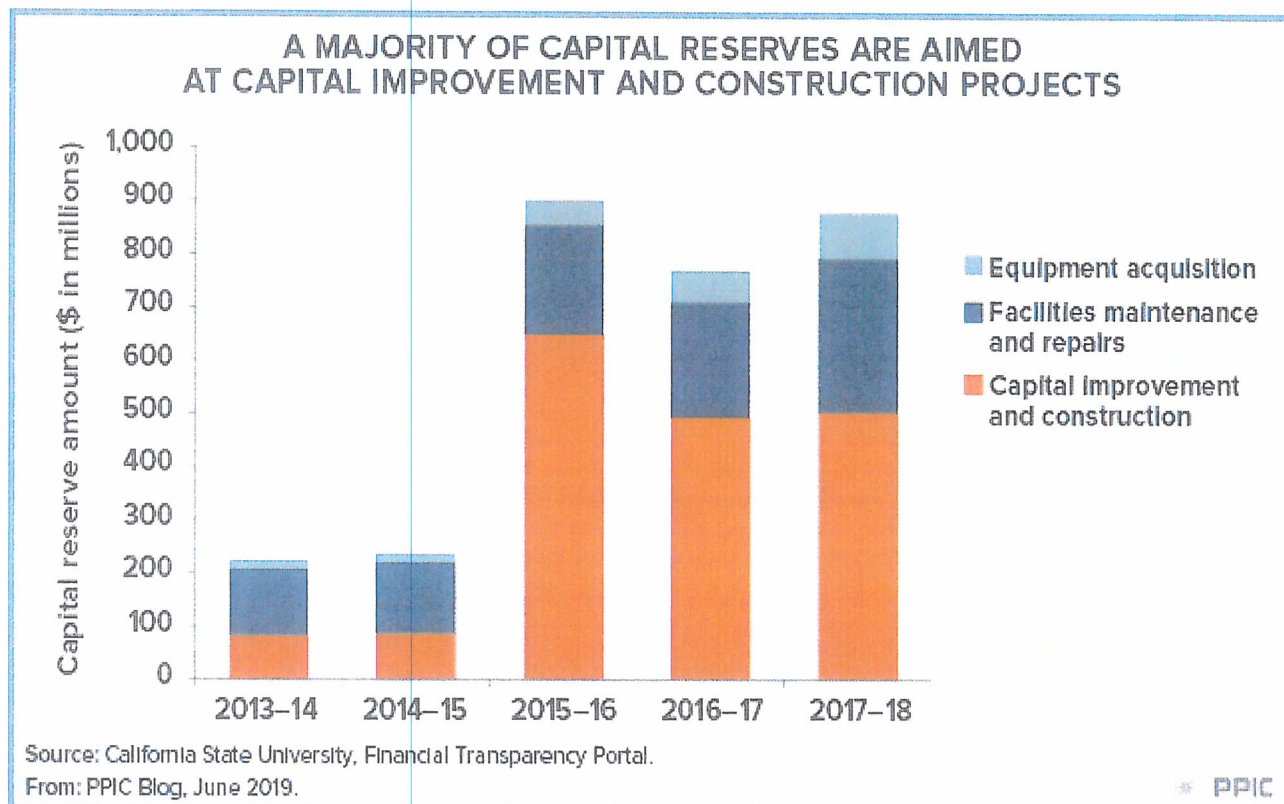
The California State University system is taking significant steps to improve its financial position and increase transparency with a new public, online [Financial Transparency Portal](#). It shows that CSU is building both capital and operating reserves that could help soften the blow in the event of an economic downturn.

The new Transparency Portal shows that CSU's reserves have grown in recent years, for both capital spending—which includes equipment acquisition, facilities maintenance and repairs, and capital improvement and construction—and operations. To put this growth into context, in CSU's 2017–18 budget a little more than one third of total expenditures went toward salaries and wages (about \$3.6 billion). The system's operating reserve for that year was about \$800 million, meaning that if that system spent its entire reserve it would still only be able to cover a very modest cut in state appropriations.



The portal also shows that some of the greatest growth has occurred in funds for capital improvement and construction. These funds are typically allocated to upgrade existing facilities and build new ones. This is very good news in terms of [long-term planning](#), and provides a good example for the state's other higher education institutions.

There also has been modest progress in accumulating savings to simply maintain facilities, an area that saw deep cuts during the Great Recession.



The growth in capital reserves is promising and helps to safeguard CSU's ability to meet the needs of its future students. Similarly, building operating reserves is key to preserving access and maintaining strong student outcomes during the next recession. Making financial information transparent, including campus-level information, is also a positive step. It clarifies the allocation of resources and reveals the details of CSU's reserve strategy—making important information available to public officials and the attentive public.