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The Honorable Susan Bonilla
11th Assembly District
State Capitol, Room 2188
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Dear Ms. Bonilla:

At your budget subcommittee hearing last week the California Faculty Association (CFA) presented the subcommittee with a letter addressed to the Governor and all members of the Legislature and an eight-page attachment entitled "Cal State University in a Time of Fiscal Crisis: A Cautionary Tale of Managerial Flexibility." The theme of the letter and accompanying report is that the leadership of the CSU mismanaged the university's last serious funding downturn in 2009-10 so thoroughly that the Governor and Legislature must intervene and specify in great detail how the CSU implements a proposed General Fund reduction of \$500 million. The language in the letter and report is harsh. It indicts university leaders for being irresponsible stewards of taxpayer dollars. It accuses the Chancellor and other CSU leaders of "stunning insensitivity" to faculty, staff and students, "shocking choices" and alleges that "...those who administer state funds provided to the CSU have shifted away from the CSU's primary mission to provide student instruction." The report focuses on three areas of alleged mismanagement to support its extreme conclusions, using statistical sleights-of-hand and omitting important related information. The three areas involve (1) the granting of raises to what the CFA refers to as "managers and administrators", (2) consulting services in the area of government relations and (3) consulting services in the areas of human resources and collective bargaining.

Below I address each area in turn and also address the unfounded charge in the CFA's cover letter that the leadership of the CSU is not committed to the CSU's primary mission to provide instruction to students. My hope is to set the record straight and provide additional information that I believe you will find helpful.

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

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CSU Spending Supports the Primary Mission of Instruction

The CFA's letter charges that "...those who administer state funds provided to the CSU have shifted away from the CSU's primary mission to provide student instruction." To support this charge the CFA states: "...by the CSU administration's own records, it spent only 42 percent of its operating expenditures on instruction in 2009 and less than 11 percent spent on services to students." [sic] The CFA does not mention that these percentages are significantly higher if student financial aid, which is not a true operating expenditure, is excluded from the operating expenditure analysis. However, even in an analysis that includes financial aid, the percentage of CSU's expenditures that directly benefit students and/or directly support the instructional program is high. These percentages, for the 2009-10 fiscal year, are as follows:

- Instruction 42.0%
- Student Services 10.8%
- Student Grants and Scholarships 10.9%
- Academic Support 11.0%

Thus, three-fourths of CSU expenditures directly benefit students and directly support the academic program. (Academic support includes such things as libraries, educational media services, academic computing support, academic administration, academic personnel development, and course curriculum development). The remaining categories of CSU expenditure are institutional support (13.7%), operation and maintenance of plant (11.3%), public service (0.3%) and research (0.2%).

The CFA's accusation that the CSU is not committed to the primary mission of instructing students is simply not supported by the facts.

Raises for "Managers and Administrators"

The CFA states that during the two-fiscal year period 2008-09 and 2009-10 CSU executives awarded at least 607 "raises" to CSU "managers and administrators." The CFA further states that this record reflects "truly shocking choices" and "an apparent dismissal of the budget crisis affecting the university."

For the sake of accuracy, it should be understood that the data presented by the CFA cover a wide-ranging category of non-represented employees who are in the CSU's "Management Personnel Plan" (MPP). Despite its name, about half the employees in MPP are neither managers nor "administrators," as that word is commonly understood or defined in the dictionary. Instead they are rank-and-file professionals such as auditors, accountants, analysts, and information technology technicians.

It is also important to remember that in any large organization, in good years and bad, some individuals will experience salary increases for reasons that are legitimate and necessary for the

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proper functioning of the organization and its programs. For example, if the chief financial officer of a campus retires, he or she must be replaced as soon as possible. If that replacement involves the promotion of an assistant vice president to this new level of responsibility (as it often does) a salary increase or “raise” is perfectly justified. So the mere existence of “raises” is not enough, by itself, to conclude that an organization is being mismanaged.

By presenting the raise data as a two-year amount, rather than each fiscal year, the CFA not only magnifies the apparent prevalence of raises, it also obscures relevant information that only becomes evident by comparing the two fiscal years. In isolation from other information, 607 sounds like a lot of raises. Breaking the 607 down between the two fiscal years reveals things in a new light. This is particularly true when one considers that although 2008-09 was a year of fiscal challenge, 2009-10 was a year of true fiscal crisis for the CSU. It was the year in which state support fell \$625 million below the 2007-08 peak, furloughs were instituted for nearly all employees and student fees were raised by 32 percent. One would expect in that circumstance that the number of raises would decline from the number experienced in 2008-09 as part of the university’s management of fiscal decline. This is, in fact, what happened. Of the 607 MPP raises, 370 occurred in 2008-09 and 237 occurred in 2009-10, a year-to-year decline of 36 percent.

It is also instructive to examine the raise statistics as a percentage of MPP employees each year. The 370 raises in 2008-09 represented 10.5 percent of the total number of MPP employees (based on the annual census taken in October 2008). The 237 raises in 2009-10 represented less than 7 percent of MPP employees (October 2009 census). Looked at another way, in the year of fiscal crisis, 93 percent of MPP employees did not receive a raise of any kind. In addition, *all* MPP employees—and all executives including the Chancellor—took a 9.2 percent pay cut due to the furlough. (The CFA report complains that faculty and staff took a pay cut in 2009-10 without mentioning that all MPP and executives took a pay cut as well.)

The CFA singles out a number of raises as being particularly egregious, including a 7 percent salary increase for a vice president at CSU East Bay. This example, singled out in the CFA report, actually illustrates another important point, which is that some raises are undertaken as part of administrative reorganizations that save the CSU far more money than what is spent on the individual salary increase. In this particular example, CSU East Bay consolidated the departments and portfolios of three vice presidents into two. One vice president retired and the position was not replaced. The two remaining vice presidents were each given a wider range of responsibility and received moderate salary increases commensurate with additional responsibilities. The consolidation of three departments into two not only resulted in saving the salary and benefit costs of the third vice presidential position, but resulted in the elimination of several other administrative positions. The net annual savings to CSU East Bay from this reorganization, after accounting for the raises for two vice presidents, is approximately \$500,000. So, what CFA cites as an example of egregious fiscal mismanagement is actually the complete opposite—the type of action that should be taken, especially in a time of fiscal crisis.

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In looking at raises given to MPP employees during the two fiscal years, it is instructive to look at raises granted to faculty during the same time period. The CFA report omits this comparison. The last group of CSU employees to receive a general salary increase was the faculty. All represented faculty received a 2 percent general salary increase (GSI), effective on June 30, 2008. The first pay period reflecting the full GSI, therefore, was the first month of the 2008-09 fiscal year. The annual cost of this GSI, first felt in the 2008-09 fiscal year, amounts to an estimated \$30.6 million. No other category of CSU employee has received a GSI or COLA since July 1, 2007.

In addition to each faculty member receiving a GSI, many faculty received raises for other reasons during the two-year period. In comparison to the 607 MPP raises cited by the CFA, approximately 8,900 individual faculty raises took place for various reasons, as summarized in the table below. These raises and the GSI resulted in first-year costs of \$43.6 million in 2008-09, new first-year costs in 2009-10 of nearly \$12 million, and ongoing annual costs after 2009-10 of about \$57.7 million.

Program	2008/09 first year cost	2009/10 first year cost	Ongoing cost after 2009/10	Affected individuals	
2% General Salary Increase	\$30,600,000	N/A	\$30,600,000	All Unit 3 members	Implemented June 30, 2008 close of business so costs fall in FY 2008/09
Post Promotion Increases (PPI)	\$6,500,000	\$6,809,000	\$13,309,000	3,869 full professors, others of comparable rank	Actual expenditures from campus reports
Equity Program residual	\$1,250,000	N/A	\$1,250,000	Approx. 3,200 associate and full professors, equivalents	Estimated. Implemented in 2010 retroactive to July 1, 2008
Promotions	\$4,602,000	\$4,761,000	\$11,235,000	1,489 tenure-track faculty	Source: CSU payroll data
Range Elevation	\$377,500	\$265,000	\$771,000	277 lecturers	Source: CSU payroll data
Market Increases	\$317,500	\$130,000	\$537,000	67 faculty members	Source: CSU payroll data
Totals	\$43,647,000	\$11,965,000	\$57,702,000		

**All estimates include salary and salary-related benefits.*

Finally, an unresolved faculty raise issue remains from the 2009-10 fiscal year. The collective bargaining agreement in force at the time included additional faculty general salary increases and other raises that were subject to a "re-opener" provision in the event that the CSU did not receive state funding increases commensurate with provisions of the compact with then-Governor Schwarzenegger. Not only did the 2009-10 Budget Act not include state funding

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increases, as mentioned before, it reduced state support to a level \$625 million below the 2007-08 fiscal year. Under the circumstances CSU's position has consistently been that these additional raises should not be granted. Notwithstanding the fiscal crisis of 2009-10 and notwithstanding the looming crisis presented by Governor Brown's 2011-12 budget proposal, the CFA insists that these raises be paid. If granted, this would result in an annual unbudgeted cost of approximately \$84 million. Whether or not there would be some additional retroactive cost is not clear.

Consulting Services for Government Relations and Advocacy

The CFA report points to CSU's use of consulting services for "lobbying" as another egregious example of mismanagement. Again, by using the device of counting expenditures over a two-year period (in this case the 2009-10 legislative session), the CFA magnifies the expenditure total. And again, by using this device, a year-to-year comparison is hidden. The 2009-10 session costs actually divide up as \$198,000 in calendar 2009 and \$191,000 in calendar 2010. Not noted in the report is the fact that the CSU managed down the cost of this contract by 7 percent, or \$30,000, between the 2007-08 and 2009-10 sessions.

The use of consultants to augment an organization's staff in the area of government relations is not as uncommon as the CFA implies; in fact, the CFA itself uses such consultants on a regular basis. Given the magnitude, breadth and importance to the university of decisions made in Sacramento—and decisions at the federal and local levels—it is not imprudent for the university to utilize some consulting expertise in addition to its own staff. As with all consulting services, the CSU will continue to carefully manage costs. (In 2009-10, the CSU reduced overall consulting and contracted services expenditures across the system by 19 percent.)

Consulting Services for Human Resources and Collective Bargaining

Finally, the CFA report singles out consulting services in the area of human resources and collective bargaining as an example of fiscal mismanagement. Again, the arguments and counter-arguments are similar to the previously discussed instance of consulting services. If anything, however, the complexities of labor relations and collective bargaining laws provide additional need for the CSU to seek outside expertise. Major amounts of taxpayer and student fee monies are at stake in the collective bargaining arena and the negotiations the CSU must conduct with thirteen different bargaining units. Work rules that affect important matters, including the extent to which faculty teach in the classroom as opposed to non-instructional activities, are also involved. The faculty raise issue mentioned earlier that remains unresolved since 2009-10, and that could cost the university \$84 million annually at a time it faces a budget cut of \$500 million (or more), is just one of many examples of the potential impact and procedural complexity of issues in the collective bargaining arena.

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I hope the information I have provided is helpful in understanding the challenges that we all face in addressing the Governor's proposed budget for the CSU. Please let me know if I can be of further assistance during the budget deliberations.

Sincerely,



Robert Turnage
Assistant Vice Chancellor for Budget

c: Members of the Legislature
Nancy McFadden, Governor's Office
Charles B. Reed, Chancellor, California State University
Benjamin F. Quillian, Executive Vice Chancellor and CFO, California State University