Good afternoon. We’re off and running with a new academic year, and it wouldn’t be right to welcome fall semester without a budget forum!

When we began these budget forums in 2008, we probably didn’t expect the sustained economic challenges we’re experiencing in the nation, the state, and certainly in the CSU. But since this is the 16th forum, it is clear that we are now faced with a new economic reality, and the reality that public funding for higher education will continue to be constrained, irrespective of the economic picture.

As I mentioned at Convocation, public higher education is facing a new reality. During the last academic year, California legislators cut state appropriations for public higher education by 1.54 billion dollars, a 13.5% decrease from the previous year. This equated to a 750 million dollar cut in funding to the CSU. So, since 2007-08, annual state funding is down 1.2 billion dollars. Tuition revenue increases have netted 593 million dollars, but with increases in mandatory costs, there is still a funding gap of approximately 510 million dollars.

You have likely seen the CSU announcement about the Governor’s budget, and may have reviewed the budget in more detail. Here’s what we know about the Governor’s budget:

- The state budget adopted by the Governor and legislature keeps the CSU budget essentially flat provided that the November tax measure passes.
- The measure, as you all know, will raise income taxes on high-income earners and increase the state sales tax for a three-year period. If that initiative fails, it will trigger a 250 million dollar additional cut to the CSU. The LAO has already said the Governor’s trigger plan would create significant uncertainty for schools, community colleges and universities in 2012-13. We couldn’t agree more.
- The budget just approved has an option for a delayed tuition buyout that appropriates 125 million dollars in next year’s budget — but only if the tax measure passes and if the CSU board rolls back the tuition increase passed by our board last November to be effective this fall. Even if the Governor’s tax measure passes, and we are allowed by our Board to
keep tuition at the higher rate, the CSU is still looking at an operating deficit of nearly 180 million dollars this year.

- The Governor’s budget proposal was neutral about enrollment, meaning it didn’t say anything about it. As you know, we’ve been planning for 7,770 FTES for 2012-13.
- As you’ll recall, the Board of Trustees had already approved a tuition increase of slightly less than 250 dollars per semester last November (9%), if the proposed budget were not funded. We had already included that in our multi-year budgeting model and we are obviously already collecting it. The bottom line for us, if the 250 million dollar cut is triggered, it will cost CSUSM another 5.5 million dollars. This has already been removed from this year’s budget by the system. This is on top of the 12.9 million dollar ongoing reduction in 2011-12 state appropriations and another 2.5 million dollar mid-year cut. So, if you’re counting, and I am, that’s a total of 20.9 million dollars.

Whether or not the Governor’s tax measure passes, uncertainty will remain within the CSU. The Board of Trustees will be presented with a contingency plan should the tax initiative fail at their meeting September 18 and 19 that includes:

For this fiscal year:
- A 150 dollar per semester tuition fee increase effective Spring 2013. That would net 58 million dollars in the current fiscal year and 116 million dollars per year in 2013-14; this will be proposed as additional tuition WITHOUT SUG set aside; would need to go to 225 dollars in order to have sufficient funds for set aside.
- Implementing system wide administrative efficiencies that will save 10 million dollars this year and 20 million dollars next year;
- Using one-time balances of 50 million dollars from continuing education reserves on certain campuses; utilizing “profits” from our summer session toward our reduction was/is already in CSUSM’s budget.
- Using other one-time resources on the campuses to close the remaining 132 million dollar gap in 2012-13. Again, “profits” from UARSC, SMUC were already in our budget proposal for this year to deal with the additional 5.5 million dollar reduction.

For 2013-14 and going forward:
- The tuition fee increase and administrative efficiencies already mentioned, plus
• Implementing cost sharing for health care benefits, effective in July 2013, which would net 70 million dollars beginning in 2013-14; this is a proposal to the board, but would take legislative action. The CSU is the only state agency that pays the full cost of employee health benefits.

• Requiring residential seniors who have earned 150 semester/225 quarter units or more to pay an additional fee on a per unit basis at a rate equal to the non-resident tuition excess unit rate (currently $372 per semester unit). The fee is intended to encourage “super seniors” to graduate and thereby increase graduation rates and free admission slots for other CSU eligible applicants.

• It is estimated that there are 10 course repeats per 100 CSU undergraduates each term, with over 40,000 seats in state-supported classes taken by students who already have taken the course. Students who choose to repeat a course would be required to pay the proposed Course Repeat Fee, which would be set at 100 dollars per semester unit.

• In addition, students choosing to repeat courses will not be permitted to enroll in more than 15 units in the term. The fee is intended to lead students to make careful decisions with regard to repeating a course. This will free up space for students who have not had an opportunity to take the course, speeding their time to graduation.

• Finally, implementing a third tier in which students enrolled in 17 or more units would be charged for each unit taken above 16 units at a rate of 200 dollars per semester unit. Adding a “third tier” to the CSU resident tuition fee structure would improve the fair distribution of needed classes to each undergraduate student.

• The third-tier would also dissuade students from signing up for extra course loads (and then dropping courses later in the term) and avail additional course sections and “seats” to be available for all students and giver every undergraduate a better opportunity to carry a full course load. These new fees together would net approximately 35 million dollars per year.

• And increasing non-resident tuition by 7%, effective Fall 2013.
Certainly, none of these options are ideal, so at CSUSM, we will continue our prudent budget measures and demonstrate good stewardship of scarce resources as we have now been doing since January 2008 – almost five years. We continue to thoroughly review any open positions as well as any planned large purchases and service contracts. Most importantly, we will continue to operate by our three guiding principles that have helped carry us through the economic downturn:

1) We will continue to serve as many students as we can within our budget and without sacrificing quality.

2) We will protect as many jobs as possible, and

3) We will balance the need to address the crisis with the commitment to build for the future.

Having said that, I know that we have exhausted reserves … that getting by on carry-forward can only go so far, and we have much less this year than in previous years. That said, I must say that the carry forward this year, half of what it has been in previous years, was still important for us and gratifying to me to see that “you all get it” – that we need to continue to be extremely prudent so we have some of these funds. And I know that for four and a half years – almost five, we have cut, reduced, saved, reallocated, and not replaced in every way possible.

But we have also been creative in identifying partnerships and alternative revenues toward achieving our strategic priorities. It is this commitment to innovation, to doing things differently, to modeling new approaches that will sustain us now and going forward. As I said at Convocation, we have been both resilient and adaptive. It is, I believe, the model needed to sustain public higher education.

For this fiscal year, 2012-13, CSUSM will close the 8.8 million dollar budget gap through:

- Revenues saved from moving activities to extended learning;
- Moving ECS to SMUC;
- Revenue sharing from our auxiliaries — SMUC and UARSC. This does not include ASI;
- Interest earnings;
- Revenue from exceeding our 2011/12 target;
- Redirecting expenditures to trusts;
• Using our lottery fund balance;
• Redirecting funds from campus projects/activities such as the Mangrum Track walkway project, CMS and federal work study;
• One time division reductions;
• A reduction to the technology refresh program;
• and other one times funds, such as the ALCI fund balance.

You’re probably asking, how do we potentially deal with this on an ongoing basis? We’ll continue to have revenue from summer session, as well as from growth in special session revenue through expansion of self-support programs, we’ll continue to have annual contributions from enterprise auxiliaries, and we’ll continue to very carefully watch positions that become vacant. We are also exploring a Student Success Fee, as several other CSUs have, in order to maintain and enhance critical components of student success.

We will take this semester to prepare the materials and the time line to have an alternative consultation process with students as soon as we begin our spring semester for a fee that would begin in fall 2013. The types of “activities” this fee would fund, generally, are for critical courses, student advising, math and writing tutors.

The economic pressure will continue, and public funding for higher education will be constrained even in the good years. So, I will put these things on the table for our consideration and discussion in the spring semester:

**Regional Demographics**

Regional demographics are such that we will continue to be a high demand campus, and we must continue smart growth. We had 11 percent more applicants this year than we did last fall. That being said, we must continue our outreach to underserved communities, which are quickly becoming the majority and will make up the workforce of the future.

For the region to achieve economic, social or cultural development, we will need to attract and retain knowledge-based industries. It is our mandate to produce graduates that are well prepared for those knowledge-based jobs.

As you well know, we have ten partnerships in place to help us do that – six with public school districts — and a small leadership team continues to work on an alliance with our public school partners to solicit funding to grow and to sustain this initiative.
Technology

We need to use technology better in how we provide student services, perform administrative tasks and manage information. Last summer, the executive council had a retreat that focused on technology. Using the outcome of that conversation, our Information Management Steering Committee, which is made up of the vice presidents, CIO, IT project manager, and is chaired by the AVP for institutional planning & analysis, developed a draft IT strategic plan and held a campus wide retreat to gather campus input on this draft document.

The turnout and discussions were encouraging, providing the steering committee with the basis for a new technology strategic plan. I expect the plan to begin rolling out this fall, starting with the governance structure.

You know that I am one of four system presidents on the CSU Online board and that I have been the “lead” president on promoting increased flexibility within system policies for extended education. I take these responsibilities very seriously, as I believe both are important for this university and for the system to serve more students through alternate sources of funding and multiple models with the same high quality that is the hallmark of the CSU.

More with Less

We will do more with fewer state resources. Note, I’m not saying do more with less, period. We’re already doing that. I know that no one has had a compensation increase in five years, and I understand that many of you are working in ways different than in previous years given our need to work smarter and reduce expenditures.

At the same time, I think that it’s imperative that everyone understands the value of the benefits they receive. Benefits are a significant and important complement to salary and typically comprise up to 40 percent of an employee’s total compensation.

Whether or not the board choses to support a move to get statutory authority to have employees share some part of the benefit costs, I felt it was instructive to talk just a bit about that today. Between 2007 and 2011, the average total benefits expenditures per employee at CSUSM increased from roughly 23,000 dollars to more than 28,000 dollars, or 21 percent. We now spend almost 25 million dollars on total benefits expenditures, which is 25 percent more than we did in 2007. Health benefits alone were almost 40 percent higher in 2011 than they were in 2007. I know benefits can be a “hot topic,” I expect that we will continue to have more conversations.
We also have to continue our conversations about how we serve more students by creating alternative revenues, raising productivity, offering programs through self-support when appropriate, using technology, changing our business practices, which could include outsourcing and building philanthropic support — and we have to prudently, but swiftly, move beyond conversations to implementation.

We have to leverage our auxiliaries. They were created for the sole purpose of benefitting the university and our students, and we will continue to leverage them to support the university’s mission and priorities while assuring that they have funds to deliver the services that they were created to provide.

What that means is examining auxiliary resources to ensure that they have money to invest in the future while providing much needed revenue to university projects and needs. And, with our new affiliated student housing, we will be aggressive in our recruitment of out-of-state and international students.

Both UVA and the Quad are filled to capacity — about 960 students — and have waitlists. In fact, student housing received 600 more applications for on-campus housing this year than they did last year. These numbers include 21 international students, as well as students from Massachusetts, Virginia, Hawaii and North Carolina who chose to live in student housing.

Beyond our auxiliaries, we will also be examining internal synergies that might make sense. For example, does every department need a budget office or human resource personnel? Again, I’m not saying that these changes are immediate or imminent. Rather, they are scenarios we are considering as we expand streams of revenue and look for greater efficiencies where we can. Though I do understand that we built efficiencies into much of what we do and have spent four plus years critically analyzing how to achieve efficiencies.

**Tough Choices**

We cannot sustain ourselves through broad focus. In our twenty-second year, we will focus on what we do well and where we have the most impact on this region’s workforce and cultural and social development. That is our mandate, so the highest and best use of resources is imperative. Accountability will only increase at the federal and state level.

Whether we agree or not, what legislators see is students not persisting to graduation, not able to get jobs and deep in debt. We will demonstrate differently, creating public value
measured by our impact on this region’s development. We have made great progress here, and we can’t take our eyes off this target.

We increased our retention rate to 80 percent, the highest percentage ever, while our six-year graduation rate for minority students reached an all-time high of 52 percent. We graduated the largest class in our history — 2,600 students, 50 percent were the first in their families to attain a four-year degree, and 45 percent were minority students.

Creating Pathways

We have to focus on pathways that move students through to graduation. It means tough love for students and holding ourselves accountable for protecting instruction, and providing support, guidance and pathways so student can persist in a timely manner toward graduation and a career. And it means, as earlier noted, providing more options — more creative options — to get them there.

This is especially important given all of the current and upcoming changes. In less than two years, there have been ten presidential changes: SDSU, SFSU, Stanislaus, MB, CSUN, CSUF, EB, SJSU, CSUSB, CSUDH. Three of these vacancies were filled with presidents from other campuses: SJSU, CSUDH, CSUN; four presidents are not only new to their campuses but also to the system: SDSU, CSUSB, MB, SFSU; while others are interim appointments: CSUDH, MB, Stanislaus. An additional long-serving president just announced his retirement in summer 2013 – Fresno. Four new Trustees have begun their terms, and another four will likely soon be appointed. Not to mention that with the Chancellor’s retirement, there is uncertainty at the very top and likely much change within the system’s senior staff.

Process

So, I ask you today to recommit to our principles, to recommit to our strategic priorities and to continuing our creative work and openness to new approaches. During budget reductions, it’s easy to focus inward, to be territorial, to try to protect resources. I hope that we don’t do that here. We haven’t up to this point. We have demonstrated our capacity to put the university first. “University first” means looking at our own areas to identify efficiencies, to make tough choices, to achieve the highest and best use of resources so that our mission and institutional priorities can be accomplished. University first is thinking through your decisions and the
impact they will have on other areas, and then consulting and collaborating with your colleagues to discuss those impacts before proceeding.

I will continue to provide you with information as we receive it. As I said, there will be a meeting with the Trustees next week where I hope to get clarity on the budget plans. As the budget process proceeds and we have more concrete information, we will engage the University Budget Committee — as you all know this is a representative group that includes division representatives, faculty, staff and students — to review the information and make recommendations to me.

If it comes down to where we need to make reductions, and we’ve exhausted all alternative solutions to avoid cuts, we will convene the UBC to go through its same process as it did before to review those categories put forward by divisions and recommend where we would focus the reductions to minimize the impact to the university priorities.

We must work together to overcome these challenges. We are working in a very complicated and unpredictable environment. We are working in an environment where a lot of the parameters are not within our purview to make:

- We don’t determine our state allocation
- We don’t determine our enrollment targets
- We don’t determine our compensation nor the options available within them

Throughout the crisis, we have assumed good intent. We have, across this campus, assumed the lens of university first. I trust those will continue as we navigate through continued uncertainty.

**Conclusion**

Higher education can’t be a luxury for only the wealthy. Every student in the country should have the right to attend college regardless of his or her means.

We will rise to the challenge to make that a reality. This semester, we will manage the uncertainty. We will have the difficult conversations. We will continue to identify new revenue streams and alternative approaches. We will make the case for philanthropic support in the community. We will advocate for the CSU at the state and national level. And most importantly, we will keep the focus on the future and on serving students and this region. As I ended Convocation, we will continue to educate, elevate, and innovate.