Financing the CSU's needs

CSU executives say faculty salaries must compete for dollars with the university's infrastructure needs. But buildings, modernization and much more can—and should—be funded in ways that do not interfere with support for quality instruction. We are talking bonds. Read on…

By Steven Filling
President, CFA Stanislaus Chapter
Business, CSU Stanislaus

John Griffin
President, CFA Channel Islands Chapter
Business, CSU Channel Islands

Every Spring considerable attention is given to the negotiations in Sacramento over the next California State Budget since a large portion of the funding for the California State University 23-campus system is determined through that process.

Our California Faculty Association Government Relations Team works hard year-round to inform legislators and policy makers of our good work so that the CSU's needs are given due consideration in the process.

The stakes are high for our students, whose education depends a great deal on that funding, and for us because our CFA Bargaining Team so often is told that faculty raises are constrained by the funding that is determined by the Legislature and the Governor.

That line of argument is accompanied by laundry lists of competing needs for funds. Perennial items include deferred maintenance, critical infrastructure needs and information technology programs.

What is missing in the arguments that "the CSU can't afford compensation increases for faculty" is the reality that there are other sources of funds available to the CSU.

ANOTHER SOURCE OF FUNDS

This article describes one of those sources—debt. Most of us would never be able to purchase a home or car without the use of debt. Today, with interest rates at historic lows, organizations of all kinds are using debt to build and upgrade capital assets like buildings, equipment and infrastructure.

We are not proposing that the CSU's management issue bonds to fund employee compensation; rather we suggest that CSU management use debt wisely, as other organizations do, to fund acquisition and maintenance of long-term assets.

In the recent 2016 June primary election, 46 California school districts (K-12 and Community College Districts) got voter approval to borrow over $6 billion.

By comparison, the entire 2016/17 CSU Budget is about $6.5 billion. More than double that amount in new school debt is likely to be approved by voters in the 2016 November General Election for schools. One measure alone up for a vote in November, Proposition 51, provides for the issuance of $9 billion in bonds to improve construction of school facilities for K-12 schools and community colleges.[1]

Managing debt is the job of the Chief Financial Officer. Recently, the CSU Trustees approved the refinancing of about $1 billion in existing CSU debt resulting in savings of more than $300 million in interest payments over the next 10 years.

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These are real dollars that benefit the CSU's general fund in the same way that a legislative funding increase does. How many of you have refinanced your home loan to realize savings on your monthly mortgage payments? This is no different.

BONDS CAN BE SOLD

When a business or non-profit organization like the CSU decides to borrow money, it typically sells bonds to the public rather than taking out a loan at a bank.[2]

Because the CSU is a public state agency and uses bond proceeds in pursuit of the public interest, it can borrow money at lower rates than corporate entities. The reason for those lower rates is that interest paid to investors on those bonds is usually tax free.

Another reason CSU bonds have lower rates is the CSU's financial position.

Bonds are rated by external agencies that review financial and operational information about bond issuers. CSU bonds are currently rated Aa2 by Moody's Investors Service, a higher rating [meaning the bond is less risky to an investor] than the State of California itself [its bonds are rated A1, which indicates more risk].

This means that bond ratings firms see CSU bonds as high-quality investment-grade securities with very low credit risk.[3] In other words, the bond ratings firms believe CSU to be in strong financial health.

Investors, like insurance companies and pension funds, buy bonds (lend the organization money) because bonds are less risky than other investments (stocks).

In order to attract those investors, the CSU publishes a document that describes its financial condition in glowing terms. The document, called a prospectus, shows the many CSU sources for revenue including student tuition, student housing fees, parking fees, and information monies earned by our campus auxiliaries.[4] It also states that even after issuing the $1.3 billion 2016 bonds, the CSU has the authority to issue $1.07 billion in bond funds that have not yet been issued. The CSU's financial prospectus document stands in stark contrast to the dire state of the CSU finances we are presented with on our campuses and at the bargaining table.

As noted above, bonds are huge sources of funding that remain untapped and could be used to meet oft-mentioned CSU funding expenses for "critical infrastructure projects, deferred maintenance and information technology programs."

As we approach the next round of contract negotiations, your CFA Bargaining Team will continue to remind the administration that faculty have expenses, too. There can be no justification for reducing long-constrained faculty salary increases in order to fund infrastructure and deferred maintenance projects. With interest rates at historic lows now is the time for the CSU to flex its financing muscle for infrastructure and maintenance projects. ■

Notes

1. For information about Prop 51 see: https://ballotpedia.org/California_Public_Education_Facilities_Bond_Initiative,_Proposition_51_(2016)
2. For a short explanation of why organizations use bonds rather than bank loans, please see <CFA blog?>
3. For a short explanation of bond ratings and what "investment grade" means please see <CFA blog?>
4. See: https://www.calstate.edu/ft/sysrevbnds/Final-Official-Statement-2016A&B.pdf for the most recent prospectus distributed to investors for the 2016 refinancing deal.

Learn more about how CSU executives could address their problems from Economics Nobel Laureate Paul Krugman, in his *New York Times* article "Time to Borrow." http://www.nytimes.com/2016/08/08/opinion/time-to-borrow.html

SB1234 SECURE CHOICE

California leads the way to better retirements

"There are those who want to wreck our retirement with a race to the bottom that everyone loses," says Jonathan Karpf, CFA Associate VP and CFA's lead campaigner on retirement security.

"But," he adds, "we need to wage this fight by raising everyone up. The Secure Choice retirement bill is an important step in doing that."

Most working people have no employer-sponsored retirement savings plan at all. Even familiar plans like 401Ks—ones that allow workers to deduct contributions from their paychecks before taxes are withheld—are not available to tens of millions of Americans, especially those who work for small businesses.

Enter SB1234, authored by California State Senate Pro Tem Kevin de Leon, to create a new type of payroll-deduction retirement plan for people working in the private sector.

Retirement Security for All, a project of the Service Employees International Union, a CFA affiliate, has led the push for SB1234. Even the New York Times Editorial Board praised it: "California is taking on the mantle of leadership."

Karpf points out that retirement security for all is very much in the interests of CFA members:

> "CSU faculty have excellent retirement benefits, and CFA has worked hard to ensure we are protected. But we have our own family and friends, and so many working students who would be helped by this.
>
> "This is a measure to provide a modicum of assistance for people with private sector jobs who otherwise would be completely on their own."

If AB1234 becomes law, more than seven million workers in California would become eligible to participate. There would be minimal cost to employers, no cost to taxpayers, and the accounts would be portable as people change jobs, an important feature in today's economy.

At *California Faculty* press time, Secure Choice had passed California's Assembly and Senate. Gov. Brown has until September 30 to sign it. ■

Retirement Security For All

Learn more at:

Retirement Security for All: rsacalifornia.org

Details of SB1234: www.treasurer.ca.gov/scib/index.asp