



## *California State University*

It Failed to Fully Disclose Its \$1.5 Billion Surplus,  
and It Has Not Adequately Invested in Alternatives  
to Costly Parking Facilities

*June 2019*

**REPORT 2018-127**





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June 20, 2019  
**2018-127**

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As directed by the Joint Legislative Audit Committee, the California State Auditor conducted an audit of the financial accounts that the California State University (CSU) holds outside of the state treasury (outside accounts) and its campus parking programs. This report concludes that the CSU Office of the Chancellor (Chancellor's Office) has failed to fully disclose financial resources that it holds in outside accounts, and it has not ensured that campuses fully explore options for alternate methods of transportation (alternate transportation) before investing in expensive parking facilities.

As of June 30, 2018, CSU had accumulated a surplus of more than \$1.5 billion, which consisted primarily of unspent tuition revenue. During the same decade that this surplus was growing, the annual tuition for students attending CSU campuses nearly doubled, and the State increased annual appropriations to CSU as a result of additional voter-approved taxes. Although the Chancellor's Office considers CSU's surplus to be necessary reserves that it has designated for specific purposes, the \$1.5 billion in these outside accounts is available for CSU to spend at its discretion to support instruction and other operating costs. By failing to disclose this surplus when consulting with students about tuition increases or when projecting CSU's resources and needs to the Legislature, the Chancellor's Office has prevented legislators and students from evaluating CSU's financial needs in light of its unspent financial resources.

The Chancellor's Office has also failed to ensure that campuses follow CSU policy that requires each campus to consistently plan for or implement alternate transportation options—such as public transportation, shuttles, or bike share programs—before investing in additional parking capacity. The campuses we visited—Fullerton, Channel Islands, Sacramento State, and San Diego State—have generally relied on building additional parking facilities to address growing demand due to increasing enrollment. Campuses often pass the resulting building and maintenance costs on to students, many of whom pay increased sums for parking permits but experience little or no improvement in parking availability. For example, from fiscal years 2008–09 through 2017–18, Channel Islands increased parking prices by 34 percent while parking capacity actually decreased by 21 percent because enrollment outpaced the growth in parking supply. As CSU's enrollment continues to increase, it must investigate and adopt the most sustainable and cost-effective transportation solutions available.

Respectfully submitted,

A handwritten signature in black ink that reads "Elaine M. Howle".

ELAINE M. HOWLE, CPA  
California State Auditor

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## SUMMARY

The California State University (CSU) serves more than 480,000 students at 23 campuses located throughout the State. Its mission is to extend knowledge, learning, and culture and to provide Californians and others with the opportunity to obtain baccalaureate and advanced degrees. As part of this audit, we visited the CSU Office of the Chancellor (Chancellor's Office) and four campuses. We examined two of CSU's financial practices that have the potential to negatively affect students: its accumulation of surplus revenue from tuition and other sources and its focus on building new parking facilities rather than on implementing other transportation options. This report concludes the following:

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### **The Chancellor's Office Did Not Fully Inform Legislators and Students About CSU's \$1.5 Billion Surplus**

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As of June 30, 2018, CSU had accumulated a surplus of more than \$1.5 billion, primarily from student tuition, that it can use at its discretion to cover the costs of instruction or other operations. During the period when CSU accumulated much of this surplus from fiscal years 2008–09 through 2017–18, it nearly doubled the cost of student tuition. Further, state funding for CSU also increased significantly after 2012, when California voters approved additional taxes to support education. Although the Chancellor's Office considers the surplus to be critical for supporting CSU's operational needs, it did not disclose the surplus to students when consulting with them about raising tuition costs, thus undermining the opportunity state law affords the students to provide input and ask questions about the need for tuition increases. The Chancellor's Office also did not disclose the surplus to the Legislature when it provided information about CSU's available financial resources. As a result, legislators were unable to evaluate whether CSU's accumulation of surplus funds was reasonable and to consider whether that surplus should be used to fund certain portions of CSU's budget requests rather than the State's General Fund appropriations.

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### **The Chancellor's Office Has Failed to Ensure That Campuses Consistently Plan for Alternatives to Costly Parking Facilities**

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From fiscal years 2008–09 through 2017–18, the four campuses we visited raised student parking permit prices to as high as \$236 per semester, largely to pay for the millions of dollars in annual debt payments they took on to finance the construction of new parking facilities. However, these costly new parking facilities have had a minimal impact on parking capacity. Moreover, the Chancellor's Office has not ensured that campuses have consistently planned for

or implemented options for alternate methods of transportation (alternate transportation)—such as shuttles, carpools, and bicycles—before requesting to build new parking facilities, as CSU policy requires. CSU’s growing enrollment emphasizes the importance of it adopting the most cost-effective transportation solutions so that campuses can accommodate additional students. Nonetheless, the Chancellor’s Office has not consistently provided the leadership and oversight necessary to ensure that campuses implement alternate transportation programs.

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### **Other Areas We Reviewed**

We also reviewed CSU’s fiscal practices and the transportation services programs at each campus. We found that CSU has appropriate practices in place to safeguard the accounts it holds outside of the Centralized State Treasury System. We also determined that the savings CSU has realized because its salary costs were lower than budgeted (salary savings) can contribute to its surplus. However, because CSU is exempt from budget requirements that would make it necessary to track salary savings, some campuses had limited information about their salary savings. Finally, we also examined whether campuses appropriately spent parking fine revenues, whether they disbursed interest and earnings from parking revenues appropriately, and whether they required quotas for parking violations. We did not find issues in these areas.

### **Summary of Recommendations**

#### ***Legislature***

To ensure transparency about CSU’s available financial resources, the Legislature should require that, beginning in September 2019, the Chancellor’s Office provide legislators current balances and projections of the surplus CSU has accumulated for discretionary spending on operations and instruction, and an estimate of how much tuition contributed to that surplus, no later than November 30 each year.

To ensure that students have equitable access to campuses and that campuses provide the most cost-effective mix of parking and alternate transportation options, the Legislature should require the Chancellor’s Office to include relevant additional information in the five-year capital improvement plan that it submits annually to the Legislature, such as the status of campuses’ implementation of alternate transportation strategies and how those strategies have reduced parking demand.

***Chancellor's Office***

To improve its transparency, the Chancellor's Office should publish on CSU's website by October 2019, and annually thereafter, information for all stakeholders about CSU's surplus for operations and instruction, including an estimate of how much tuition contributed to that surplus.

To ensure that campuses thoroughly investigate and consider alternate transportation strategies, the Chancellor's Office should immediately require that when campuses request to build new parking facilities, they must submit information on whether implementing alternate transportation strategies reduced parking demand and their plans for future strategies.

**Agency Comments**

The Chancellor's Office indicated that it believes we have mischaracterized the manner in which it reports its investments and designated reserves. It also indicated that, to the extent possible, it will implement the recommendations in the audit report.

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# INTRODUCTION

## Background

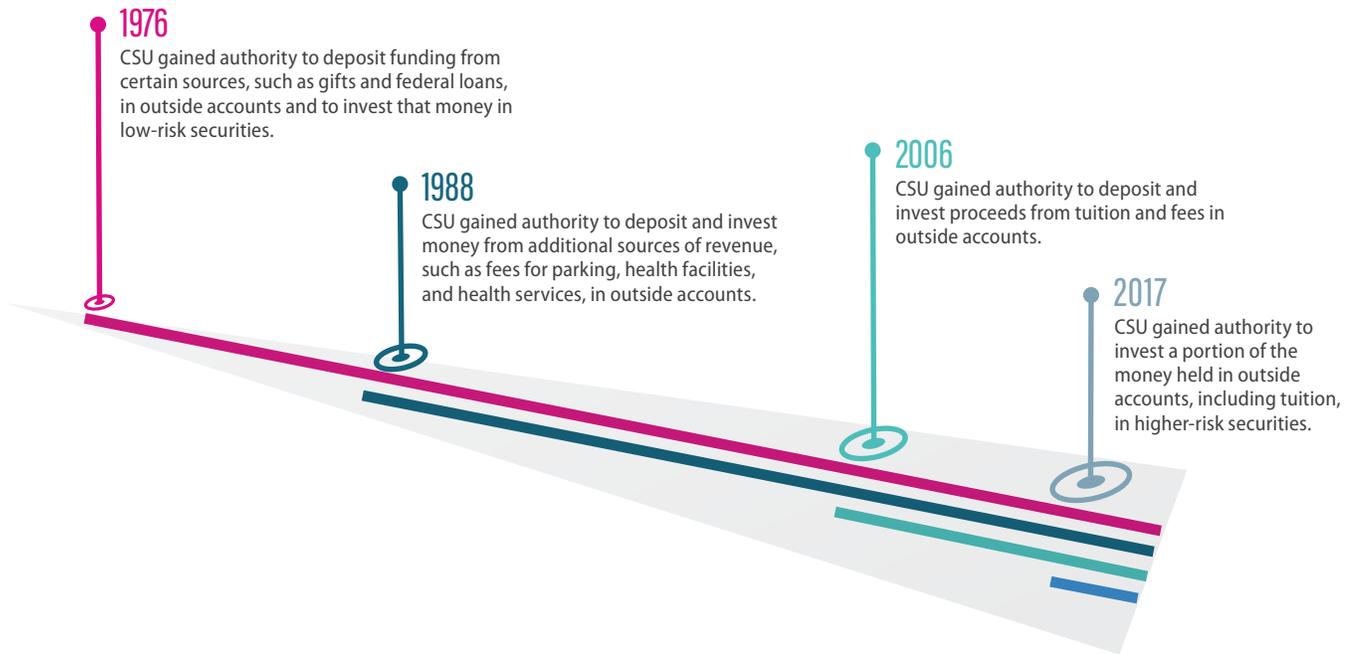
The California State University (CSU) is a public university system that serves more than 480,000 students at 23 campuses located throughout the State. CSU's mission includes advancing and extending knowledge, learning, and culture, especially throughout California, as well as offering baccalaureate and advanced degrees that provide opportunities for individuals to develop intellectually, personally, and professionally. A 25-member Board of Trustees (trustees) administers CSU and appoints the Chancellor of CSU (chancellor). The chancellor is CSU's chief executive officer and he has the authority and responsibility to take whatever actions are necessary for the appropriate functioning of the system, including developing and overseeing its budget and issuing executive orders on CSU policy. The chancellor may also delegate authority to others within CSU, such as the campus presidents, who are the chief executive officers of their respective campuses.

As part of this audit, we visited the CSU Office of the Chancellor (Chancellor's Office) and four campuses: California State University Channel Islands (Channel Islands); California State University, Fullerton (Fullerton); California State University, Sacramento (Sacramento State); and San Diego State University (San Diego State).

## CSU Accounts Outside of the State Treasury

Although state law typically requires state entities to deposit money in accounts within the Centralized State Treasury System (state treasury) and allows for the investment of surplus money that is not necessary for immediate use, CSU's legal authority to use accounts outside the state treasury (outside accounts) to deposit and invest funding it receives from different types of revenue has expanded over time. The purpose of the state treasury is to protect state money while maximizing investment returns, and the State Treasurer's Office and the State Controller's Office oversee accounts within it. Before 2006 the state treasury held money from CSU's two major sources of funding: its General Fund appropriation from the State and student tuition revenue (tuition). CSU collected tuition from students and then remitted it to the State for deposit in a fund within the state treasury. The State then returned the tuition to CSU and also provided additional state money to CSU through a General Fund appropriation. However, state law authorized CSU to deposit money from certain other sources, such as gifts and federal loan money, in outside accounts. As Figure 1 shows, beginning in 2006, the Legislature amended state law to authorize CSU to deposit revenue from tuition and other fees in outside accounts. This change made CSU's financial management similar to that of the University of California in that tuition is now continuously available for CSU's general purposes rather than becoming available through the annual budget act.

**Figure 1**  
Over Time, the State Has Expanded CSU's Authority to Use Outside Accounts



Source: Analysis of Education Code sections 89721 and 89724 through 89726, Government Code section 16430, and CSU banking and investing policies and procedures.

CSU's investment authority also expanded recently. Until 2016 state law authorized CSU to invest surplus money—money that CSU did not need to cover current expenses—in a limited selection of securities, such as government bonds. Consistent with state law, CSU established a systemwide investment fund trust with three objectives: safeguarding the surplus, ensuring that it was readily available to meet expenses, and earning an acceptable amount of interest. Effective 2017, the Legislature amended state law to expand CSU's authority to invest funding from other sources, including tuition, in additional types of securities, such as real estate investment trusts, that may provide greater returns, albeit with greater risk.

CSU has established its own central banking and investing system that ensures that it pools and invests surplus money. Campuses and the Chancellor's Office use individual accounts to make deposits and disburse payments. The accounts are zero-balance accounts that do not accumulate balances of surplus money. Instead, each day CSU consolidates any money remaining in those accounts into one systemwide checking account (consolidated checking account) that holds money for systemwide needs. If there is a surplus in the consolidated checking account, CSU transfers money from that account to a pooled investment account (investment account).

If there is a shortage in the consolidated checking account, CSU transfers funding from the investment account into its consolidated checking account. The value of the surplus that CSU holds in its investment account changes as CSU transfers money in and out, as well as when the market value of CSU's investments shifts. As Table 1 shows, CSU had accumulated a surplus worth nearly \$4 billion in its investment account as of June 30, 2018. This surplus constituted most of the money CSU had in its outside accounts.

**Table 1**  
**CSU Had a Total Surplus of Nearly \$4 Billion**  
**As of June 30, 2018**

OUTSIDE ACCOUNT TYPE	ACCOUNT BALANCE AS OF JUNE 30, 2018
Investment account	\$3,960,943,228
Consolidated checking account	18,938,887
Escrow accounts	3,801,773
Foreign study program accounts*	337,712
Auxiliary campus payroll account†	152,124
Zero-balance accounts	0
<b>Total</b>	<b>\$3,984,173,724</b>

Source: Analysis of CSU's *Report of Accounts Outside the State Treasury* for the fiscal year ended June 30, 2018, state law, and other documentation authorizing CSU's outside accounts.

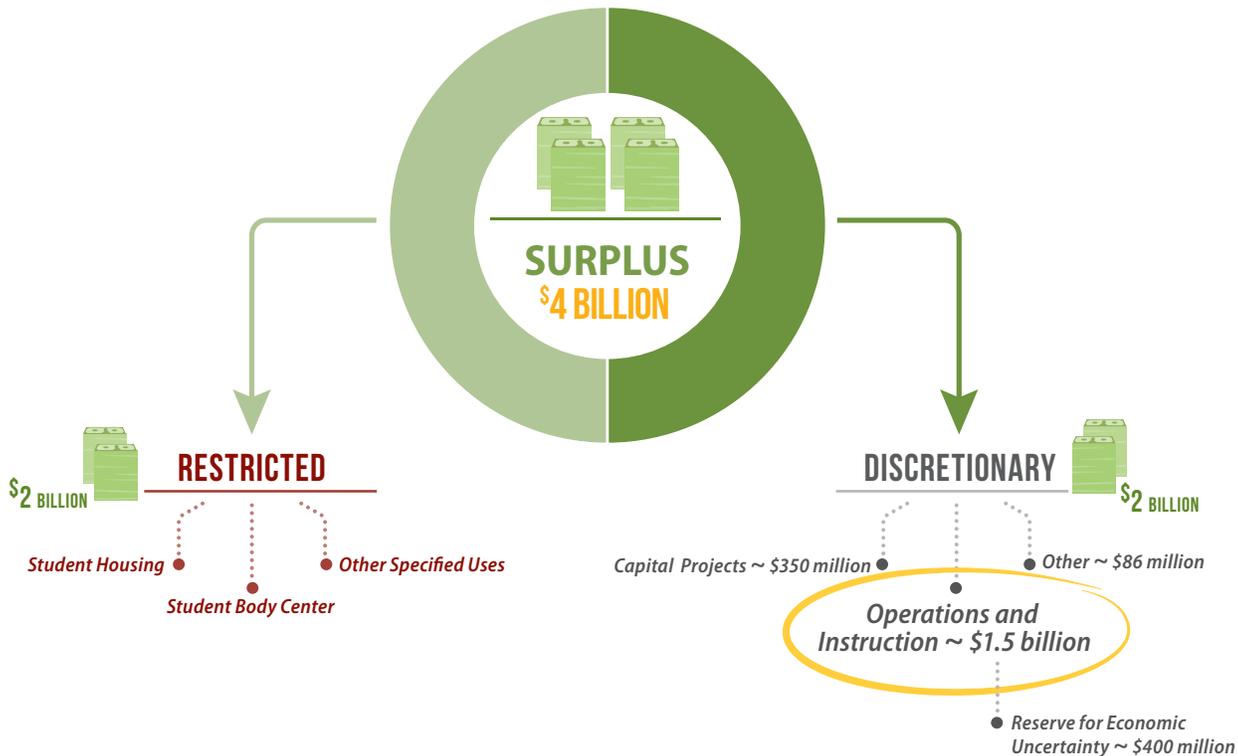
\* Education Code section 16305.8 authorizes CSU to make deposits in foreign banks to support programs of foreign study that CSU students attend.

† California State University, San Bernardino held an auxiliary campus payroll account pursuant to authorization from the Department of Finance.

CSU's \$4 billion surplus comes from two types of funding with significant differences between the two that affect how CSU can use the surplus. About half of CSU's funding is from revenue sources that are restricted, such as financial aid or student housing fees, meaning that CSU can use that funding only for certain purposes as specified in state law (restricted). The other half—\$2 billion—is from revenue sources that CSU has greater discretion to use for the broad purpose of providing services, facilities, or materials (discretionary), such as tuition. As of June 30, 2018, \$1.5 billion of the \$2 billion discretionary surplus was available for CSU to use for general operations and instruction, as Figure 2 shows. CSU had designated about \$400 million of that \$1.5 billion discretionary surplus as a reserve for economic uncertainty—money meant to limit the impact of state recessions and support year-to-year consistency in university operations. Aside from the \$1.5 billion, CSU had some additional surplus money, including about \$350 million that it had earmarked for maintaining and improving academic buildings (capital projects) and about \$86 million it

had designated for funding repairs, maintenance, and capital purchases related to products and services that campuses provide to each other.

**Figure 2**  
 Half of CSU's Surplus as of June 30, 2018, Was Discretionary



Source: Analysis of CSU's account data.

The \$1.5 billion discretionary surplus that CSU could use for operations and instruction accumulated from revenue in its operating fund. Similar to the State's General Fund, which is the primary fund the State uses to pay for governmental activities, the operating fund pays for the expenses related to CSU's operations and instruction, such as academic salaries and benefits. Tuition provided the majority—\$23 billion of approximately \$27 billion, or 84 percent—of operating fund revenue that CSU deposited in its outside accounts during our 10-year audit period from fiscal years 2008–09 through 2017–18, and it was the primary source for the fund's surplus. In this report, we focus our discussion of CSU's outside accounts on the operating fund.

## CSU Parking and Transportation

Each CSU campus is responsible for administering its own parking facilities and transportation options through its parking and transportation services office. In 1995 the Chancellor's Office shifted authority for parking operations to the campus level. The text box summarizes the campuses' primary parking-related responsibilities. Each campus also has the authority to set parking fees, subject to approval by the campus president, with some exceptions.

### *Parking Operations*

Parking operations at the campuses are self-supporting; campuses must fund them using parking fees obtained primarily from revenue from the sale of parking permits. Campuses tend to set parking fee prices as needed to cover annual debt payments and operating expenses. Campuses sell parking permits by user type such as semester permits for students, faculty, and staff, as well as students living in on-campus housing (residential permits). Additionally, campuses sell daily permits. The four campuses we reviewed—Channel Islands, Fullerton, Sacramento State, and San Diego State—do not restrict the number of permits they sell, though two campuses limit residential permits to the number of residential parking spaces. The four campuses allot between 70 percent and 80 percent of their total parking spaces to students, including residential spaces.

Because state law restricts the uses of proceeds from parking revenues—parking fees, as well as parking fines and forfeitures (parking fines)—campuses may spend them for specified purposes only. Campuses must use parking fees first for debt payments on existing parking facilities and then may use them to pay for parking operations, a portion of the cost for a new facility, and alternate transportation. Campuses must use parking fines for campus parking enforcement operations and options for alternate methods of transportation (alternate transportation). From fiscal years 2008–09 through 2017–18, the four campuses we reviewed collected about 90 percent of their total parking revenue from parking fees; about 7 percent from parking fines; and the remainder from other sources, such as investment income.<sup>1</sup>

### CSU Campus Responsibilities Related to Parking

- Collect, deposit, record, and spend parking revenues in specified parking funds.
- Maintain and repair parking facilities.
- Develop local strategies to meet transportation needs.
- Make debt payments on bond-financed parking facilities.
- Plan for new construction projects.
- Establish necessary reserves.

Source: CSU parking policy based on CSU Parking Task Force recommendations.

<sup>1</sup> Table C.1 in Appendix C identifies the campuses' annual parking revenue and expenses related to parking facilities for fiscal years 2008–09 through 2017–18.

### ***Construction of Parking Facilities***

Campuses generally finance the construction of parking facilities by taking on annual debt payments, which are associated with the issuance of systemwide revenue bonds (bonds). Figure 3 shows this process. A campus contributes a portion of the cost of a new facility and funds the remainder of the cost using proceeds from the bond's sale, which it pays back by making annual debt payments over 25 to 30 years.

To take advantage of lower interest rates available to CSU as a system, CSU issues a single bond to finance multiple parking, housing, and student union projects at different campuses.

The campuses submit project proposals and financial plans to the Chancellor's Office, which determines the timing of the bond issuance, with the trustees' approval. Each campus program only makes debt payments for its own bond-financed projects. In 1995 CSU repaid all outstanding parking-related bond debt systemwide. Since then, the four campuses we reviewed have financed 12 parking facilities using bonds, the earliest of which is scheduled to be fully paid off in 2023.

#### **The Key Documents Campuses Must Use When Planning and Implementing Transportation Management Strategies**

In response to planned enrollment growth, campuses must take the following steps:

- Develop or update a physical master plan—an overview of the campus's facility needs—including plans for proposed new parking facilities. This plan must meet new conditions, such as enrollment growth, and the campus must reevaluate it at least every 10 years.
- Develop a transportation demand management plan. The plan generally presents an overview of the current parking and transportation conditions at the campus, documents the campus's existing transportation management strategies, and offers recommendations for improvement.

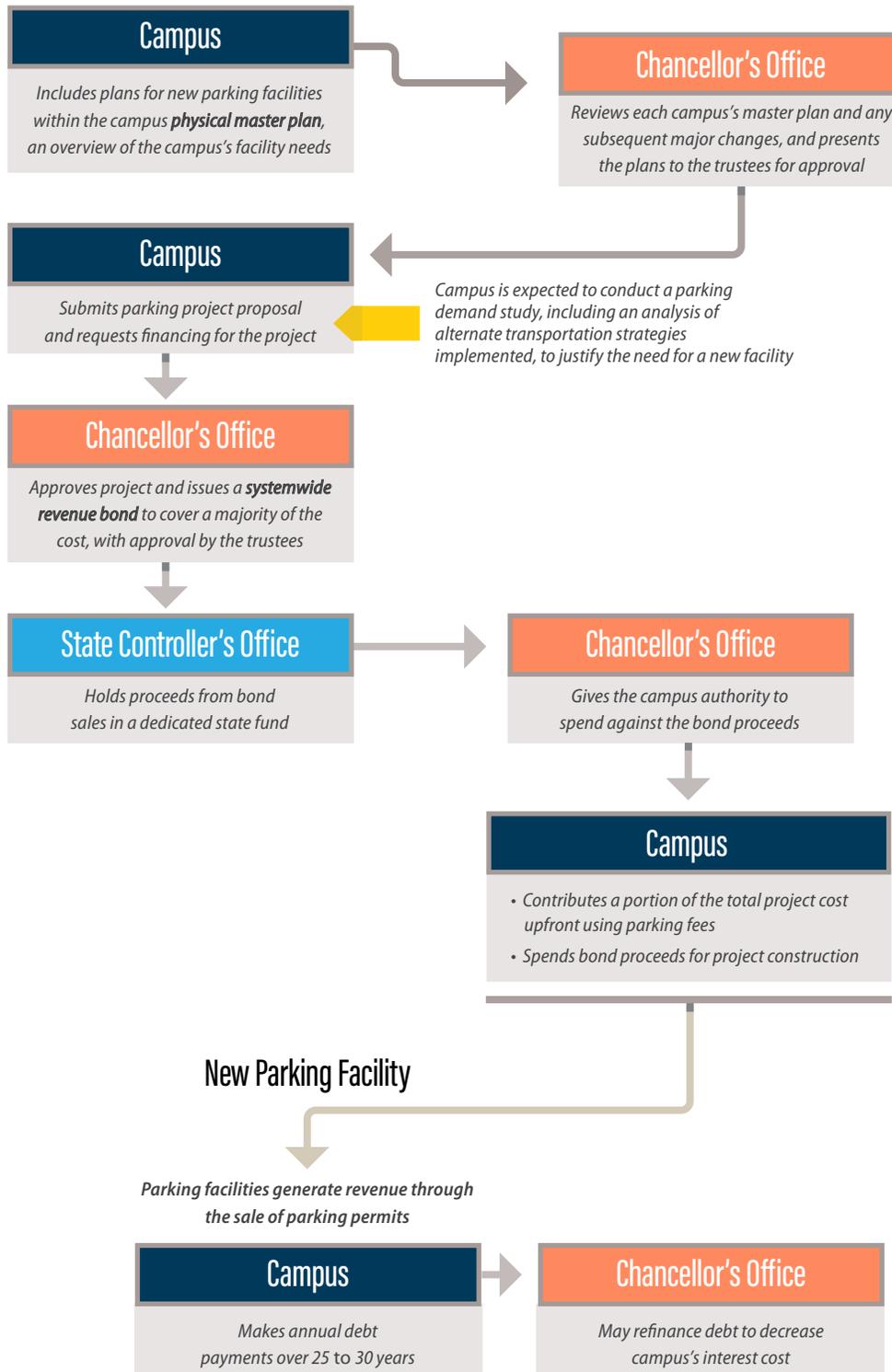
When requesting to build a new parking facility, campuses must submit a project justification statement that includes a parking demand study. This study must contain an analysis showing how implementing the alternate transportation strategies in the transportation management plan has reduced parking demand.

Source: Analysis of CSU policy.

### ***Alternate Transportation***

In addition to providing parking, the campuses can improve their students' and employees' access to campus by providing alternate transportation. Alternate transportation provides commuters with options—such as shuttles, carpools, and bicycles—other than driving alone and parking on campus. As the text box shows, the Chancellor's Office requires campuses to use key documents to plan for and implement alternate transportation. When a campus plans to increase enrollment, CSU policy requires it to update its physical master plan—an overview of the campus's facility needs, which may include plans for proposed new parking facilities—to meet new conditions. CSU policy also requires campuses to review the physical master plan at least every 10 years.

**Figure 3**  
The Chancellor's Office Works With Campuses to Approve and Finance New Parking Facilities



Source: Analysis of CSU policy and bond financing documents.

Similarly, each campus must develop a transportation demand management plan (transportation management plan) to comply with state environmental law. A transportation management plan generally presents an overview of the current parking and transportation conditions at a campus, and it documents the campus's existing transportation management strategies and recommendations for improvement. Transportation management strategies may include providing on-campus housing, adjusting parking pricing to influence driving behavior, or creating programs for alternate transportation. These programs encourage the use of alternate transportation, including in some cases through subsidized public transit passes or cash incentives. Campuses usually develop these plans as a component of the master planning process because state law requires state entities to identify and mitigate transportation impacts associated with building projects, including those designed to accommodate increases in enrollment. To aid the campuses in the development of their transportation management plans, CSU has a systemwide Transportation Demand Management Manual (transportation manual) that contains goals, objectives, and best practices.

Campuses can demonstrate that they have implemented the strategies in their transportation management plans by performing a parking demand study. CSU policy states that campuses must provide a project justification statement that includes a parking demand study when requesting to use debt financing to build a new parking facility. The policy further states that the parking demand study should include an analysis of reductions in parking demand resulting from the strategies in the transportation management plan that the campus has implemented. According to the policy, this requirement is in accordance with a state law that requires campuses to thoroughly investigate and consider incorporating alternate modes of transportation before they can receive funds to build a new parking facility. State law also requires that each campus must have an alternate transportation committee that consults with students and local government officials in carrying out such an investigation.

## The Chancellor's Office Did Not Fully Inform Legislators and Students About CSU's \$1.5 Billion Surplus

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### Key Points

- CSU has accumulated a discretionary surplus worth more than \$1.5 billion from operating fund revenues, primarily from tuition.
- The Chancellor's Office failed to disclose this significant surplus as a resource when projecting CSU's available resources to the Legislature or when consulting with students about the need to raise tuition.
- Although the Chancellor's Office has identified a portion of CSU's surplus as a reserve for economic uncertainty, it has not adopted adequate policies to ensure that the amount of money CSU holds as a reserve and the manner in which it uses that money are appropriate.

### CSU Accumulated a Surplus Worth \$1.5 Billion, Primarily From Tuition

As of June 30, 2018, CSU had accumulated a discretionary surplus worth more than \$1.5 billion in its operating fund. This surplus came primarily from tuition, which provided CSU with annual revenue ranging from about \$1.4 billion to \$2.9 billion during our 10-year audit period from fiscal years 2008–09 through 2017–18. In total, tuition accounted for more than \$23 billion, or 84 percent, of the approximately \$27 billion in operating fund revenue CSU deposited in its outside accounts during this time. During these years, CSU requested—and received—increased funding from the State a number of times, and it also repeatedly raised student tuition. Although state laws enacted during the audit period required CSU to identify its available financial resources to legislators and to disclose alternatives to tuition increases to students, the Chancellor's Office did not acknowledge CSU's surplus in key documents it provided to legislators and students. As a result, legislators may not have been aware of critical information that was relevant to CSU's funding requests. Similarly, students lacked information that would have enabled them to take full advantage of the opportunity to provide input and ask questions about the need for increased tuition.

As the Introduction explains, the value of the surplus CSU has in its investment account varies based on the amount of money each campus and the Chancellor's Office transfers in and out of the account and on changes in the market value of its investments.<sup>2</sup> As Figure 4 shows, CSU's operating fund surplus grew by more than

<sup>2</sup> Table B.2 in Appendix B identifies the amount of money each campus and the Chancellor's Office had in the investment account as of June 30, 2018.

### CSU Tuition Rate Increases From Fiscal Years 2008–09 Through 2017–18

FISCAL YEAR	RATE	INCREASE FROM THE PREVIOUS YEAR
2008–09	\$3,048	10%
2009–10	4,026	32
2010–11	4,440	10
2011–12	5,472	23
2017–18	5,742	5

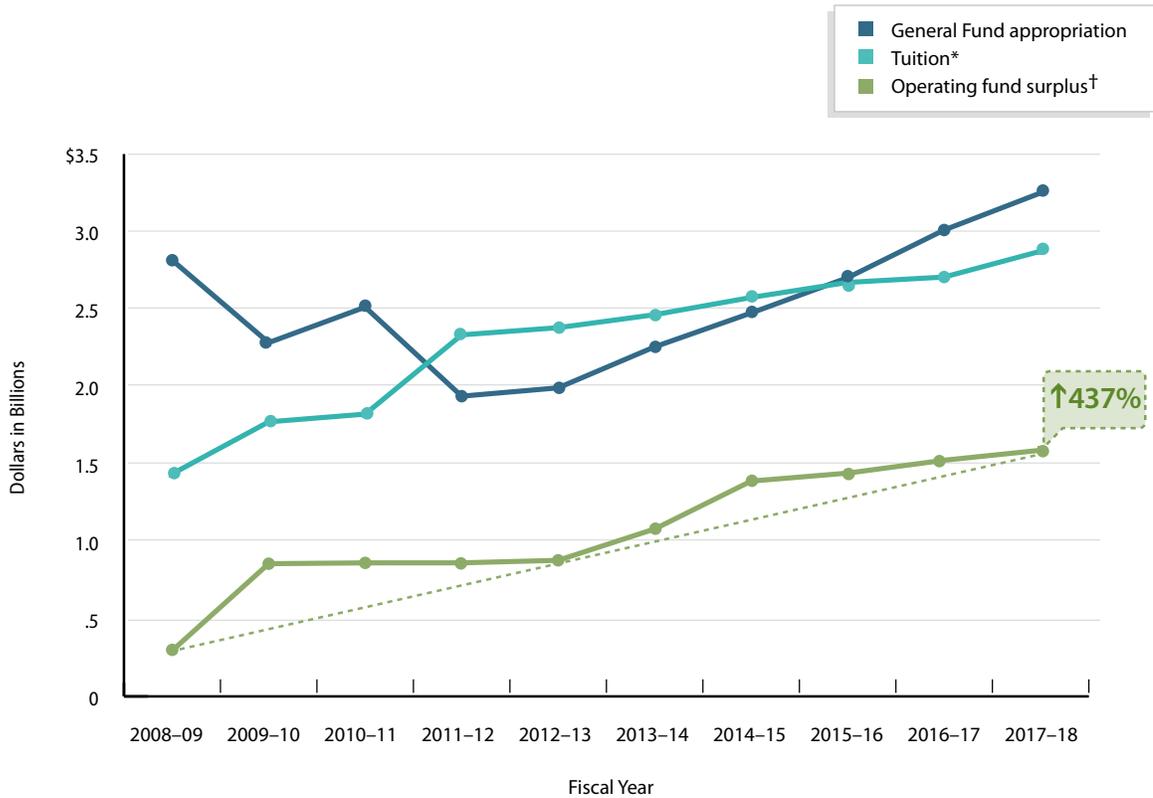
Source: Analysis of CSU's historical tuition rate information and records of related trustee meetings.

400 percent over the last decade, a period during which CSU's total funding from tuition revenue and the State's General Fund appropriations also generally increased. Specifically, state funding for CSU declined from fiscal years 2008–09 through 2011–12 because of the economic downturn at that time, and to offset reductions in state support, CSU raised the cost of tuition during each of these years, as the text box details. As a result, the annual cost of tuition for a full-time CSU undergraduate student increased by about 80 percent, from roughly \$3,000 in fiscal year 2008–09 to almost \$5,500 in fiscal year 2011–12.

From fiscal years 2012–13 through 2017–18, CSU's surplus almost doubled as its General Fund appropriation increased by about 60 percent, from roughly \$2 billion to \$3.2 billion. The increase in the State's General Fund appropriation to CSU

in fiscal year 2013–14 was contingent on the State's collection of additional taxpayer revenue. Proposition 30, known as the Schools and Local Public Safety Protection Act, noted that cuts to state funding for education had resulted in increased college fees, which hurt California's college students. Although it did not provide direct funding for CSU, the proposition temporarily raised taxes and provided more revenue for public safety services and public education—specifically, school districts, county offices of education, charter schools, and community college districts. Based on the assumption that the proposition would pass and CSU would not increase tuition rates, the fiscal year 2012–13 state budget plan included increased future funding for CSU. Voters approved the temporary tax increases in November 2012, and in fiscal year 2013–14 the State increased its support for CSU by roughly \$250 million. Consistent with state expectations, tuition rates remained at the fiscal year 2011–12 level of about \$5,500 through fiscal year 2016–17, although CSU's revenue from tuition continued to increase over that time because enrollment increased.

**Figure 4**  
**The Growth of CSU’s Discretionary Surplus Coincided With an Increase in Tuition Revenue and the State’s General Fund Appropriations**



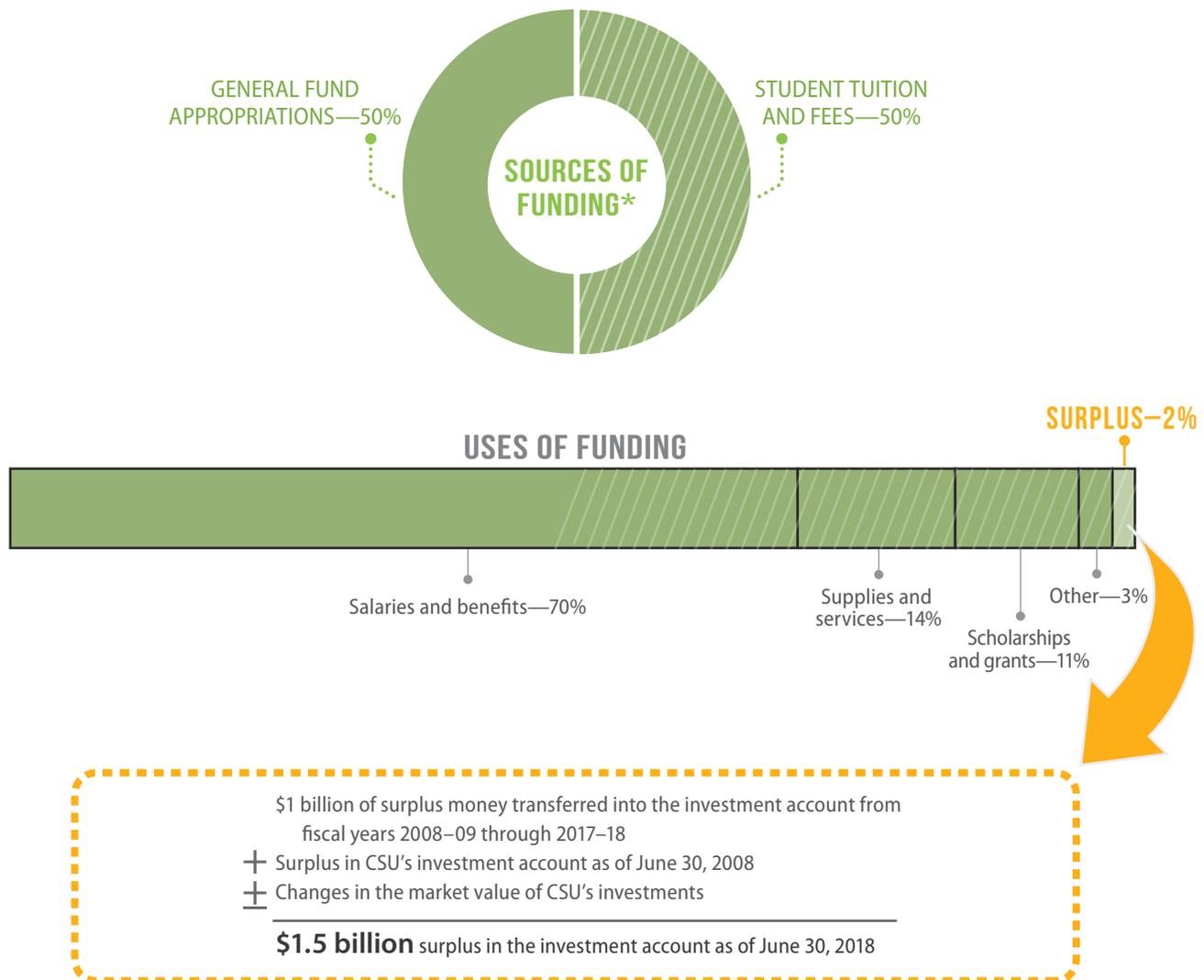
Source: Analysis of CSU’s account data.

\* From fiscal years 2008–09 through 2017–18, the amount of CSU’s tuition revenue increased because of the tuition rate increases that we show in the text box on page 14 and because CSU’s enrollment increased.

† In September 2011, CSU transferred \$700 million from its outside investment account to a state investment fund. CSU’s transfer made additional funds available to the State for cash borrowing purposes, and CSU reported that the state investment fund earned a higher rate of interest than CSU’s other investment options. CSU transferred the \$700 million back to its outside investment account in April 2013.

State funding has not directly contributed to CSU’s surplus because CSU does not have the authority to invest surplus General Fund appropriation money in its outside accounts; however, state funding has had an indirect impact because CSU used it to pay for expenses it otherwise would have to pay for using financial resources it holds in its outside accounts. CSU’s practice is to fully spend its General Fund appropriations on salary and benefit expenses by the end of each fiscal year. CSU had a total of \$52.4 billion in expenses to its operating fund during our 10-year audit period. As Figure 5 indicates, about half of the funding CSU used to cover those expenses—\$25 billion—came from its General Fund appropriations. Once it exhausted its General Fund appropriations, CSU paid for remaining salary and benefit expenses with other funding sources.

**Figure 5**  
**CSU Used Excess Student Tuition to Build a \$1.5 Billion Surplus in Its Operating Fund**  
**From Fiscal Years 2008–09 Through 2017–18**



Source: Analysis of CSU's account data.

\* A minority of CSU's funding—about 5 percent—came from sources other than the State's General Fund appropriations or student tuition and fees, such as federal grants and investment earnings.

Most of the other half of CSU's funding during our audit period came from student tuition and fees. Tuition supplied \$23 billion, or 84 percent, of the operating fund revenue CSU held in its outside accounts from fiscal years 2008–09 through 2017–18, and fees supplied another \$2.8 billion. In addition to using tuition to cover remaining salary and benefit expenses, CSU also used it for expenses such as supplies and scholarships. Unlike the state funding that CSU fully spent each year, tuition directly

contributed to the surplus money that CSU transferred into its investment account. From fiscal years 2008–09 through 2017–18, the surplus money amounted to \$1 billion. This \$1 billion, along with the surplus operating fund money that CSU already had in its investment account as of June 30, 2008, and changes to the market value of CSU's investments, brought the total value of its operating fund surplus up to \$1.5 billion as of June 30, 2018.

### **The Chancellor's Office Did Not Disclose CSU's Surplus to Legislators and Students in Key Documents Related to State Funding and Tuition Rates**

Despite the relationship between state funding and CSU's surplus, the Chancellor's Office has not fully disclosed the surplus to legislators when state law required CSU to provide additional detail about its financial resources.<sup>3</sup> At the time of the 2006 change to state law that allowed CSU to manage tuition revenue in its own accounts outside of the state treasury, the Legislative Analyst's Office (LAO) stated that the change could reduce accountability, and it recommended ensuring that CSU routinely report and clearly display tuition in budget documents. In certain budget acts, legislators specifically directed CSU to prepare projections of its available resources for the next three fiscal years. For example, the 2016 state budget act required CSU to submit this information to specified parties, including legislative committees that consider appropriations for CSU. Although the Chancellor's Office provided the Joint Legislative Budget Committee and other legislative entities with projections of tuition revenue at that time, it did not include information detailing CSU's accumulated surplus, derived primarily from tuition.

The Chancellor's Office submitted to the Legislature in 2016 an academic sustainability plan (academic plan) that included projections of tuition revenue and General Fund appropriations, along with expenditures that would fully exhaust those projected sources of funding. However, the academic plan did not include the \$1.4 billion surplus that CSU had accumulated as of June 2016 or an estimate of how the surplus might grow over the next three years. Instead, the academic plan indicated that if the State provided less funding than CSU requested and tuition rates did not increase, CSU would not be able to pay for certain expenses, including those

<sup>3</sup> CSU has submitted to the State certain financial documents—including its annual report of its outside accounts and periodic investment reports—that identified that it held \$4 billion in its investment account. However, these documents did not provide the detail necessary for the Legislature to easily understand that about \$1.5 billion of this \$4 billion was in essence a discretionary surplus that CSU could use to fund operations and instruction.

related to increasing graduation rates and maintaining facilities and infrastructure. The trustees approved the academic plan, and the Chancellor's Office submitted it to legislators in November 2016.

According to CSU's assistant vice chancellor for system budget, the academic plan included all of the elements that the state budget act required. He indicated that the academic plan focused on recurring revenue sources because the Legislature and the Governor intended for the plan to demonstrate CSU's long-term ability to balance state funding and tuition and fee revenue with estimated enrollment in order to reach its future goals. However, according to a letter the Department of Finance sent to the chancellor and the chair of the trustees in April 2016, the intent was for the academic plan to inform the ongoing discussion between legislators and the trustees about CSU's long-term sustainability and about changes to university policies, practices, and systems that would advance the State's goals for higher education. Moreover, the letter states that the Governor's administration expected CSU to use its available resources to maintain affordability. Because the Chancellor's Office did not disclose the extent of CSU's available resources, legislators were unable to evaluate whether the surplus aligned with the State's goals, consider whether CSU should use any of the surplus to offset the State's appropriation, or discuss with the trustees any potential changes to CSU's policies and practices that allowed it to accumulate a surplus from tuition revenue.

We also question the Chancellor's Office's assertion that only recurring sources of revenue are relevant to its projection of available resources. First, the Chancellor's Office identifies CSU's surplus as critical to sustaining campuses in light of the cyclical nature of their revenues. Further, as we discuss below, CSU has specifically designated a reserve for economic uncertainty intended to limit the impacts of recessions and support consistency in CSU operations. According to the associate director of accounting for the Chancellor's Office's financial services division, CSU's \$400 million reserve for economic uncertainty as well as the other portions of CSU's surplus are a resource campuses can draw on to balance the budget when expenses exceed revenue. She indicated that campuses have the discretion to use any portion of their surplus based on their needs, which could include offering additional courses to help students graduate more quickly. Given that the Chancellor's Office has essentially defined the surplus as an available resource, we would have expected it to disclose it in the academic plan.

Second, we find it problematic that the Chancellor's Office believes only recurring revenue sources are pertinent to its funding requests to the Governor and the Legislature when CSU has included in those requests both recurring funding increases and nonrecurring,

one-time funding augmentations. In fact, in fiscal years 2016–17 and 2017–18, the Chancellor’s Office requested a total increase of about \$530 million in permanent state funding and over \$200 million in one-time funding augmentations. At the time of these requests, CSU’s total surplus exceeded \$1.5 billion. Had CSU informed the legislators of its surplus when presenting its budget requests, the legislators could have directed CSU to use a portion of its own money rather than requesting additional funding from the State. In fiscal years 2016–17 and 2017–18, CSU received \$35 million of the one-time funding it requested.

The Chancellor’s Office also failed to disclose the surplus to students when proposing to increase tuition, a source of revenue that directly contributes to the surplus. As the text box on page 14 indicates, CSU increased tuition rates in academic year 2017–18 for the fifth increase during our 10-year audit period. Since 2013 state law has required that CSU consult with students before increasing tuition rates to ensure transparency regarding its rationale for increasing tuition and its uses of tuition. Accordingly, when considering raising tuition rates for the 2017–18 academic year, the chancellor consulted with the California State Student Association (student association), an organization representing all CSU students that advocates for access to an affordable and high-quality CSU education. The law directs CSU to consult with the students and provide students with information about alternatives to raising tuition so that they can provide input and ask questions. However, the Chancellor’s Office did not inform students about the discretionary surplus CSU had accumulated primarily from unspent tuition.

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**State law requires that CSU consult with students before increasing tuition rates to ensure transparency.**

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In fact, in the document the Chancellor’s Office prepared for the student association, it acknowledged only two alternatives to raising tuition: increasing state funding or reducing programs and services. The Chancellor’s Office also provided information about the proposed tuition increase and opportunities for public comment, and it reported that the public comments mostly opposed the tuition increase and that they focused on overall affordability, the State’s responsibility to fund CSU, and the need for CSU to be transparent in its use of tuition. Despite the public’s interest in increased transparency, the Chancellor’s Office did not acknowledge to the students that CSU had a surplus worth

more than \$1.4 billion at the end of fiscal year 2015–16. Although campuses and the Chancellor’s Office had to use a small portion of that surplus—roughly \$126 million—to pay for expenses tied to existing contracts, up to \$1.3 billion was available for campuses and the Chancellor’s Office to spend at their discretion.

In the tuition consultation document it provided to the students, the Chancellor’s Office stated that unless the State increased CSU funding or CSU raised tuition rates, fewer courses would be available and it might take longer for students to graduate. For example, the planned budget for an initiative that CSU launched in January 2016 to help students graduate more quickly was \$75 million for fiscal year 2017–18. Had the Chancellor’s Office disclosed CSU’s \$1.3 billion surplus, students might have asked why CSU could not use a portion of the surplus to pay for this initiative rather than seeking to increase tuition for that purpose. Ultimately, the trustees approved the tuition increase, and in academic year 2017–18 tuition for full-time students increased \$270, or 5 percent, raising CSU’s total annual tuition cost to about \$5,700. CSU estimated that the increase would net about \$78 million of additional revenue for fiscal year 2017–18.

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**The Chancellor’s Office did not acknowledge to the students that CSU had a surplus worth more than \$1.4 billion at the end of fiscal year 2015–16.**

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After we shared our findings about CSU’s lack of transparency with the Chancellor’s Office, the associate vice chancellor of business and finance indicated that the Chancellor’s Office had developed a transparency website that presents additional information about CSU’s surplus. It published this website in May 2019. We acknowledge this effort as a positive step toward increasing CSU’s transparency. However, the website does not identify the portion of CSU’s surplus that is discretionary or the portion that comes from tuition. The goal of the website is to ensure that Californians know how CSU conducts its financial business, but it assumes a level of familiarity with CSU’s funds and investment authority that the general public may not possess. By providing this additional information as well as more context about its surplus, the Chancellor’s Office could better maintain the confidence of the Legislature, students, and the public; improve the effectiveness of future consultations with students

about potential tuition increases; and enable legislators to base their decisions about CSU's state funding on a more complete understanding of CSU's resources.

### **The Chancellor's Office Has Not Implemented an Adequate Reserve Policy**

Although the Chancellor's Office implemented a reserve policy in 2015, this policy lacks certain elements that would help ensure that the amount of money CSU holds as a reserve and the manner in which it uses that money are appropriate. The Chancellor's Office considers both CSU's \$400 million reserve for economic uncertainty and other portions of its surplus to be critical reserves—or money to be used for campus operations and held for designated purposes—rather than surplus money that it does not need for current expenses. However, the parts of CSU's policy related to its reserve for economic uncertainty do not address important issues, like establishing a minimum reserve amount or monitoring spending. Further, CSU's reserve policy sets a maximum limit that applies only to its reserve for economic uncertainty; as a result, the policy offers only minimal guidance related to the other portions of CSU's surplus. Given the significant amounts of money involved, we believe that CSU should establish a clear, comprehensive reserve policy that addresses all of the funding it identifies as a reserve.

We identified significant weaknesses in the parts of CSU's reserve policy governing its \$400 million reserve for economic uncertainty. For example, the Chancellor's Office has made campus presidents responsible for ensuring that there are sufficient reserves in CSU's outside accounts, in accordance with CSU policies, standards, and definitions; however, the reserve policy that the Chancellor's Office approved does not identify minimum reserve levels. According to the LAO, there is no such thing as an objectively "right" level of reserves, and deciding a target level of reserves should involve considering factors such as the anticipated size of a future recession. Organizations such as the Government Finance Officers Association and the National Association of College and University Business Officers recommend establishing a minimum level of reserves, and some other universities adopt reserve policies that set a minimum level of reserves and require the universities to maintain it. In contrast, CSU's reserve policy includes only a maximum limit. In accordance with CSU's policy, as of fiscal year 2017–18, CSU systemwide could have held about \$3.3 billion as a reserve for economic uncertainty. Further, the policy does not prioritize CSU's reserve for economic uncertainty by requiring campuses to build that reserve before using surplus funds for other

purposes. In fact, as we describe on page 18, campuses have the discretion to use the reserve for economic uncertainty or any other portion of their surplus as they deem necessary.

CSU's reserve policy is even more limited with respect to the remainder of the \$1.5 billion surplus, despite the fact that the Chancellor's Office considers this full amount a reserve. Although the policy limits the amount of the reserve for economic uncertainty, it allows campuses and the Chancellor's Office to accumulate unlimited surplus amounts for other purposes. As of fiscal year 2017–18, more than a billion of CSU's \$1.5 billion surplus was designated for purposes such as maintaining facilities and developing CSU programs. The reserve policy does not require the Chancellor's Office to monitor how campuses use their reserve amounts or report those uses to the trustees; instead, it only requires the Chancellor's Office to review a summary showing how much money campuses are holding for various designated purposes, including as a reserve for economic uncertainty, at the end of each fiscal year. The policy also does not require the Chancellor's Office to present an annual summary of CSU's reserves to the trustees, although the Chancellor's Office did provide detailed information about CSU's reserves in a presentation it made to the trustees in September 2017.

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**CSU's reserve policy does not require the Chancellor's Office to monitor how campuses use reserve amounts or to report those uses to trustees.**

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The Chancellor's Office has established additional guidelines for the use and reporting of some parts of CSU's surplus, although these guidelines are outside of the reserve policy. For example, in fiscal year 2014–15, the Legislature discontinued an appropriation to CSU that was specifically to fund capital improvement projects; instead, CSU must now factor the costs of such projects into its overall fiscal planning and submit a comprehensive five-year capital improvement plan to the Legislature each year. Beginning with the plan for fiscal years 2016–17 through 2020–21, the Chancellor's Office has proposed to fund a portion of planned academic capital improvement projects with surplus designated for such purposes. As of fiscal year 2017–18, CSU had designated about \$315 million of its \$1.5 billion surplus for capital improvements and facilities maintenance. In April 2018, the Chancellor's Office proposed that campuses use that surplus to fund 10 percent of the costs of

capital improvement projects to correct critical infrastructure deficiencies. However, the plan CSU submitted to the Legislature did not indicate the full amount of the discretionary surplus CSU had available. Such context would help legislators evaluate CSU's resources, its use of tuition to support capital project expenses, and its need for state funding for those expenses.

Notwithstanding the need for the Chancellor's Office to strengthen CSU's reserve policy, the fact remains that both CSU's reserve for economic uncertainty and its remaining surplus are financial resources. In keeping with the intent of requirements that CSU inform legislators about its available resources and consult with students about tuition increases, the Chancellor's Office should report the amount of the reserve for economic uncertainty and CSU's rationale for accumulating it, as well as the amount of the remaining surplus. Further, the Chancellor's Office should openly discuss with legislators and students alternative uses for these resources. Only by engaging in such discussions can the Chancellor's Office ensure that CSU's available financial resources are transparent to legislators and students in the context of decisions about state funding and tuition.

## Recommendations

### *Legislature*

To ensure transparency about CSU's available financial resources, the Legislature should require the Chancellor's Office to do the following, effective September 1, 2019:

- Beginning in 2019 and no later than November 30 each year, provide relevant parties, including the Department of Finance and the Joint Legislative Budget Committee, with the current balance of the discretionary surplus that CSU has accumulated in its outside investment account that is attributable to its operating fund and to any other funds that are relevant to CSU's budget requests; the balances of the surplus amounts in those funds at the end of the prior fiscal year; the projected balances of the surplus amounts expected to remain in those funds at the end of the current fiscal year; and the amount of, justification for, and safeguards over any funds that CSU deems a reserve for economic uncertainty.
- Include in the capital improvement plans it submits annually to the Legislature information about the current balance of the surplus in CSU's outside investment account that is attributable to its operating

fund or other funds that hold operating revenue from tuition, as well as the projected balance of the surplus amounts expected to remain in those funds at the end of the current fiscal year.

- Include in its consultations with the student association the full amount of the discretionary surplus CSU has accumulated to date in its outside investment account that is attributable to its operating fund and any other funds that hold tuition revenue; the rate of growth of these surplus amounts over the last three fiscal years; an estimate of the portion of the surplus amounts that came from tuition; the dollar amount to date that CSU is obligated to spend to pay for goods and services it has already received or expenses that are tied to existing contracts; a projection of the dollar amount of the surplus that will be available for campuses to spend at their discretion at the end of the current fiscal year; and the amount of, justification for, and safeguards over any funds that CSU deems a reserve for economic uncertainty.

### ***Chancellor's Office***

To improve CSU's financial transparency with students and other stakeholders, the Chancellor's Office, with the approval of the trustees, should revise CSU policy by October 2019 to require that it publish information about CSU's discretionary surplus. At a minimum, the Chancellor's Office should do the following:

- Identify the full amount of discretionary surplus that CSU has accumulated to date in its outside investment account that is attributable to its operating fund or other funds that hold tuition revenue, an estimate of the portion of the surplus amounts that came from tuition, and the dollar amount to date that CSU is obligated to spend to pay for goods and services it has already received or expenses that are tied to existing contracts.
- Report this information to the trustees when it presents them with a summary of CSU's reserves, at least annually.
- Ensure that this information is easily accessible on CSU's website and publicly available to all stakeholders, along with the information CSU provides about tuition rates and policies.
- Revise its reserve policy to establish and justify a minimum sufficient level of reserve for economic uncertainty and require the Chancellor's Office to provide additional oversight to ensure that CSU maintains that level. This oversight should include monitoring, approving, and notifying the trustees of any uses of the reserve for economic uncertainty.

## The Chancellor's Office Has Failed to Ensure That Campuses Consistently Plan for Alternatives to Costly Parking Facilities

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### Key Points

- The four campuses we reviewed have built costly parking facilities that have had minimal impact on campus parking capacity while committing the campuses to significant long-term debt payments. Although the campuses have raised student permit prices, student parking availability remains limited at some campuses.
- The Chancellor's Office has not ensured that campuses consistently implement alternate transportation strategies that could reduce demand for parking and improve access to campuses.
- The Chancellor's Office's leadership is critical to ensuring that students continue to have adequate and affordable access to campuses in the future.

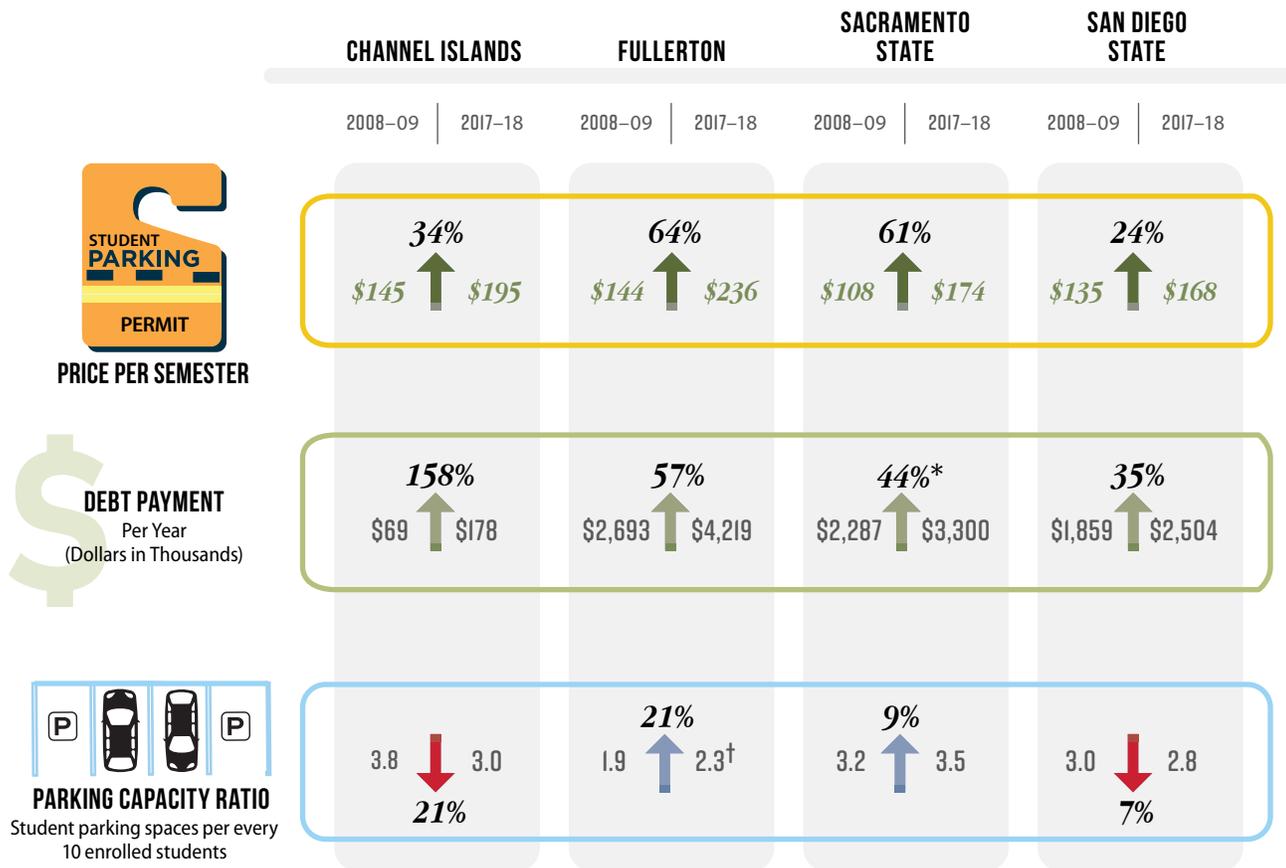
### The Four Campuses We Reviewed Have Built Expensive New Parking Facilities That Only Minimally Increased Parking Capacity

According to CSU's transportation manual, the campuses should strive to ensure equitable access by providing transportation opportunities for all students. Campuses can increase access by building and operating parking facilities and by offering alternate transportation options. The transportation manual recommends that each campus determine the most cost-effective combination of parking and alternate transportation programs that will meet its needs. However, in response to rising enrollment, some of the campuses we reviewed have focused primarily on building new parking facilities. With each new bond-financed parking facility, a campus incurs significant debt. This debt is typically accompanied by increased student parking permit prices to cover the costs, in part, because a campus must make debt payments for a single bond-financed facility for 25 to 30 years. Over the past 10 years, all four campuses we reviewed constructed new parking facilities. During this time, the campuses increased student permit prices significantly—over 60 percent at two campuses.

Despite these increased permit prices, parking capacity has remained generally stagnant or declined because enrollment increases have outpaced the growth in the parking supply. CSU's five-year capital improvement plan measures parking capacity as the ratio of a campus's parking spaces to its projected enrollment. We used a similar measure to assess parking capacity by comparing only student and residential spaces to enrollment because students are not eligible to park in all campus parking spaces. As Figure 6 shows, despite the campuses increasing their debt and raising student permit prices to invest in parking facilities, the improvements to student parking capacity have not kept up with the growth in enrollment.

**Figure 6**

Although Campuses Raised Student Permit Prices, They Only Minimally Increased the Number of Spaces Available to Students  
Fiscal Years 2008–09 Through 2017–18



Source: Enrollment data, parking inventory reports, and debt payment schedules for each campus.

\* Sacramento State financed a parking structure in fiscal year 2017–18, but its first debt payment was not until fiscal year 2018–19. To capture the cost of the additional parking spaces, we include the scheduled debt payment here.

† This calculation does not include 550 parking spaces that Fullerton leases in an off-campus facility. These spaces amount to about 6 percent of total student parking spaces.

Both Fullerton and Channel Islands have built facilities that increase student parking costs without significantly increasing parking capacity. Fullerton, for example, charged students the highest prices for semester parking permits of the four campuses in fiscal year 2017–18 yet had the lowest number of student parking spaces available relative to student enrollment—roughly two spaces for every 10 students. In 2010 it financed a structure with nearly 1,500 new spaces that increased its annual debt payment from \$2.7 million to more than \$4 million. Fullerton now plans to build another parking structure that will increase its parking supply by roughly 1,100 spaces and is estimated to open in fall 2020. That structure will increase student parking capacity to only about 2.6 spaces for every 10 students and will place an additional burden on student drivers by

raising the price of student semester permits from \$236 to \$334 over two years, an increase of \$98, or about 42 percent. Similarly, Channel Islands more than doubled its annual debt payment from about \$70,000 to nearly \$180,000 to add about 500 new parking spaces, yet its per capita parking capacity decreased during our 10-year audit period because its enrollment increased at a faster rate.

Further, in one case, a campus built a parking facility that was not intended for students, despite their permit fees paying for those construction costs. Under a 2015 bond, San Diego State took on nearly \$900,000 in annual debt payments to finance a 300-space parking facility in a housing and retail development. This facility did not increase the campus's student parking capacity because it is intended to primarily serve retail customers, as well as some campus visitors. Although students who purchase semester parking permits are not eligible to park within the new facility, the campus is using those students' parking permit fees to make its debt payments related to the facility's construction.

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**San Diego State built a parking facility that was not intended for students, despite using students' permit fees to pay for the facility's construction.**

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Student parking fees are significantly higher and increase more frequently than those of faculty and other represented staff. In fiscal year 2017–18, between about 40 percent and 70 percent of total enrolled students at the four campuses purchased semester student or residential parking permits. During this year, student semester permits at the campuses ranged in price from \$168 to \$236 per semester, while prices for residential permits at the four campuses ranged from \$195 to \$266 per semester. In comparison, staff and faculty permits ranged from only \$59 to \$119 per semester.<sup>4</sup> Bargaining agreements limit the campuses' ability to increase the price of employee parking to cover increasing debt and operational costs. Consequently, faculty permit prices have not increased at any of the four campuses over the past 10 years, while permit prices for other represented staff have increased by \$7 to \$9 only. Because campuses are limited in their ability to raise employee permit prices, they tend to raise student permit prices instead.

<sup>4</sup> Table C.1 in Appendix C identifies the campuses' parking permit prices for students and represented staff and annual percent changes for fiscal years 2008–09 through 2017–18.

Despite the fact that students have been paying higher permit prices, the campus parking occupancy assessments conducted during our audit period suggest that student parking facilities often have poor parking availability at peak demand times. To determine parking availability, we evaluated occupancy assessments from a variety of sources, such as recent transportation management plans and parking demand studies, as well as data that parking officials provided. Some of these assessments noted that the parking facilities were at or near practical capacity—when 90 percent of available spaces are occupied—during the times when the campuses performed their reviews. When a parking facility is at or over practical capacity, drivers find it difficult to identify the few remaining spaces and may spend significant time looking for those spaces.

The lack of availability was more pronounced at some campuses than others. According to their respective assessments, Fullerton's and Channel Islands' observed parking facilities were at or near practical capacity at the time they were evaluated; further, some of their largest parking facilities—particularly student parking—were nearly or completely full. San Diego State's transportation management plan indicates that although campuswide student parking was below practical capacity, some facilities were completely full during peak times. Similarly, according to parking data Sacramento State provided, individual parking facilities were full, although at certain times some student spaces were available elsewhere on campus. San Diego State's assessment states that students tended to have less parking available than faculty and staff during peak times, while Fullerton's data suggests that staff and faculty had generally similar parking availability challenges as students. However, all the campuses except Channel Islands provide more spaces per person for faculty and staff than for students, and faculty and staff can use their permits in student parking facilities at all four campuses.

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**All but one of the four campuses provide more parking spaces per person for faculty and staff than for students.**

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Persistently high parking occupancy may affect students' behavior: according to Fullerton's 2015 parking demand study, finding parking in parking structures is extremely competitive, so students tend to arrive early to secure parking regardless of when their classes begin. Students then remain parked throughout the day, limiting

vehicle turnover. As a result, Fullerton's parking spaces do not serve as many students as they could. Fullerton's January 2019 parking demand study asserts that the trend of full parking facilities has continued and, in fact, worsened.

Some campuses' transportation management plans or parking demand studies note that if enrollment continues to increase, current parking capacity will be insufficient. However, the documents also stress that campuses can decrease their reliance on parking and their need for additional facilities if they implement more diverse transportation management strategies. We discuss such strategies below.

### **The Chancellor's Office Has Not Ensured That Campuses Consistently Implement Alternate Transportation Programs**

The Chancellor's Office has not ensured that campuses consider programs that offer alternate modes of transportation before requesting to build new parking facilities; thus it has not verified that the campuses adopt the most cost-effective and equitable responses to rising enrollment. As we discuss in the Introduction, the Chancellor's Office requires campuses to use key documents to plan for and implement alternate transportation strategies and to justify building new parking facilities by demonstrating that a need exists even after implementing such strategies. Although the four campuses we reviewed cited alternate transportation strategies in certain plans, we found that some campuses did not implement many of these strategies. As Table 2 shows, the four campuses did not perform certain steps to ensure they used the most cost-effective blend of parking and alternate transportation programs. In fact, two campuses—Channel Islands and Fullerton—failed to complete most of these key tasks and analyses.

Our review of Fullerton, for example, found that it has done little to ensure it considers alternate transportation. Although CSU policy requires campuses to reevaluate their master plans at least every 10 years, Fullerton's most recent master plan is from 2003 and does not reflect the campus's current conditions. In 2003 Fullerton projected that its enrollment would increase to 25,000 full-time equivalent students over 10 years, yet, in fall 2018, it enrolled over 30,000 students. To accommodate enrollment growth, the 2003 master plan primarily focuses on building parking facilities—three of which Fullerton has since built—and it only briefly mentions that the campus should encourage the use of public transportation. In fact, until 2015 Fullerton's key planning documents contained little mention of strategies for implementing alternate transportation. Although Fullerton performed a parking demand study in 2015 that recommended several alternate transportation strategies, such as establishing a transit center,

campus shuttles, and a bike share program, it did not implement many of these strategies. Yet, Fullerton plans to build another parking facility in 2020—which we discuss previously—that will result in significant price increases for students.

**Table 2**

**The Four Campuses Did Not Consistently Perform Key Tasks and Analyses to Ensure That They Used the Most Cost-Effective Blend of Parking and Alternate Transportation Programs  
Fiscal Years 2008–09 Through 2017–18**

KEY TASK OR ANALYSIS	CHANNEL ISLANDS	FULLERTON	SACRAMENTO STATE	SAN DIEGO STATE
Identified alternate transportation strategies in key planning documents	◆	◆	◆	◆
Analyzed how implementing alternate transportation strategies has decreased parking demand	X	X	◆	◆
Performed recommended cost-benefit analysis	X	X	X	✓
Implemented strategies that plans or studies recommended for improving campus access	X	◆	◆	◆
Used alternate transportation data to analyze the effectiveness of its programs in key planning documents	X	X	X	X
Ensured alternate transportation committee met regularly	X	X	✓	◆

Source: Analysis of CSU policy and manuals and campus parking program data.

- ✓ = Performed key task or analysis
- ◆ = Partially performed key task or analysis
- X = Did not perform key task or analysis

Although the CSU transportation manual recommends that campuses compare the costs of building a new parking facility to other transportation management strategies, some of the campuses did not include such analyses in their plans or studies. For example, the transportation manual states that campuses can track program efficacy by using metrics such as the total cost of the transportation strategies, cost per trip, cost per participant, and rate of participation. The transportation manual adds that each of these metrics may be useful in developing the most efficient blend of transportation and parking investments. If three of the campuses had performed this cost comparison, they may have found similar results to what San Diego State included in its 2013 transportation management plan. San Diego State included the net cost to accommodate each commuter, whether by alternative transportation or different types of parking, which showed that the parking facilities are the most expensive.

In addition to not sufficiently analyzing other options before requesting to build new parking facilities, some campuses did not follow through on implementing alternate transportation programs recommended in their plans. Although some of the campuses’ transportation management plans or master plans included recommendations for alternate modes of transportation, the campuses did not consistently implement these recommendations, as Table 3 shows. The campus that implemented the least number of recommended transportation strategies—Channel Islands—also had the highest percentage of students and faculty driving alone to campus.

**Table 3**  
**Some Campuses Have Not Implemented Recommended Strategies for Improving Campus Access**

RECOMMENDED STRATEGIES	CHANNEL ISLANDS	FULLERTON	SACRAMENTO STATE	SAN DIEGO STATE
Bicycle racks/bicycle storage	✓	✓	✓	✓
Tiered semester parking permit pricing	X	✓	X	X
Subsidized public transit	✓	✓	✓	✓
Annual transportation surveys to evaluate if a program is successful	X	X	X	X*
Elimination of semester parking permits to encourage using alternate transportation one or more days per week	X	NA	NA	NA
Online parking passes/pay-as-you-park mobile application	X	✓	NA	NA
Real-time parking availability/parking lot capacity information	X	NA	NA	X
Bike share program	X	X	✓	✓†
Campus shuttles providing trips around campus/local areas	✓	X	✓	✓
Transit center where public transportation, campus shuttles, and bike shares are easily accessible and centrally located	NA	X	NA	NA
Designated short-term parking locations to increase turnover	NA	✓	NA	NA
Carpool incentives	✓	✓	✓	✓
Percent who drive alone to campus‡	82%	74%	69%	58%

Source: Analysis of campus parking program information, CSU transportation demand management studies, and parking staff confirmations.

✓ = Implemented

X = Not implemented

NA = This strategy was not specifically recommended in the campus’s recent plan or study. However, campuses may implement strategies that are not specifically recommended.

\* San Diego State completed three transportation surveys of their campus population, but not on a regular, annual basis.

† Although San Diego State implemented this program during our audit period, it does not currently exist.

‡ The percentages are from the campuses’ most recent plans or studies that include this information, which they completed in 2013 through 2017.

Channel Islands likely implemented so few recommended strategies in large part because it did not establish the required alternate transportation committee until 2017. State law requires each campus to have an alternate transportation committee that investigates and considers alternate modes of transportation. These alternate transportation committees are a vital mechanism for campuses to identify and monitor alternate transportation programs. However, CSU lacks a systemwide policy specifying the makeup of the committees, the frequency of required meetings, or the types of issues that should be discussed at those meetings. At the campus level, only Sacramento State and Fullerton have established policies for the governance of their alternate transportation committees. According to Sacramento State's Transportation Advisory Committee Charge, the committee is responsible for all aspects of the campus's transportation, including reviewing and critiquing existing transportation programs and exploring and recommending new programs.

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**Alternate transportation committees are a vital mechanism for campuses to identify and monitor alternate transportation programs.**

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Because CSU lacks such a systemwide policy, we found inconsistencies in how often the campuses' committees met. Channel Islands and Fullerton were able to provide evidence that they held only three and four alternate transportation committee meetings, respectively, in the 10 years of our audit period. Further, as we mention above, Channel Islands did not establish its alternate transportation committee until 2017, even though state law has required such a committee since the campus's inception in 2002. The parking directors for both Channel Islands and Fullerton asserted that despite their lack of alternate transportation committee meetings, they had attended meetings with other campus committees at which they provided updates on campus parking and transportation. However, given that these campuses did not implement many of the recommended alternate transportation strategies, we question the effectiveness of this approach. In fact, according to Channel Island's transportation management plan, the campus lacks coordination and communication, which hinders the transportation programs. By comparison, Sacramento State and San Diego State provided evidence for at least 50 and 17 meetings, respectively.

We identified similar inconsistencies in the membership of the alternate transportation committees. Although state law requires alternate transportation committees to consult with students and local government officials, not all campuses required their committees to include representatives from these groups. Channel Islands indicated that they invited students, but Sacramento State and Fullerton were the only campuses with policies that require student representatives. In practice, San Diego State generally has only parking and administrative staff serving on its committee. Moreover, only Sacramento State required community members to be a part of the committee. Although Channel Islands' committee met with a regional transportation commission, San Diego State's and Fullerton's committees did not meet with local government officials.

Campuses are unaware of the effectiveness of their alternate transportation programs because they do not regularly use their data to analyze the effectiveness of their programs or to make decisions about building new parking facilities. The transportation manual recommends that campuses consistently collect data about participation rates in alternate transportation programs and the commuting habits of campus populations to determine if the programs have decreased parking demand. The campuses provided examples of data they collect, but they could not demonstrate that they use the data to monitor the effectiveness of alternate transportation programs. For example, Sacramento State records the numbers of carpool permits sold, the number of regional transit passes issued, and the number of students riding campus shuttles, but it has not used this data to analyze the effectiveness of its transportation programs in a transportation management plan or a parking demand study.

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**Campuses do not regularly use their data to analyze the effectiveness of their alternate transportation programs.**

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One of the reasons the campuses may have inconsistently implemented alternate transportation methods is because most of the campuses have unreliable revenue streams to fund alternate transportation programs, and in many fiscal years, the expenses of these programs are greater than their revenues. The transportation manual notes that successful transportation management programs are financially sustainable and have long-term, stable sources of funding. However, under current state law and CSU policy, the revenue available for alternate transportation programs comes primarily from the drivers

the programs seek to decrease in number. Specifically, the campuses generally fund their alternate transportation programs with parking fines revenue, which is inherently limited and inconsistent.

Campuses may use parking fee revenue for alternate transportation, but only after they have satisfied debt payments; the campuses must also use parking fee revenue to fund parking operations, maintenance, and repairs because the parking programs are self-supported. As Figure 7 shows, from fiscal years 2008–09 through 2017–18, the four campuses together collected \$321 million from parking permit fees, nearly 12 times more than the revenue they collected from parking fines. During this period, the campuses' annual debt payments for their existing parking facilities alone amounted to more than three times what they spent on alternate transportation programs.

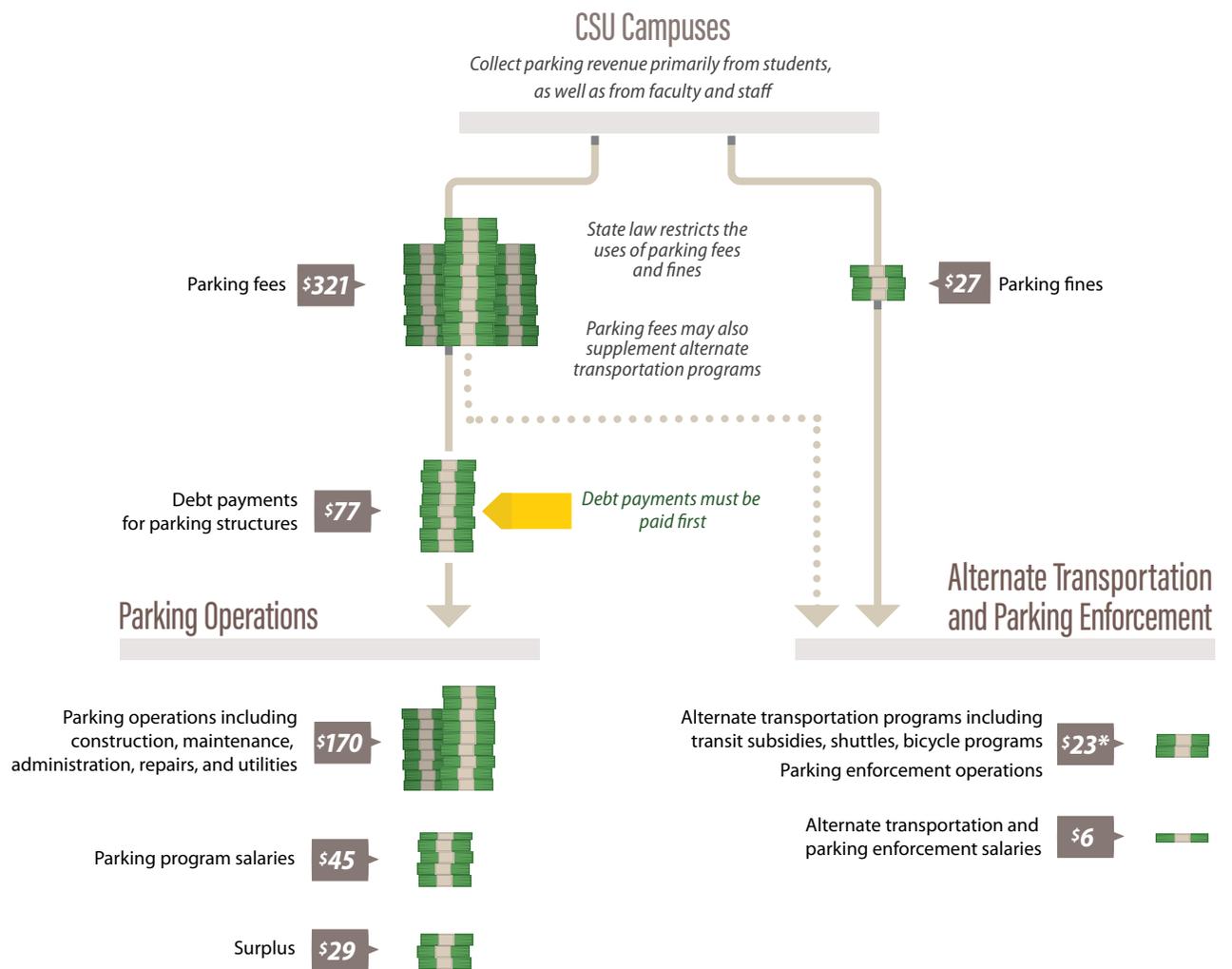
Although the current restrictions on CSU's use of parking fees may have contributed to the campuses' difficulty investing in alternate transportation, one campus has established an additional funding stream. The transportation management plans for two campuses suggest that they should seek funding through local government partnerships or grants to fund their alternate transportation programs. Further, the campuses can use excess revenue generated from the sale of parking permits to support alternate transportation. Each campus has a surplus of unspent parking fee revenue, ranging from nearly \$3 million at Channel Islands to \$20 million at San Diego State, which they designate for broad purposes such as facilities maintenance and construction. However, campuses could use a portion of this surplus money for alternate transportation. Alternatively, they can adopt transportation fees. For example, Sacramento State instituted a transportation fee for it to use exclusively for alternate transportation. Students—who will pay the fee—approved it by student referendum.

### **To Ensure That Students Continue to Have Adequate Access to Campuses, the Chancellor's Office Will Need to Increase Its Leadership and Oversight**

Our review indicates that the Chancellor's Office has not consistently provided the leadership and oversight necessary to ensure that campuses implement alternate transportation programs. CSU adopted a revised systemwide sustainability policy in 2014 that, among other things, commits CSU to encouraging and promoting the use of alternate transportation. In addition, a 2018 follow-up assessment of CSU's progress towards its sustainability goals (sustainability assessment) found that transportation costs can be a significant affordability barrier to students and that other transportation options, such as walking, biking, and public transit, can offer significant cost savings over vehicle-based commutes. Nonetheless, like some of the campuses we reviewed, the Chancellor's Office was generally

skeptical about the effectiveness of alternate transportation programs. Although San Diego State and Sacramento State generally agreed that implementing alternate transportation could reduce the number of students driving to campus, the Chancellor’s Office, Channel Islands, and Fullerton each expressed doubts about the programs. For example, CSU officials cited concerns about students who had to drive because of job or family commitments.

**Figure 7**  
**From Fiscal Years 2008–09 Through 2017–18, the Four CSU Campuses Spent Significantly More on Operating Parking Facilities Than on Alternate Transportation**  
 (In Millions)



Source: Analysis of Education Code sections 89701 and 89701.5 and accounting records from each campus.

\* Alternate transportation expenses do not equal revenue from parking fines because such revenue tends to be limited and unpredictable from year to year. The parking programs covered the \$2 million shortage for alternate transportation expenses using their surplus from revenue they collected before fiscal year 2008–09.

However, neither the Chancellor's Office nor the campuses regularly assess commuting preferences of students to be able to support this position. Specifically, the campuses do not conduct annual transportation surveys that would allow them to regularly evaluate their students' commuting habits. Further, the sustainability assessment that CSU itself performed found that while many factors related to commuter behavior are outside of the university's control, campuses have a number of tools that can influence travel choices and encourage students and staff to use more sustainable transportation options. For example, Channel Islands' parking director asserted that because the campus is located about five miles from the nearest urban development, students, faculty, and staff do not typically bike, walk, or use other alternate modes of transportation. However, Channel Islands could implement other strategies that its parking demand study and the transportation manual recommend, such as tiered permit prices or real-time parking information. These strategies do not depend on location.

.....

**The campuses do not conduct annual transportation surveys that would allow them to regularly evaluate their students' commuting habits.**

.....

The inconsistencies we found in the campuses' planning and implementation of alternate transportation options demonstrate the need for more oversight by the Chancellor's Office. Although the Chancellor's Office established the policies requiring campuses to plan for and implement alternate transportation strategies before building new parking facilities, it did not require campuses to provide the required information before it approved funding for new parking facilities. Instead, the Chancellor's Office's director of long-term finance in the Financing and Treasury office stated that her office discusses parking needs with the campuses on a project-by-project basis and informally asks for information on alternate transportation programs as necessary. However, we question the effectiveness of this approach, given how inconsistent some campuses were in implementing alternate transportation programs.

With CSU planning to increase enrollment in the next few years, the Chancellor's Office and campuses must be proactive in identifying and providing expanded transportation options. According to CSU's fiscal year 2019–20 operating budget request, it aims to increase its resident enrollment by 3 percent to 5 percent

annually over the next decade. Notably, Channel Islands plans to more than double its enrollment by 2025, and Fullerton and Sacramento State are already operating above the enrollment capacity set in their current master plans. If CSU meets its enrollment goal, it may need to support an additional 100,000 students by 2023. The potential for such growth highlights the importance of CSU adopting cost-effective transportation solutions to provide its students with adequate access to its campuses.

## Recommendations

### *Legislature*

To ensure that students have equitable access to campus and that campuses provide the most cost-effective mix of parking and alternate transportation options, the Legislature should require the Chancellor's Office to include the following information related to transportation, by campus, in its comprehensive five-year capital improvement plan:

- The number of parking facilities each campus intends to construct over the next five years and the alternate transportation strategies that the campus considered and implemented in determining the need for those parking facilities.
- The total annual cost for each alternate transportation strategy the campuses considered and implemented compared to the annual cost of constructing, operating, and maintaining a new parking facility.
- The cost per student served by those alternate transportation strategies compared to the cost per student of constructing, operating, and maintaining a new parking facility.
- The number of students served by each of those alternate transportation strategies compared to the number of students to be served by a new facility.
- Information on whether and to what extent alternate transportation strategies have decreased parking demand in the last three years and whether the campus has demonstrated that the parking demand justifies a new parking facility.
- A cost-benefit analysis showing the appropriate mix of transportation strategies to ensure that the campus provides students with the most cost-effective access.

### ***Chancellor's Office***

To ensure that campuses thoroughly investigate and consider alternate transportation strategies, the Chancellor's Office should immediately enforce its policy and require campuses to submit the following information when they request to build new parking facilities:

- Up-to-date master plans and transportation management plans that include as key components their plans for implementing alternate transportation strategies.
- Information on whether and to what extent their alternate transportation strategies have decreased parking demand and evidence that projected parking demand justifies building a new parking facility.

The Chancellor's Office should update its policy by October 2019 to require campuses to submit the following information when requesting to build a new parking facility:

- The total annual cost to implement each alternate transportation strategy compared to the annual cost of constructing, operating, and maintaining a new parking facility.
- The cost per student served by those strategies compared to the cost per student of constructing, operating, and maintaining a new parking facility.
- The number of students served by each of those strategies compared to the number of students served by the new facility.
- Information, including participation data, on how the campuses have implemented alternate transportation strategies during the last three years.

The Chancellor's Office should not approve any request to build a new parking facility unless the requesting campus has submitted this information and the Chancellor's Office has reviewed and approved it.

To ensure that campuses' alternate transportation committees are consistent systemwide, the Chancellor's Office should adopt systemwide policies, by October 2019, to detail the following:

- The frequency of required meetings. The policy should require meetings at least biennially.

- The composition of committee members. The policy should require that the committees include student representatives.
- The committees' responsibilities. These responsibilities should include the assessment of alternate transportation programs based on participation data and recommendations in the campuses' transportation studies.

The Chancellor's Office should also require that, by October 2019, the campuses publish the names of committee members, the committee meeting minutes, and the committee meeting schedule on their parking and transportation services websites.

To ensure that campuses have a stable source of funding for investing in alternate transportation programs, the Chancellor's Office should update its policy by October 2019 to require campuses to include in their master plans or transportation management plans the potential revenue streams they will explore to secure a stable source for funding these programs. Examples of such revenue streams could include parking fees that they have reprioritized for alternate transportation, a stand-alone student transportation fee, local government partnerships or grants, or surplus parking revenue.

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## OTHER AREAS WE REVIEWED

To address the audit objectives approved by the Joint Legislative Audit Committee (Audit Committee), we additionally reviewed the subject areas listed in Table 4. The table indicates the results of our work in those areas that do not appear in the other sections of this report.

**Table 4**  
Other Areas Reviewed as Part of This Audit

<b>The Chancellor's Office Established Appropriate Practices to Safeguard CSU's Outside Accounts</b>
<p>The practices the Chancellor's Office has established to safeguard CSU's outside accounts resemble practices the State uses to safeguard accounts within the state treasury and generally appear adequate. State law and policy protect state treasury accounts by requiring practices that include separating account-related duties; reconciling the banking records of state entities with state treasury bank statements and records from the State Controller's Office; and annually providing the Governor with a statement of funds, revenues, and expenditures for the prior fiscal year. Similarly, state law and CSU policy and practices protect CSU's outside accounts by requiring the separation of duties; the reconciliation of banking statements and campus accounts; quarterly reports to the trustees; and annual reports to the State Treasurer's Office, the State Controller's Office, the Department of Finance, and the Legislature.</p> <p>As we describe in the Introduction, in 2017 the Legislature gave CSU authority to make investments that may provide greater returns, albeit with greater risk, and it required CSU to adopt additional practices to safeguard such investments. For example, the Legislature required CSU to establish a committee to provide advice and expertise on investments, to limit the amount of money it invests in higher-risk securities, and to provide the Legislature with an annual investment report. CSU has met these requirements. In addition, the Legislature restricted CSU to using the money earned through higher-risk investments for capital outlay and maintenance expenses, and it prohibited CSU from requesting state funding to compensate for higher-risk investment losses or from citing such losses as justification for raising tuition. Because CSU began using its authority to make higher-risk investments in the last year of the audit period, we were not able to evaluate its compliance with these restrictions.</p>
<b>Campuses and the Chancellor's Office Can Accumulate or Reallocate Salary Savings</b>
<p>According to CSU's accounting manual, the Chancellor's Office manages a process that allows CSU to use the full amount of its General Fund appropriation each fiscal year to pay for salary and related benefits expenses (salary expenses). Because salary expenses exceeded the amount of the appropriation from fiscal years 2008–09 through 2017–18, campuses and the Chancellor's Office also used other sources of revenue, such as tuition, to pay for salary expenses. CSU is exempt from state law and policy that would require it to spend certain amounts of funding for the salary expenses of specified employee positions that the Department of Finance approved. Therefore, if the Chancellor's Office and campuses have salary expenses that are less than the amounts they budgeted for those expenses, they determine whether to hold the resulting surplus (salary savings) in CSU's outside investment account or reallocate it to pay for other expenses.</p> <p>According to the budget officer for Sacramento State and the director of budget and finance for San Diego State, those campuses do not centrally track salary savings because they do not budget by position. Both Sacramento State and San Diego State allocate budgets by division, and divisions use any salary savings either for other costs or as a contribution to the campuses' surplus. The interim assistant vice president of financial services for Channel Islands, assistant vice president of resource planning and budget for Fullerton, and budget director for the Chancellor's Office each track salary savings. Our analysis of their budget documents found that salary savings for fiscal year 2017–18 were approximately \$5.6 million for Fullerton, \$3.3 million for the Chancellor's Office, and \$1.7 million for Channel Islands, representing about 1 percent of each of their budgeted expenses. In addition, the Chancellor's Office documented that most of its salary savings came from management-related positions rather than staff positions.</p>

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### The Campuses Appropriately Spent Parking Fines and Forfeitures Revenue

State law places restrictions on how parking programs can use parking fines. Specifically, campuses can use revenue generated from parking fines to administer the fines and forfeitures program and for the development, enhancement, and operation of alternate transportation programs. Our review of selected expenditures from each campus's parking fines and forfeitures fund for fiscal years 2014–15 through 2017–18, totaling 40 expenditure items, found that each campus had generally spent revenue generated from fines and forfeitures appropriately and in accordance with state law. The campuses' expenditures included payments for public transportation subsidies, citation processing, and campus shuttle services. In addition, some campuses used revenue from parking fees and fines to pay for a transportation management plan or a parking demand study: Fullerton used \$137,000 of parking revenue to complete a parking demand study, according to information Fullerton provided, and San Diego State used \$127,000 of parking revenue to complete a transportation management plan.

### The Campus Parking Programs Do Not Impose Quotas for Parking Violations

State law and regulations grant CSU the authority to enforce parking on its campuses by issuing parking citations to those who violate campus parking rules. Because the parking programs benefit from revenues generated from parking fines, a risk exists that the programs may impose citation quotas—a minimum number of citations required per day—on parking enforcement officers to increase revenue. However, state law prohibits parking enforcement officers of any state agency, including CSU, from adopting any policy that imposes a citation quota. Our review of the parking regulations and interviews with enforcement officers at each campus found that the campuses did not require citation quotas. Further, according to some of the parking enforcement officers we interviewed at the four campuses, enforcement officers will sometimes forgive students for their first infraction, using it as a warning and a teaching tool for students so that they do not receive an actual citation for a violation.

### CSU Appropriately Disbursed Earnings From Parking Revenue Investments

As the Introduction states, campuses contribute to CSU's investment account, which generates interest earnings. CSU ensures that the participating campus parking funds receive the appropriate amount of earnings from such investments. Every month, the Chancellor's Office creates an earnings report summarizing total earnings by campus. Campuses then calculate the amount each fund contributed to the investment account and use the monthly earnings report to determine the earnings each fund receives. Our review of the participating parking funds at each campus found they received their proper share of earnings. The Chancellor's Office reported in its accounting records that San Diego State distributed \$2.2 million, Fullerton distributed \$1.1 million, Channel Islands distributed \$102,000, and Sacramento State distributed \$2.3 million in interest earnings to their respective parking funds during our audit period. Although the parking deposits and withdrawals for each campus tend to vary depending on upcoming projects, daily parking operations, and unplanned maintenance, we found them to be reasonable. However, we note that the campuses had a surplus of unspent parking fee and fine revenue ranging from \$3 million at Channel Islands to \$28 million at San Diego State. As we discuss on page 21, CSU's reserve policy, which applies to campus parking funds, is inadequate to ensure that the amount of money CSU holds as a reserve and the manner in which it uses that money are appropriate. Although the campuses designate their surplus for broad purposes such as facilities maintenance and construction and economic uncertainty, campuses could use a portion of this surplus money for alternate transportation.

We conducted this audit under the authority vested in the California State Auditor by Government Code 8543 et seq. and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the Scope and Methodology section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
California State Auditor

Date: June 20, 2019

## APPENDIX A

### Scope and Methodology

The Audit Committee directed the California State Auditor (State Auditor) to examine information related to CSU's outside accounts and parking programs, including the balances of CSU's outside accounts and CSU's use of revenue from parking fees and fines. Table A below lists the objectives that the Audit Committee approved and the methods we used to address them.

**Table A**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed and evaluated laws and policies significant to CSU's outside accounts and parking programs.
2 Review and evaluate the Chancellor's Office's role in overseeing the management and operations of the parking program at the following CSU campuses: Channel Islands, Fullerton, Sacramento State, and San Diego State. Specifically evaluate the aspects of the program related to setting and enforcing systemwide policies and procedures to ensure compliance with parking program statutes.	Reviewed policies and procedures related to campus parking programs and interviewed key officials at the campuses and Chancellor's Office.
<p>3 For the four campuses identified in Objective 2, perform the following:</p> <p>a. Review and evaluate the policies, procedures, and practices for determining parking rates and fees and for allocating parking permits.</p> <p>b. For the most recent 10 years, determine the annual number of permits issued and the reasons for any limits on the number of parking permits issued; annual parking program revenues and the sources of the revenues; and changes in parking fee rates and revenues, including the reasons for the changes.</p> <p>c. Assess the adequacy of parking available to students, administrators, and employees (faculty and support staff).</p> <p>d. Determine the cost per parking space for each existing parking facility.</p>	<ul style="list-style-type: none"> <li>• Reviewed systemwide CSU student fee-setting policies and parking fee restrictions in staff collective bargaining agreements.</li> <li>• Reviewed campus policies, procedures, and practices for setting parking permit prices and for allocating parking permits, and interviewed campus parking officials.</li> <li>• Analyzed campus parking permit data, parking fee rates, and parking accounting data for fiscal years 2008–09 through 2017–18 and identified significant changes.</li> <li>• Interviewed parking officials to determine if campuses limit parking permit sales.</li> <li>• Compared trends in parking revenue to trends in permit sales, fee rates, and bond schedules for new parking facilities.</li> <li>• Reviewed campus occupancy assessments in campus transportation management plans or parking demand studies, and campus-collected data.</li> <li>• Identified industry best practices and compared them to occupancy assessments. Reviewed campus parking inventory reports and identified the number of parking spaces relative to the total number of enrolled students and campus employees. Compared the number of parking permits sold for students, residents, faculty, and staff to available parking spaces.</li> <li>• Reviewed parking accounting data and debt payment schedules.</li> <li>• Determined cost per parking space based on parking program operating costs and the debt costs of parking facilities.</li> </ul>

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AUDIT OBJECTIVE	METHOD
e. Determine whether any parking structures are fully paid for and, if so, whether parking rates decreased as a result.	Reviewed bond schedules and CSU audited financial statements and interviewed finance officials at the campuses and the Chancellor's Office to determine if CSU has paid off any parking structures since 1995.
<b>4</b> Determine whether the parking program complies with Education Code provisions pertaining to the allocation of parking revenues for the construction of parking facilities. For the four campuses identified in Objective 2, determine the following:	<ul style="list-style-type: none"> <li>• Reviewed parking revenue data to determine whether campuses allocated parking revenue in compliance with provisions of state law.</li> <li>• Identified and reviewed the provisions in the Education Code related to uses of parking revenues.</li> <li>• Obtained and reviewed policies and procedures the Chancellor's Office and individual campuses developed related to the use of parking revenue.</li> </ul>
a. Methods, criteria, and data used in determining alternate methods of transportation.	<ul style="list-style-type: none"> <li>• Identified the alternate transportation committee at each campus and any policies, procedures, or guidelines related to that alternate transportation committee.</li> <li>• Obtained parking demand studies and transportation management plans and interviewed key staff to identify the methods, criteria, and data campuses used to determine the effectiveness of alternate transportation programs.</li> <li>• Reviewed alternate transportation committee meeting minutes to identify methods, criteria, and data the committees used to determine alternate methods of transportation.</li> </ul>
b. Frequency and evidence of the campus alternative transportation committee meetings and the extent to which the committee consulted with students and local government officials.	Obtained and reviewed alternate transportation committee meeting minutes to determine the frequency of meetings during our audit period and the extent to which the committees consulted with students and local government officials.
<b>5</b> Review and evaluate the parking fund expenditures for the four campuses identified in Objective 2 and identify the following:	<ul style="list-style-type: none"> <li>• Reviewed each campus's parking demand studies and transportation management plans to determine whether the campus had studied alternate transportation and determined the associated costs of the studies and plans.</li> </ul>
a. The extent to which the campus used parking revenue for the study, development, enhancement, operation, and maintenance of alternate methods of transportation.	<ul style="list-style-type: none"> <li>• Identified the annual costs to operate alternate transportation programs at the campuses for the most recent fiscal years where data were available.</li> <li>• Determined the amount of parking revenue the campuses used for alternate transportation and planning documents by using the expenditure data for fiscal years 2008–09 through 2017–18 and parking program documentation.</li> </ul>
b. The alternate methods of transportation funded by parking revenue, the year the programs originated, and the set-up and ongoing costs of the programs.	<ul style="list-style-type: none"> <li>• Reviewed program documents and campus websites, and interviewed key officials to obtain an understanding of the alternate transportation programs funded by parking revenues at each campus.</li> <li>• Obtained alternate transportation program information from parking program staff and utilized contracts and expenditure data to identify, when possible, the cost associated with the establishment and operation of each program.</li> </ul>
c. The extent to which the campus used parking revenue for parking facility acquisition, construction, and improvement.	<ul style="list-style-type: none"> <li>• Reviewed parking expenditure data related to parking facilities.</li> <li>• Reviewed state law and the <i>CSU Legal Accounting &amp; Reporting Manual</i> to determine the campus funds used for parking facility acquisition, construction, and improvement.</li> <li>• Obtained accounting data from the Chancellor's Office for each campus to determine the amount of parking revenue used for parking facility acquisition, construction, and improvement.</li> </ul>
d. Whether funds or money received as parking fines and forfeitures were used exclusively for activities and programs as prescribed by the Education Code.	<ul style="list-style-type: none"> <li>• Reviewed fines and forfeitures revenue and expenditure data and state law.</li> <li>• Judgmentally selected expenditures for review at each campus based on the amount and type of expenditure to determine whether the campus used parking fines and forfeitures revenue in accordance with the Education Code.</li> </ul>
e. To the extent possible, whether campus officers who enforce parking are given quotas for parking violations.	Reviewed parking program policies, procedures, and practices at the four campuses and interviewed parking enforcement officers.

AUDIT OBJECTIVE	METHOD
<p><b>6</b> Identify any outside accounts held by CSU and perform the following:</p> <p>a. Identify the fund balances, funding sources, interest earned, and major category of expenditures for the most recent 10 years. Determine the reasons for any unusual trends.</p> <p>b. Determine whether interest or other earnings received from investments of parking revenues were properly deposited into the State University Parking Revenue Fund. In addition, assess the criteria or justification for the level of fund balance and the timing and amount of deposits, and assess withdrawals for reasonableness and compliance with relevant laws and rules.</p> <p>c. Determine the sources and uses of funds included in the CSU operations category and whether support staff salary savings are held in this account.</p>	<ul style="list-style-type: none"> <li>• Reviewed CSU's reports of accounts outside the state treasury to identify the outside accounts CSU holds.</li> <li>• Identified the balances of outside accounts CSU held as of June 30, 2018. For the investment account that constituted most of the money CSU had in outside accounts, identified revenue, interest earned, other revenue from investments, and expenses for fiscal years 2008–09 through 2017–18.</li> <li>• Reviewed account information and related financial documents to determine the reasons for unusual trends.</li> <li>• Reviewed CSU policy and campus procedures for allocating interest earnings and reviewed a selection of the campuses' interest earnings distributions to determine whether the parking funds received the appropriate portion of interest and earnings.</li> <li>• Reviewed state law, CSU policy, and campus accounting data to assess parking fund balances, deposits, and withdrawals for reasonableness and compliance with state law.</li> <li>• Reviewed the designated purposes for parking fund balances.</li> <li>• Reviewed account data to determine the revenue and expenses related to the CSU operating fund.</li> <li>• Reviewed budget documents and interviewed budget staff at the four campuses and the Chancellor's Office to determine whether they held salary savings in CSU's outside investment account.</li> </ul>
<p><b>7</b> Analyze and provide a comparison of laws, rules, policies, and practices related to oversight, controls, and accountability for CSU accounts held in the state treasury to outside accounts. Determine whether CSU's outside accounts are more susceptible to abuse and, to the extent possible, whether the CSU bypassed or could bypass any state rules or its own policies by placing funds in outside accounts.</p>	<ul style="list-style-type: none"> <li>• Analyzed, compared, and evaluated the laws, rules, policies, and practices related to the oversight, controls, and accountability for CSU's outside accounts and state treasury accounts.</li> <li>• Reviewed existing audits related to the oversight of CSU's outside accounts and reviewed information that CSU provided to legislators and other state entities about its outside accounts.</li> </ul>
<p><b>8</b> Review and assess any other issues that are significant to the audit.</p>	<p>Reviewed documents that the Chancellor's Office provided to legislators and students about CSU's available resources and budget needs that are significant to the transparency of CSU's outside accounts.</p>

Source: Analysis of the Audit Committee's audit request number 2018-127, as well as information and documentation identified in the table column titled Method.

### Assessment of Data Reliability

In performing this audit, we relied on electronic data files that we obtained from the Chancellor's Office and the four campuses we visited. These electronic data files related to CSU's outside accounts, including the revenues and expenses of its operating and parking funds, and to campus parking and transportation programs. The U.S. Government Accountability Office, whose standards we are statutorily obligated to follow, requires us to assess the sufficiency and appropriateness of computer-processed information we use to support our findings, conclusions, or recommendations.

To perform this assessment, we compared accounting data to CSU's audited financial statements and determined that they reasonably agreed. For campus parking program data, we assessed trends in the data and other related information, and determined the data to be generally reasonable. We did not perform accuracy and completeness testing of these data so they are of undetermined reliability for our audit purposes. Although we recognize that these limitations may affect the precision of the numbers we present, there is sufficient evidence in total to support our audit findings, conclusions, and recommendations.

## APPENDIX B

### Additional Investment Account Data

The Audit Committee directed the State Auditor to determine and identify data and trends related to CSU’s outside accounts. We did this for the investment account that, as we explain in the Introduction, comprised the majority of the money CSU held in its outside accounts.

### 10-Year Investment Account Data Trends

Table B.1 presents the total discretionary and restricted revenue and expenses for the investment account from fiscal years 2008–09 through 2017–18. CSU’s discretionary surplus balance increased at a significantly higher rate than its restricted balance. We analyze the growth of the discretionary surplus in CSU’s operating fund earlier in our report, beginning on page 13.

**Table B.1**  
CSU’s Discretionary Surplus Grew at a Higher Rate Than Its Restricted Surplus

	REVENUE AND EXPENSES FROM FISCAL YEARS 2008–09 THROUGH 2017–18			SURPLUS AT THE BEGINNING AND END OF THE AUDIT PERIOD		
	REVENUE	PORTION OF REVENUE FROM INVESTMENT EARNINGS AND INCOME	EXPENSES	SURPLUS AS OF JUNE 30, 2009	SURPLUS AS OF JUNE 30, 2018	PERCENT CHANGE
Discretionary	\$31,017,341,972	\$258,080,820	\$29,554,964,890	\$300,445,695	\$2,024,954,527	↑ 574%
Restricted	45,411,327,658	121,303,214	44,623,354,414	1,064,327,768	1,871,356,071	↑ 76%
<b>Totals</b>	<b>\$76,428,669,630</b>	<b>\$379,384,034</b>	<b>\$74,178,319,304</b>	<b>\$1,364,773,463</b>	<b>\$3,896,310,598</b>	<b>↑ 185%</b>

Source: Analysis of CSU’s account data.

Table B.1 also identifies the portion of revenue that came from interest earnings and other investment income. CSU’s investment earnings over the audit period generally aligned with changes in the yield rate for the State’s Surplus Money Investment Fund, which has the same requirements related to investment risk as most of the money CSU invests in outside accounts. At the time of the 2006 change to state law that allowed CSU to manage tuition in its own accounts outside of the state treasury, the Legislative Analyst’s Office noted that interest earnings that had previously accrued to the State’s General Fund would now accrue to CSU. Because of this loss to the General Fund, the Legislature sometimes reduced

appropriations to CSU from the General Fund during the audit period based on an assessment of the amount of interest earnings CSU accrued.

### *Investment Account Data for the Campuses and Chancellor's Office*

All the campuses and the Chancellor's Office transfer surplus money to the investment account. Table B.2 shows the surplus balance for each campus and the Chancellor's Office as of June 30, 2018.

**Table B.2**  
**Each Campus and the Chancellor's Office Had Millions of Surplus Dollars As of June 30, 2018**

CSU	SURPLUS BALANCE AS OF JUNE 30, 2018
San Diego State	\$456,012,349
San José State	338,538,363
Chancellor's Office	312,896,851
Northridge	290,709,351
Cal Poly Pomona	266,921,547
Fullerton	224,516,302
Cal Poly San Luis Obispo	224,037,783
Long Beach	219,540,259
Sacramento State	203,206,968
San Francisco State	191,722,085
Los Angeles	191,673,526
Chico	131,503,820
San Bernardino	112,130,542
Sonoma State	108,463,786
East Bay	103,531,505
Fresno	93,796,765
Stanislaus	84,898,924
Channel Islands	74,203,809
Dominguez Hills	69,202,929
Bakersfield	66,398,107
Humboldt	62,425,733
Monterey Bay	61,120,036
San Marcos	48,282,648
Maritime	21,773,540
Other	3,435,700
<b>Total</b>	<b>\$3,960,943,228</b>

Source: CSU's investment activity report as of June 2018.

In addition to campuses and the Chancellor's Office, the CSU Risk Management Authority and the CSU Institute transfer surplus funding to CSU's investment account. The CSU Risk Management Authority is a joint powers authority created to provide insurance and risk management services, such as workers' compensation and property insurance programs, for CSU campuses and auxiliary organizations. The CSU Institute is an auxiliary organization whose stated purposes include furthering CSU's educational, research, and public service missions by performing functions such as administering educationally-related programs and assisting with the development of small business enterprises. These organizations are included in Table B.2 in the row labeled Other.

The total surplus balance in Table B.2 is the same as the investment account balance presented in Table 1 of the Introduction. This total is based on CSU's bank statements. It differs slightly from the total surplus that Table B.1 presents, which is based on CSU's account data. Because of the timing of transfers in and out of the investment account, values from the account data and bank statements are generally consistent but do not match exactly.

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## APPENDIX C

### Additional Parking Program Data

The Audit Committee directed the State Auditor to identify data and trends related to the campus parking programs.

#### Parking Program 10-Year Data Trends

Table C.1 presents the annual number of permits sold by the four campuses that we reviewed; their total annual parking program revenues including fees and fines; changes in their revenue and parking fee rates; and their expenses for parking facility acquisition, construction, and improvement. Permit prices are for semester permits. The parking permit prices for CSU’s represented staff were lower than student prices and changed less frequently because the staff’s collective bargaining agreements place limits on when and how much the campuses can adjust prices.

**Table C.1**  
**Parking Program Data by Campus**  
**Fiscal Years 2008–09 Through 2017–18**

FISCAL YEAR	DOLLARS IN THOUSANDS			SEMESTER PERMIT				NUMBER OF PERMITS SOLD	TOTAL CAMPUS PARKING SPACES
	ANNUAL PARKING FEES AND FINES REVENUE	PARKING FACILITY EXPENSES*	TOTAL PARKING FEES AND FINES SURPLUS	STUDENT		REPRESENTED STAFF†			
				PERMIT PRICE	PERCENT INCREASE	PERMIT PRICE	PERCENT INCREASE		
2008–09	\$1,184	\$100	\$708	\$145		\$100		NA	1,666
2009–10	1,288	288	791	145	0%	100	0%	NA	1,877
2010–11	1,326	74	640	145	0	108	↑ 8	NA	1,983
2011–12	1,445	97	561	145	0	108	0	NA	2,077
2012–13	1,755	75	713	160	↑ 10	108	0	9,738	2,523
2013–14	1,993	280	598	180	↑ 13	108	0	10,606	2,556
2014–15	2,276	165	862	185	↑ 3	108	0	11,469	2,512
2015–16	2,404	191	1,234	190	↑ 3	108	0	11,900	2,541
2016–17	2,707	186	2,009	195	↑ 3	108	0	12,656	2,627
2017–18	2,824	605	2,975	195	0	108	0	13,247	2,599
<b>Percent Change</b>	<b>↑ 139%</b>	<b>↑ 505%</b>	<b>↑ 320%</b>	<b>↑ 34%</b>		<b>↑ 8%</b>		<b>↑ 36%</b>	<b>↑ 56%</b>

continued on next page...

June 2019

FISCAL YEAR	DOLLARS IN THOUSANDS			SEMESTER PERMIT				NUMBER OF PERMITS SOLD	TOTAL CAMPUS PARKING SPACES
	ANNUAL PARKING FEES AND FINES REVENUE	PARKING FACILITY EXPENSES*	TOTAL PARKING FEES AND FINES SURPLUS	STUDENT		REPRESENTED STAFF†			
				PERMIT PRICE	PERCENT INCREASE	PERMIT PRICE	PERCENT INCREASE		
<b>Fullerton</b>									
2008–09	\$11,473	\$3,130	\$6,949	\$144		\$58		69,172	9,752
2009–10	10,367	3,224	7,703	162	↑ 13%	58	0%	92,887	11,088
2010–11	12,473	3,180	10,604	220	↑ 36	58	0	87,982	11,424
2011–12	13,419	6,068	10,851	220	0	58	0	100,013	11,370
2012–13	12,809	7,592	10,591	220	0	58	0	89,154	11,826
2013–14	13,168	5,172	12,886	229	↑ 4	58	0	98,272	11,826
2014–15	13,079	8,344	10,127	229	0	58	0	102,531	11,957
2015–16	13,417	6,291	9,606	229	0	58	0	101,061	12,186
2016–17	14,306	4,382	11,085	236	↑ 3	67	↑ 15	96,899	12,372
2017–18	14,425	4,334	11,993	236	0	67	0	98,285	12,051
<b>Percent Change</b>	<b>↑ 26%</b>	<b>↑ 38%</b>	<b>↑ 73%</b>	<b>↑ 64%</b>		<b>↑ 15%</b>		<b>↑ 42%</b>	<b>↑ 24%</b>
<b>Sacramento State</b>									
2008–09	\$8,358	\$2,146	\$8,763	\$108		\$68		55,071	12,173
2009–10	8,753	2,334	10,594	153	↑ 42%	68	0%	51,016	13,061
2010–11	8,704	2,265	12,574	156	↑ 2	68	0	49,548	13,091
2011–12	8,851	2,380	18,459	159	↑ 2	68	0	51,471	12,997
2012–13	8,580	2,867	19,928	159	0	68	0	51,399	13,137
2013–14	9,116	2,386	23,045	162	↑ 2	68	0	53,918	13,126
2014–15	9,364	2,214	26,090	165	↑ 2	68	0	52,239	13,126
2015–16	9,838	2,584	29,117	168	↑ 2	72	↑ 6	52,668	13,091
2016–17	10,299	2,688	32,171	171	↑ 2	77	↑ 7	51,241	12,150
2017–18	10,539	21,325	16,470	174	↑ 2	77	0	47,581	13,812
<b>Percent Change</b>	<b>↑ 26%</b>	<b>↑ 894%‡</b>	<b>↑ 88%</b>	<b>↑ 61%</b>		<b>↑ 13%</b>		<b>↓ 14%</b>	<b>↑ 13%</b>
<b>San Diego State</b>									
2008–09	\$10,139	1,698	\$12,761	\$135		\$103		56,225	15,047
2009–10	10,242	1,867	18,880	135	0%	103	0%	51,022	15,018
2010–11	9,374	1,699	22,682	135	0	103	0	57,067	14,746
2011–12	9,312	2,701	24,928	135	0	103	0	52,283	14,356
2012–13	9,479	2,978	26,012	135	0	103	0	54,568	14,361
2013–14	9,738	2,917	27,794	135	0	103	0	53,489	14,318
2014–15	10,289	2,621	20,080	135	0	103	0	59,696	14,238
2015–16	12,261	2,632	27,181	162	↑ 20	106	↑ 3	54,636	14,127
2016–17	11,141	5,197	28,679	165	↑ 2	111	↑ 5	50,406	14,439
2017–18	15,332	4,369	28,420	168	↑ 2	111	0	48,214	14,197
<b>Percent Change</b>	<b>↑ 51%</b>	<b>↑ 157%</b>	<b>↑ 123%</b>	<b>↑ 24%</b>		<b>↑ 8%</b>		<b>↓ 14%</b>	<b>↓ 6%</b>

Source: Analysis of parking program accounting data, permit data, and parking inventories.

NA = The data was unavailable because Channel Islands replaced its permit management system in 2012, according to Channel Islands.

\* Parking facility expenses in a given fiscal year include annual debt payments, as well as one-time costs for construction, maintenance, acquisition, and improvement. These expenses do not include parking operations or alternate transportation, which we present in Figure 7 on page 35.

† This column includes the permit prices for represented staff only. Faculty permit prices remained unchanged during our audit period and were \$98 at Channel Islands, \$59 at Fullerton, \$69 at Sacramento State, and \$119 at San Diego State.

‡ Sacramento State's unusually high percent change for parking facility expenses is due to its upfront contribution for its new parking structure in fiscal year 2017–18. Without this cost, the 10-year percent change would be 31 percent.

### Cost per Parking Space

Table C.2 shows the annual cost per parking space for each existing parking facility at the four campuses. The facilities with outstanding debt have a higher cost per space because of the annual debt payment.

**Table C.2**  
Average Annual Cost Per Parking Space by Campus  
As of Fiscal Year 2017–18

CAMPUS	PARKING FACILITY	AVERAGE ANNUAL OPERATING COST PER SPACE FOR ALL CAMPUS SPACES	ANNUAL DEBT PAYMENT PER SPACE FOR FACILITIES CURRENTLY BEING PAID OFF	TOTAL COST PER SPACE
<b>Channel Islands</b>	Parking Lot A3	\$578	\$217	\$795
	Student Housing Lot 1		98	676
	Student Housing Lot 2		112	690
	All other paid-off facilities*			578
<b>Fullerton</b>	Eastside Structure	703	1,154	1,857
	Nutwood Structure		549	1,252
	State College Structure		787	1,490
	All other paid-off facilities*			703
<b>Sacramento State</b>	Parking Structure 2	361	370	731
	Parking Structure 3		590	951
	Parking Structure 5		659 <sup>†</sup>	1,020
	All other paid-off facilities*			361
<b>San Diego State</b>	Parking Structures 3 and 7	473	413	886
	South Campus Plaza		3,009 <sup>‡</sup>	3,482
	All other paid-off facilities*			473

Source: Analysis of parking program financial data, debt payment schedules, and parking inventory reports from each campus.

\* For this category, the number of facilities and spaces per facility varies by campus. The important distinction is that none of the spaces in this category have outstanding debt.

<sup>†</sup> Sacramento State financed Parking Structure 5 in fiscal year 2017–18, but its first debt payment was not until fiscal year 2018–19. To capture the cost of the additional parking spaces, we include the scheduled debt payment here.

<sup>‡</sup> The debt payment per space is unusually high because the South Campus Plaza parking facility is a six-story structure with only 300 spaces, while the other structures that Fullerton, Sacramento State, and San Diego State financed since 1995 have an average of 1,900 spaces.

### Alternate Transportation Programs

Each of the four campuses we reviewed offered a variety of transportation options for commuters, but only some options were likely to reduce the number of single occupancy vehicles on campus and were funded using parking revenues. Table C.3 shows the alternate transportation programs that the four campuses generally funded with parking revenue and that were likely to

reduce the number of single occupancy vehicles on campus. The table also includes the year these programs originated, and the start-up and ongoing costs associated with the programs. Other programs the campuses offered would likely not significantly reduce the number of single occupancy vehicles on campus, such as car sharing programs (i.e. Zipcar) and electric vehicle parking and charging stations. Moreover, other programs were not included in the table if they may reduce the number of vehicles on campus but were offered at little or no cost to the campus. For example, Sacramento State promotes student discounted tickets on Amtrak, but does not have a formal agreement in place with Amtrak and does not sell Amtrak tickets. Finally, all four campuses allow bicycling in designated areas on campus and provide bicycle infrastructure, such as bike racks and designated bike lanes or paths. Because we did not use this information to draw conclusions, we did not assess the reliability of the data.

**Table C.3**  
**Alternate Transportation Programs' Start Years, Start-Up Costs, and Ongoing Costs by Campus**

	START YEAR	START-UP COST	ONGOING ANNUAL COST*
<b>Channel Islands</b>			
Local Transit Subsidy	1999	\$0	\$460,000
Shuttle to Local Transit <sup>†</sup>	2014	0	25,000
<b>Fullerton</b>			
Local Transit Subsidy	2003	\$0	\$269,600
Shuttle to Off-site Parking <sup>†</sup>	2017	0	285,900
Commuter Program	1991	Unavailable	29,500
<b>Sacramento State</b>			
Local Transit Subsidy <sup>‡</sup>	1996	\$0	\$804,800
Multi-Location Shuttle <sup>†</sup>	1989	Unavailable	533,500
Commuter Program	1995	0	3,300
<b>San Diego State</b>			
Rideshare	2009	\$950	\$3,750
Local Transit Subsidy	2001	0	93,400
Multi-Location Shuttle <sup>†</sup>	2008	0	22,000

Source: Parking program contracts, financial documents and data, and program staff confirmations.

Unavailable = Campus was unable to provide information.

\* We generally used the most recent annual costs as ongoing annual costs varied from year to year.

<sup>†</sup> Fullerton and Channel Islands contract for professional shuttle services and San Diego State and Sacramento State operate their own shuttle service, which requires vehicle purchase or lease. San Diego State and Sacramento State made their initial vehicle purchases before our audit period. To provide context for the cost of this type of purchase, Sacramento State paid \$178,000 in December 2014 for two 30-foot transit buses.

<sup>‡</sup> Sacramento State's local transit subsidy program is funded with a transportation fee that is separate from its parking revenues. We listed this program in this table to demonstrate that a local transit subsidy is provided at all campuses.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

May 30, 2019

BAKERSFIELD

Ms. Elaine Howle\*

CHANNEL ISLANDS

State Auditor

CHICO

California State Auditor

621 Capitol Mall, Suite 1200

Sacramento, California 95814

DOMINGUEZ HILLS

Dear Ms. Howle:

EAST BAY

This is the response of the California State University (CSU) to the draft audit report regarding CSU outside accounts and parking programs. The CSU is committed to – and has a strong record of – prudent management of resources entrusted to it. The university is transparent in all its dealings, including those with the state Legislature, students, faculty, staff, and the community.

①

FRESNO

FULLERTON

HUMBOLDT

The report accurately makes findings that reflect positively on CSU's practices to safeguard its outside accounts and expenditure and investments of parking revenues.

LONG BEACH

LOS ANGELES

However, the report severely mischaracterizes the nature of monies invested by the CSU and the manner in which these funds have been reported. Throughout the report, CSU's designated reserves reported in its annual audited financial statements and investment reports are called "discretionary surpluses" suggesting that CSU is failing to deploy monies that may be used for any purpose.

②

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

Tuition and other fees paid by CSU students are authorized for specified purposes by Education Code Section 89700 et seq. Education Code Section 89750 provides that all money appropriated to the CSU, including tuition and fees, must be used "for the support and maintenance of the California State University." CSU's designated reserves, such as the \$1.5 billion referenced in Figure 5 of the audit report, are used in several ways to deal with non-recurring expenses by (1) managing short-term obligations and commitments, (2) providing funding for capital infrastructure repairs and maintenance, and (3) helping to ensure that operating costs can be paid during times of economic and budget uncertainty.

②

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

In other words, it is inappropriate to characterize these reserves as either "discretionary" or "surpluses." In the same way a family utilizes a savings account for one-time expenses and uncertainties, these funds constitute an essential element of our system's fiduciary responsibilities to manage the university and ensure continued operation in the face of economic uncertainty.

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SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

Moreover, as noted in Appendix B, the overall designated reserve amount, representing about 2% of annual expenses, is distributed among 23 campuses and the Chancellor's Office—all to support the education of more than 480,000 students.

③

SONOMA

STANISLAUS

\* California State Auditor's comments begin on page 57.

Ms. Elaine Howle

May 30, 2019

Page Two

- ① In addition, except for a very general reference under “Other Areas We Reviewed,” the audit report fails to mention that more than 30 public reports provided 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”). Paramount among these public reports are annual audited financial statements published by the CSU – notably, one of the few state agencies to publish externally audited financial statements.
- ④ Moreover, the audit report fails to mention detailed letters we provided at the request of state legislators in 2017 and 2018 that contained specifics regarding balances in accounts held outside the state treasury.
- ⑤ Nor does the audit report disclose that these same balances are reported, as required by statute, to the California State Controller’s Office in the annual State of California Budgetary/Legal Basis Annual Report.
- ① The point is all of CSU’s financial resources are available to state government officials and the public.
- ⑥ The audit report does, however, note that CSU has already taken steps toward further enhancing transparency over available financial resources via a new website ([www.calstate.edu/financial-transparency](http://www.calstate.edu/financial-transparency)).
- ⑦ Finally, to the extent possible, we will implement recommendations in the audit report and provide more details about our implementation efforts in our follow-up responses.

Please do not hesitate to contact me if you have questions.

Sincerely,



Timothy P. White  
Chancellor

TPW/bw

## COMMENTS

### CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE CALIFORNIA STATE UNIVERSITY

To provide clarity and perspective, we are commenting on CSU's response to our audit. The numbers below correspond to the numbers we have placed in the margin of CSU's response.

The Chancellor's Office has not been transparent in all of its dealings with the Legislature and students and has not made information about the full extent of CSU's financial resources available. Specifically, as we discuss in the report, starting on page 17, the Chancellor's Office failed to disclose CSU's discretionary surplus when projecting its available resources for legislators or when consulting with students about the need to raise tuition. We acknowledge in Table 4 and in the footnote on page 17 that CSU submits certain reports to the State, which include information about CSU's investments. However, neither these reports nor CSU's audited financial statements provide the detail or the context necessary for the Legislature to easily understand that CSU had \$1.5 billion that was in essence a discretionary surplus that it could use to fund operations and instruction.

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We have not mischaracterized the nature of CSU's surplus. As we state in the Introduction on page 6, the surplus is money that CSU does not need for current expenses. Some of the surplus comes from restricted revenue sources that can only be used for purposes specified in law, but the \$1.5 billion component of the surplus that we discuss in the report comes from revenue sources—primarily tuition—that state law gives CSU great discretion to use for the broad purposes of providing materials, services, and facilities. Although CSU designates portions of the discretionary surplus for more specific uses within the confines of those broad purposes, these designations are flexible, and campuses and the Chancellor's Office have the discretion to use the surplus as they deem necessary.

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CSU's response appears to suggest that the discretionary surplus is an insignificant amount. We believe that the \$1.5 billion CSU accumulated primarily from tuition is a significant amount.

③

In August 2017 and April 2018, the Chancellor's Office provided the referenced letters to certain legislators who had inquired about CSU's outside accounts. Although the legislator who requested this audit referred to the information provided in the August 2017 letter, she had additional questions, in particular about the unrestricted,

④

discretionary money CSU held in outside accounts. These letters did not adequately disclose the amount or discretionary nature of CSU's surplus.

- ⑤ The *State of California Budgetary/Legal Basis Annual Report For the Fiscal Year Ended June 30, 2018* does not disclose the discretionary surplus that CSU can use to fund operations and instruction. Although it includes information about the total balance of CSU's outside investment account, similar to the reports we describe in comment number one, this report would not allow legislators, students, or the public to easily understand CSU's available resources.
- ⑥ As we state on page 20, after we shared our findings with the Chancellor's Office, it developed and published a website in May 2019 that is a step towards improving transparency. However, as of June 2019 the website did not clearly identify the amount of CSU's surplus that is discretionary or the amount of tuition contributing to that surplus. To ensure that the website provides meaningful information to a broad audience, the Chancellor's Office will need to more completely disclose information about its surplus.
- ⑦ We believe that it is imperative for the Chancellor's Office to implement all of our recommendations. We look forward to the Chancellor's Office's 60-day response to our audit report, which should include documentation demonstrating the actions it is taking to implement our recommendations.