

The Story of Salary Steps for CSU Support Staff

- In 2018, CSUEU sponsored AB 1231 (Weber) to reinstate annual 5% salary steps – merit salary increases – for CSU support staff who receive “satisfactory performance” job evaluations. The legislation was passed by over two-thirds of state legislators, with many Republicans supporting the bill. In his veto message, Governor Brown argued he wanted salary steps to be bargained, and encouraged the CSU administration to become “an agent of social mobility” for its lower-wage workers.
- With the election of Governor Newsom, CSUEU last year introduced AB 369 (Weber). Co-sponsored by SEIU State Council and the Teamsters, the bill is identical to the previous year’s AB 1231. The bill is on hold in the state Senate. AB 369 is very much alive! The outcome of contract bargaining will determine when – and if – AB 369 is forwarded to Governor Newsom for final action.

FACT The CSU is the only California state agency – out of 233 state agencies with 200,000 employees – that does not provide salary steps for its support staff. The CSU is the only state agency that eliminated salary steps for its support staff.

FACT In 1996, the CSU Board of Trustees took the unprecedented action to unilaterally eliminate employee salary steps that were in place for 50 years. For over two decades since this action, the CSU has been unwilling to reinstate salary steps, despite the failures of the existing salary structure and the inability of employees to earn a fair and equitable wage.

FACT CSU employee salaries have not progressed through an “open range” structure imposed by the CSU to replace salary steps, and multi-year efforts to negotiate a resolution to this inequity have been unsuccessful.

FACT Because support staff don’t move through their salary ranges, new hires are earning higher salaries – on average over \$780 more per month – than current employees who have worked in the same classification, on the same campus, for many years.

FACT The CSU profited from intentionally neglecting its employees. A 2013 state audit concluded the CSU made at least \$682 million in 2009-10 from the lay-offs and furloughs of support staff and student fee increases. This money was added to CSU accounts that are held outside of the State Treasury.

FACT As CSU employee salaries became marginalized, a 2017 state audit determined that CSU management positions grew at twice the rate of support staff, with annual earnings of a half-billion dollars. The state auditor concluded that the CSU could not justify the growth in management positions or their compensation.

FACT The 2017 state audit also concluded that CSU campuses “do not adequately oversee their budgets,” which “reduce assurances” that state funds are being spent “efficiently and appropriately.”

FACT A June 2019 state audit revealed a CSU budget surplus of \$4 billion, of which \$1.5 billion are ongoing, discretionary funds that can be used for CSU operational costs, including salary steps. These funds were accumulated from years of employee salary savings and tuition increases.

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
Total	\$3,960,943,228

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

The CSU Budget and Employee Salary Equity

CSU has the funds to provide salary steps and correct salary inversion

A June 2019 state audit requested by CSUEU revealed a CSU budget surplus of \$4 billion, of which \$1.5 billion are ongoing, discretionary funds that can be used for CSU operational costs, including salary steps. These funds were accumulated from years of employee salary savings and tuition increases.

The CSU claims the \$1.5 billion in accounts outside of the State Treasury are earmarked, one-time monies, that can't be used to fund CSU operations, but the State Auditor repeatedly refutes these claims.

The bulk of the \$1.5 billion surplus is comprised of student tuition (84%) and salary savings. Under normal circumstances, the CSU has always used tuition and unspent salaries to fund CSU operations. So how does placing these same funds in a different bank account change how the CSU is able to spend it?

From the state audit report on the CSU \$1.5 billion discretionary surplus in outside accounts:

"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..."

"According to the [CSU] associate director of accounting for the Chancellor's Office's financial services division...campuses have the discretion to use any portion of their surplus based on their needs..."

"[CSU] campuses have the discretion to use the [\$400 million] reserve for economic insecurity, or any other portion of their [\$1.5 billion] surplus as they deem necessary."

"[The State Auditor] has not mischaracterized the nature of CSU's surplus...Some of the [\$4 billion] 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."

"The Chancellor's Office has not been transparent...[It] 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...Neither [investment] 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."

CSU continues to accrue salary savings

Although the State Auditor uncovered millions of dollars in salary savings, the CSU is exempt from budget requirements that would require it to regularly track unspent salaries.

In addition to the \$1.5 billion surplus of on-going, discretionary funds, evidence strongly suggests the CSU could pay for the costs of 5% annual salary steps using its existing \$3.9 billion operating budget.

In the late-1980s, after the state stopped paying for merit salary increases as part of an agency's budget, the CSU began using salary savings to pay for the costs of salary steps. The CSU would "freeze" vacant employee positions – identify them as "long-term salary savings" – and use the unspent salaries to fund merit salary steps.

Has the CSU continued to accrue salary savings even after it eliminated salary steps in 1996?

In private correspondence with state auditors, it was confirmed that although CSU – unlike other state agencies – is not required to track salary savings, the auditors uncovered salary savings at Fullerton, Channel Islands, and the Chancellor's Office. For fiscal year 2017-18, a total of \$10.6 million in salary savings was found, representing about one percent of their operating budgets. The auditors concluded that:

"The campuses and Chancellor's Office could have held the resulting surplus (salary savings) in CSU's investment account or reallocated the money to pay for other expenses."

Applied systemwide, one percent of the CSU's 2018-19 budget nearly equals the CSU estimate of \$78 million in yearly costs to provide support staff 5% salary steps.

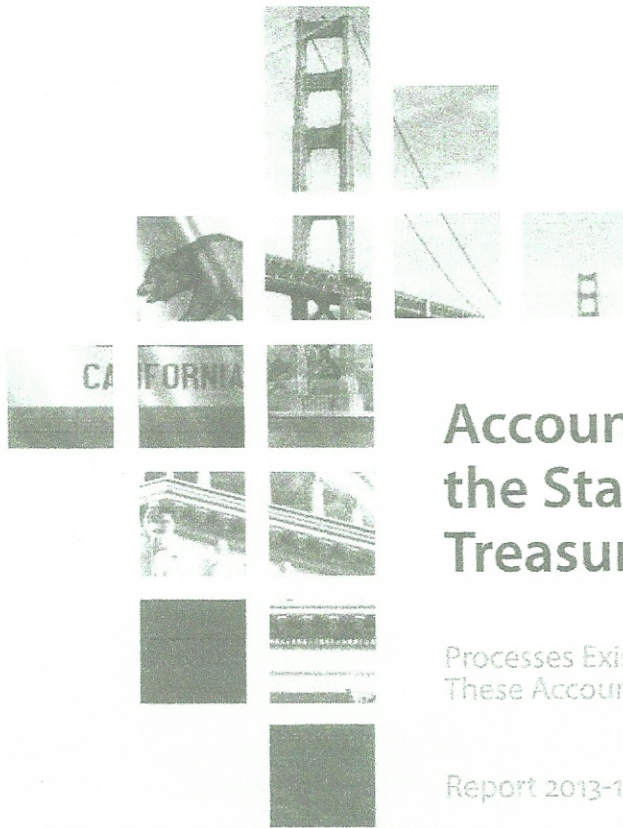
Negotiate fair and equitable wages

The CSU must negotiate fair and equitable compensation that treats support staff with respect. Especially if the Chancellor's Office and campus presidents ever hope to restore the trust of state legislators and CSU employees. As Governor Gavin Newsom wrote in his November 5, 2019 letter to CSU Chancellor Timothy White:

"I urge the CSU to address a longstanding inequity faced by dedicated and skilled employees who are facing stagnant wages and declining market rate salaries due to a lack of merit steps... It is my expectation that the CSU tackle this issue head on during upcoming collective bargaining negotiations...The upcoming negotiations should result in an agreement with our labor partners that erases the inversion gap, provides salary steps, and fairly and justly compensates these staff for their hard work."

The evidence is overwhelming! The CSU has the funds to provide annual 5% salary steps to its 20,000 support staff and correct the existing salary inversion; a fact that state lawmakers and Governor Newsom agree on.

David Balla-Hawkins
CSUEU Legislative Director
10 March 20



Accounts Outside the State's Centralized Treasury System

Processes Exist to Safeguard Money, but Controls for
These Accounts Need Strengthening

Report 2013-107

COMMITMENT
INTEGRITY
LEADERSHIP

Trends in the Growth and Makeup of Outside Accounts

The amounts held in outside accounts have generally increased over the last five years, and two state agencies with statutory authority for establishing outside accounts have experienced large changes in the overall balances in their accounts. State agencies reported \$9.3 billion in outside accounts as of June 30, 2012, whereas in fiscal year 2007–08, they reported \$6.7 billion. As Figure 2 on the following page shows, most of the \$2.5 billion increase occurred in fiscal year 2009–10. The California Housing Finance Agency (CalHFA) and California State University (CSU) accounts contributed to the majority of this increase. CalHFA's balance increased by about \$1.5 billion in fiscal year 2009–10 when it issued \$1.4 billion in bonds as part of the federal government's Housing Finance Agency Initiative. According to CalHFA's director of financing, the federal initiative offered a low borrowing rate, which financed CalHFA's single-family lending activities in 2010 and 2011. CSU's balance increased by nearly \$682 million during fiscal year 2009–10. Most of this increase resulted from higher revenues generated by tuition increases and from lower spending caused by furloughs and layoffs.

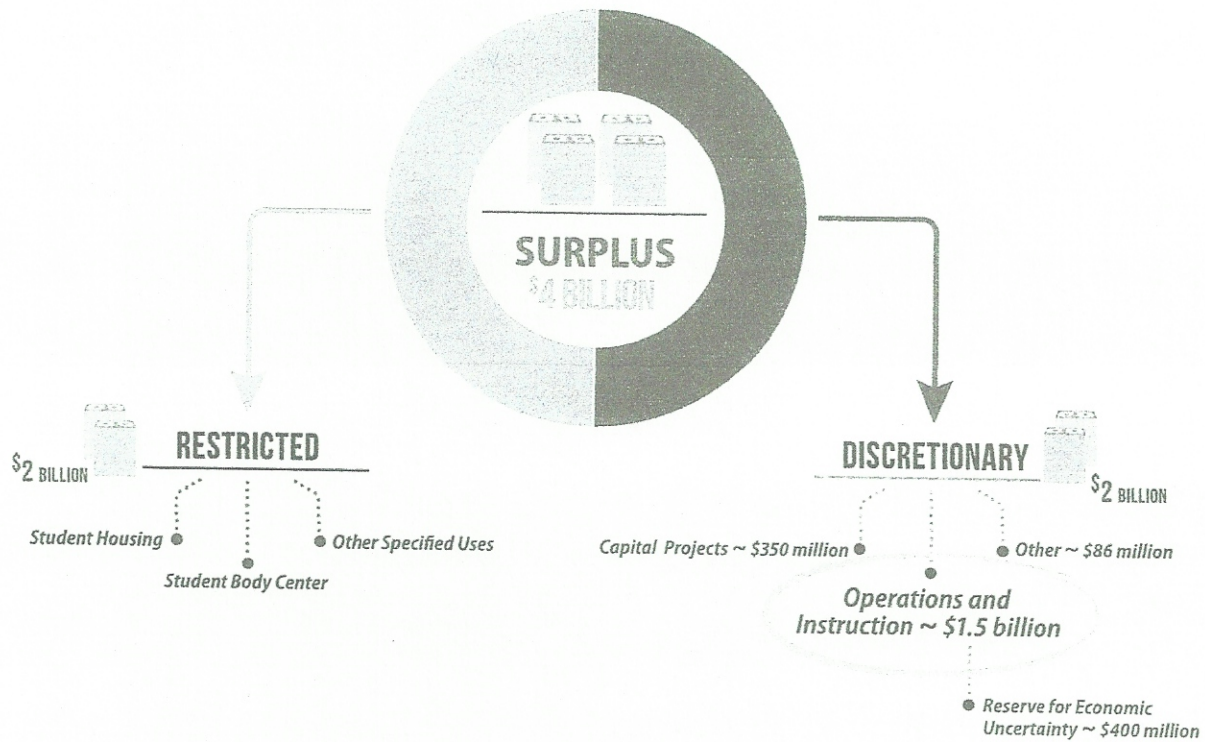
A relatively small number of accounts at three agencies made up most of the state money outside the treasury system as of June 30, 2012, while more than half the accounts had a balance of less than \$1,000. Two college savings plan accounts, with \$4.5 billion, authorized by statute for the ScholarShare Investment Board made up about 48.6 percent of the total balance in outside accounts, and CSU's two investment accounts, with about \$1.9 billion, made up about 20.3 percent of the total. CalHFA held \$1.4 billion in 32 outside accounts, making up about another 15.5 percent of the total in outside accounts. As we discuss in the Audit Results section beginning on page 15, these agencies use the accounts to enable California families to save for college (ScholarShare), to gain increased operational efficiencies and implement an independent investment strategy (CSU), and to satisfy bond contract requirements (CalHFA). Most accounts with balances below \$1,000 had balances of zero. The activity for most of these accounts is frequently swept into the treasury system, usually leaving no funds at the end of any given day.

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%
Totals	\$76,428,669,630	\$379,384,034	\$74,178,319,304	\$1,364,773,463	\$3,896,310,598	↑ 185%

Source: Analysis of CSU's account data.

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



Source: Analysis of CSU's account data.



OFFICE OF THE GOVERNOR

November 5, 2019

Timothy P. White
Chancellor, California State University
401 Golden Shore
Long Beach, CA 90802

Dear Chancellor White,

As the California State University (CSU) negotiates the next contracts with its support staff workforce, I urge the CSU to address a longstanding inequity faced by dedicated and skilled employees who are facing stagnant wages and declining market rate salaries due to a lack of merit steps.

As you are aware, Assembly Bill 369 (Weber) moved through the Legislature this year with bipartisan support, which would have provided annual merit salary intermediate step adjustments for CSU support staff employees meeting satisfactory performance standards. This followed a similar legislative proposal last year. Building upon these legislative efforts, it is my expectation that the CSU tackle this issue head on during upcoming collective bargaining negotiations.

In 1996, the CSU halted merit salary steps for support staff, and despite workers' attempts to negotiate increases, they have not been reinstated. Meanwhile, executive and manager salaries have climbed – creating a significant hardship for the most loyal support staff as well as a growing sense of inequality on campuses. The troubling absence of merit salary steps takes the biggest toll on the most long-serving workers, who fall further behind their more recently hired colleagues each year they serve our students. Moreover, the CSU is the only state agency that does not provide salary steps to its staff.

The CSU is an economic engine for our state and thanks in large measure to your leadership, we are witnessing historic increases in the amount of students who graduate. In order to sustain that commitment, we must take proper care of the tens of thousands of support staff who represent the backbone of the CSU's twenty-three campuses.

The upcoming negotiations should result in an agreement with our labor partners that erases the inversion gap, provides salary steps, and fairly and justly compensates these staff for their hard work.

As a long-time CSU Trustee, I have appreciated our partnership and know you share my commitment to treating our dedicated staff with the dignity and respect they deserve. It is my firm belief that addressing this wage inequity is long-overdue and in line with the institution's values.

As you complete the final year in your exemplary service as Chancellor of California's State University, I know that we can work together on this important goal.

Sincerely,



Gavin Newsom
Governor of California

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

May 30, 2019

BAKERSFIELD

Ms. Elaine Howle*
State Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, California 95814

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

Dear Ms. Howle:

EAST BAY

FRESNO

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.

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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.

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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.

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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 JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

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.

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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).
- 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.

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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,

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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.