

## AGENDA

### AD HOC COMMITTEE ON TECHNOLOGY UTILIZATION

**Meeting:** 1:00 p.m., Tuesday, May 12, 1998  
**Auditorium**

Martha C. Fallgatter, Chair  
James H. Gray  
Eric C. Mitchell  
Ali C. Razi  
Charles B. Reed, Chancellor, ex officio  
Stanley T. Wang

#### **Consent Items**

Approval of Minutes of March 17, 1998

#### **Discussion Item**

1. Integrated Technology Strategy: Status Report on CETI Partnership Negotiations, *Information*

**MINUTES OF MEETING OF  
AD HOC COMMITTEE ON TECHNOLOGY UTILIZATION**

**Trustees of The California State University  
Glenn S. Dumke Conference Center  
400 Golden Shore  
Long Beach, California**

**March 17, 1998**

**Members Present**

Martha C. Fallgatter, Chair  
Delaine Eastin, Superintendent of Public Instruction, ex officio  
Bernard Goldstein  
James H. Gray  
Eric C. Mitchell  
Charles B. Reed, Chancellor, ex officio  
Ali C. Razi  
Stanley T. Wang

**Other Trustees Present**

Jim Considine  
Robert G. Foster  
Laurence K. Gould, Jr.  
William Hauck  
Maridel Moulton  
Joan Otomo-Corgel  
Ralph R. Pesqueira  
Alice S. Petrossian  
Michael D. Stennis  
Anthony M. Vitti

**Chancellor's Office Staff**

June M. Cooper, Senior Vice Chancellor and Interim Chief of Staff  
Charles W. Lindahl, Interim Senior Vice Chancellor, Academic Affairs  
Richard P. West, Senior Vice Chancellor, Business and Finance  
Christine Helwick, General Counsel  
Thomas W. West, Assistant Vice Chancellor, Information Resources and Technology

**Presidential Liaisons**

Ruben Armiñana, President, Sonoma State University, present  
Warren J. Baker, President, California Polytechnic State University, San Luis Obispo, present  
Milton A. Gordon, President, California State University, Fullerton, present  
James M. Rosser, President, California State University, Los Angeles, present  
John D. Welty, President, California State University, Fresno, present  
Blenda J. Wilson, President, California State University, Northridge, present

Chair Fallgatter called the meeting to order at 1:15 p.m.

**Approval of Minutes**

The minutes of January 27, 1998, were approved as a consent item.

**Integrated Technology Strategy: Progress Report on the ITS-Technology Infrastructure Initiative Plan and the CETI Partnership Business Plan**

Chancellor Reed prefaced his report by noting that he had been following the negotiations with the industry partners closely since the beginning of the year and had participated in discussions with executive officers from GTE and Fujitsu and senior officers from Microsoft. He praised members of the CSU team from the campuses and Chancellor's Office for the productive effort they have put forth in the partnership negotiations, particularly over the last several weeks. He also mentioned that written answers had been provided to all of the questions about CETI raised at the January legislative hearing and by the heads of key CSU constituency groups.

Chancellor Reed reported that negotiations are now focusing on the financial pro formas. The major question is whether CETI will be able to generate sufficient revenue to retire the \$300 million debt incurred by the CETI partnership, a risk not shared by the CSU, although the CSU is the principal beneficiary.

Based on recent conversations with the negotiating team and with the corporate leaders, Chancellor Reed estimated the prospects for establishing this partnership, as currently constituted, at about 50-50. He emphasized, however, that the CETI concept is correct, and that the views of the CSU and the corporate negotiators are not far apart on two of the three principal sources of revenue. The first source is CSU's institutional expenditures on computing and telecommunications. The second source is revenue from sales of computing and communications products and services to individuals (e.g., students, faculty, alumni). There remain substantial differences in the estimates of income that can be earned from the third source, the sale of telecommunications services.

In conclusion, Chancellor Reed said that 16 of 18 negotiating points identified as crucial to going forward with the partnership have been resolved. Negotiations will continue for another week or ten days. Both CSU and the industry partners remain committed to allowing a period of time for review and consultation prior to signing a final agreement—30 days for study and feedback and 15 days for synthesis and follow-up discussions.

Trustee Goldstein asked whether the commitment to the 45-day period for review and feedback might push the date for establishing the partnership into the fall. Chancellor Reed said he was hopeful that full resolution of outstanding issues could be achieved by April 1, and he preferred not to speculate on what might happen until that date arrives. We remain committed to the consultative process, he said. What are the contingency plans, Trustee Goldstein asked, if we are unable to reach agreement on CETI. Chancellor Reed replied that effort should now concentrate on making the CETI concept work rather than on developing contingency plans.

Trustee Gray commented that public discussion about CETI has focused on the things constituencies find wrong with the partnership. They have the right and the responsibility to do this. Without CETI or something like it, he stressed, the CSU will have a very difficult time in meeting the technological demands that will be placed on the system in the next decade. Critics of the public-private partnership

approach have a responsibility to offer a better solution. Chancellor Reed agreed and stated that CSU does not have a choice about technology.

Referring to the answers to questions about CETI distributed in January, Trustee Wang asked how the value returned to the CSU through the partnership—\$5 for every \$3 the CSU expends—had been calculated. Senior Vice Chancellor West replied that the calculation is based primarily on the creation of a larger market with new revenue opportunities from non-CSU sources. The margins on these sales will help repay the debt associated with the investment in the infrastructure.

Trustee Wang asked whether the CSU would be obliged to purchase from CETI equipment and services associated with the infrastructure build out if the prices do not reflect best available market value. If the CSU does make these purchases through CETI, he continued, how can the CSU meet its obligation for purchases totaling about \$1 billion over the life of the contract? If CETI cannot be competitive, Senior Vice Chancellor West responded, the CSU is not obligated to purchase these items through CETI. The assumption is CETI will be competitive, because it can build a marketing relationship with the population of the CSU that permits large volume purchases. Desktop equipment is only one category of purchases the CSU will make in meeting its obligation to CETI of approximately \$950 million over 10 years. Consideration would be given to exit strategies if CETI cannot compete successfully.

Trustee Wang asked how the CSU could exercise veto power over CETI activities with only a 25 percent equity share in the corporation. Senior Vice Chancellor West replied that the CETI contract includes a provision—already agreed to by the industry partners and the CSU—giving the chancellor final approval authority over any new revenue generating programs not negotiated as part of the initial contract. This control mechanism assures that CETI business interests will not intrude into affairs of the university that are properly CSU's domain.

Trustee Goldstein asked whether any response had been received from members of the legislative committee to the answers about CETI provided after the January hearing. Senior Vice Chancellor West said that there has been no formal response. A second hearing is being planned for mid-April, but the agreement is that this hearing would take place only after the details associated with the final agreement are published.

Chair Fallgatter adjourned the meeting at 1:37 p.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
May 12-13, 1998

### **AD HOC COMMITTEE ON TECHNOLOGY UTILIZATION**

#### **Integrated Technology Strategy: Status Report on CETI Partnership Negotiations**

##### **Presentation By**

Charles B. Reed  
Chancellor

Richard P. West, Senior Vice Chancellor  
Business and Finance

##### **Summary**

For the past seven months the CSU has been engaged in intensive negotiations aimed at establishing a public-private partnership to build the technology infrastructure the system needs to carry out its mission effectively. Detailed planning undertaken in preparing the agreement raised issues that have taken longer to resolve than anticipated. In the interest of assuring that the business plan meets expectations and that stakeholder constituencies on the public and the private sides have an opportunity to review and provide input on the proposed agreement, negotiations have been extended.

The committee will receive a report on the current status of negotiations with the CETI industry partners. Included in the report is a discussion of the ITS-TII Plan, an overview of the work in progress of joint CSU-CETI industry task groups focusing on specific components of the partnership.