

**Coded Memo B 2014-01**

**To:** CSU Chief Fiscal Officers

**From:** Ryan Storm, Interim Assistant Vice Chancellor for Budget



Rodney Rideau, Acting Deputy Assistant Vice Chancellor for Budget



**Copy:** CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors, Enrollment Planning and Resource Officers, and Enrollment Managers

**Date:** March 6, 2014

**Subject:** 2014/15 Governor's Budget Allocations

**Attachments:** Coded Memo 2014-01, Attachments A-E

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This CSU 2014/15 Governor's Budget allocation memorandum and attachments are provided for information. The Governor's January proposal includes a \$142.2 million programmatic increase in state support consistent with the governor's multi-year funding plan adopted in 2013/14; however, it is less than the CSU 2014/15 support budget request for a \$237.6 million increase in state funds approved by the Board of Trustees (BOT) at its November 2013 meeting. Additionally, the 2014/15 Governor's Budget includes a plan to fold in \$197.6 million of state general obligation (GO) bond debt service into the CSU support budget, and proposes new statutory authority for the CSU to pledge and use the CSU support budget for infrastructure and maintenance projects.

This coded memo includes permanent campus General Fund (GF) base budget adjustments for employer-paid retirement costs, faculty equity and underfunded 2013-14 compensation increases, improving student success, CSU interest payments to the state, and campus relative need of student financial aid. For provisional planning purposes, the 2014/15 Governor's Budget allocations also provides a preliminary allocation of campus GF support for 2014/15 enrollment growth that is funded at the marginal cost rate of \$9,737 per FTES and for mandatory cost (i.e. health and maintenance of new space) increases. The remainder of the 2014/15 Governor's Budget \$142.2 million GF increase is held centrally until the Board of Trustees (BOT) has approved a revision to the budget plan request adopted at its November 2013 meeting. CSU budget plan priorities for faculty and staff compensation increases, student success and completion, and financing maintenance and infrastructure needs have not been allocated pending BOT action.

With regard to the 2014/15 Governor's Budget proposal to fold debt service into the CSU support budget, this framework provides the CSU with the opportunity to retain \$296.7 million indefinitely for all outstanding GO bond (\$197.6 million) and State Public Works Board lease revenue (LR) bond (\$99.1 million) funded projects. State law established a similar framework for debt service last year for the University of California. While this proposal would be cost neutral to CSU in the near term, it would authorize a restructuring of LR debt service, which has the potential to be financially advantageous if terms are appropriate and market conditions are agreeable. Also, the Governor's Budget proposal exempts the CSU appropriation from Budget Act Section 6.00 and would allow CSU to pledge its support budget and/or expend these funds for a variety of infrastructure-related purposes, such as construction, repair, and

maintenance of academic facilities, the construction of energy conservation projects, and cogeneration facilities. The proposal would enable the three-year financing strategy approved by the trustees in November 2013 for deferred maintenance, repair, and facility improvement needs. To date, the CSU has been either significantly limited or prohibited from using its support budget for these purposes. This proposal provides the CSU additional financing and pay-go options for these types of projects as well as the ability for the system to consume less energy and save utility costs.

As authorized in Section 3.60 of the Budget Act of 2013, state funding of CSU GF employer-paid retirement costs has changed commencing with fiscal year 2013/14. While the state’s obligation to adjust retirement funding based on annual rates set by CalPERS is retained, the salary base used for application of the rate changes will be fixed going forward to the CSU actual 2013/14 pensionable payroll. The 2013/14 estimated retirement adjustment by campus in these allocations is based on annualized campus July through December 2013 CSU Operating Fund pensionable payroll, which will be adjusted further after reconciliation with the state when full-year 2013/14 pensionable payroll is available.

The following table summarizes the CSU 2014/15 state appropriation based on the Governor’s Budget:

**CSU General Fund Appropriation in 2014/15 Governor's Budget**

<b>2013/14 Budget Act General Fund Appropriation</b>	<b>\$2,330,500,000</b>
Supplemental GF Appropriation for Adjustment in 2013/14 Retirement Rates	15,631,600
<b>2013/14 Revised General Fund</b>	<b>\$2,346,131,600</b>
Lease Revenue Bond Debt Service Adjustments	8,543,000
State Interest Payment Adjustment	1,179,000
Fold In of CSU General Obligation Bond Debt Service into CSU Main GF Appropriation	197,577,000
<b>2013/14 General Fund After Base Adjustments</b>	<b>\$2,553,430,600</b>
2014/15 Governor's Budget General Fund Base Budget Increase	142,222,000
<b>2014/15 Governor's Budget General Fund Total</b>	<b>\$2,695,652,600</b>

These allocations also include a \$52.6 million increase in gross tuition fee revenue projected for 8,339 resident full-time equivalent student (FTES) enrollment growth. After providing tuition fee discounts equivalent to an increase of \$11 million in CSU institutional financial aid, the 2014/15 net tuition fee revenue from enrollment growth is \$41.6 million. Additional adjustments in estimated tuition fee revenue result from year-to-year changes in nonresident student enrollment growth and reported student enrollment patterns (\$11.3 million) and 2013/14 enrollment target adjustments (\$7.3 million). The estimated 2014/15 net tuition fee revenue totals approximately \$1.6 billion and total tuition fee discounts are \$644.3 million. The systemwide resident FTES enrollment growth of 8,339 FTES represents a 2.47 percent increase over 2013-14 targets and brings the CSU 2014/15 funded resident enrollment target to 346,050 FTES.

Following are references to the 2014/15 Governor’s Budget:

1. [2014/15 Budget Bill AB 1457](#)
2. [State of California, Department of Finance, 2014/15 Governor’s Budget](#)
3. [CSU Section of the 2014/15 Governor’s Budget](#)

Staff questions concerning this memorandum and attachments can be directed to Chris Canfield or other System Budget Office staff member at (562) 951-4560. Reference the [staff directory](#) for additional contact information and areas of staff focus.

## Appendix A

Following are further details regarding 2014/15 Governor's Budget GF base and expenditure adjustments and information related to distributions by campus as shown in budget allocations Attachments A through E.

### **Attachment A – 2014/15 Governor's Budget Allocations, Gross Budget Summary**

The 2014/15 Governor's Budget allocations are presented as preliminary adjustments to the 2013/14 Final Budget allocation base. The adjustments include estimated budget actions specified on Attachments B, C, and D. The 2014/15 allocations on Attachment A may be further revised by campuses to reflect fee revenue adjustments for campus planning estimates.

### **Attachment B – 2014/15 Governor's Budget Allocations, General Fund Base Adjustments**

Base budget adjustments address modifications to the GF allocation that campuses received in the 2013/14 final budget (reference Coded Memo B 2013-02). The CSU GF appropriation in the 2013/14 Final Budget enacted last June totaled \$2,330,500,000. After GF base adjustments, the revised GF base for 2014/15 is \$2,553,430,660, which includes \$197.6 million of general obligation bond debt service shifted from statewide expenditures in General Government (Section 9600) to the CSU main 6610 GF appropriation. This is before other GF expenditure adjustments. The GF base adjustments are further described below.

#### ❖ Retirement Adjustment

Each year the California Public Employees' Retirement System (CalPERS) adjusts employer-paid contribution rates in order to maintain the actuarial soundness of the system and meet defined benefit pension obligations. Beginning in 2013/14 per the state Budget Act of 2013, AB 110, GF adjustments for CSU employer retirement contributions to CalPERS will be based on the university's 2013/14 pensionable payroll. The distribution of the \$15.6 million retirement adjustment by campus is based on the changes in CalPERS employer-paid retirement rates from 2012/13 to 2013/14 applied to the campus actual 2<sup>nd</sup> quarter, CSU Operating Fund pensionable salaries (annualized) as submitted monthly by campuses to the System Budget Office, Employee Salary Projection system. The allocations will be adjusted further after reconciliation with the state when full-year 2013/14 pensionable payroll data is available. The State Miscellaneous – Tier 1 rate increased from 20.503 percent to 21.203 percent and the State Peace Officer / Firefighter rate increased from 30.297 percent to 31.320 percent (CSU covers the additional 8 percent employee contribution rate for Unit 8).

The state Department of Finance will process the 2013/14 GF appropriation retirement adjustment before the end of the 2013/14 fiscal year. For additional information on employer contributions and employee retirement, please reference the applicable [2014/15 Support Budget supplemental documentation section](#) and [Human Resources technical letter 2013-07](#).

#### ❖ Faculty Equity Salary Base Adjustment

The 2014/15 budget allocations make permanent the \$1.3 million 2013/14 faculty equity compensation increase to cover one-third of related campus costs by systemwide allocation per the June 11, 2013 memorandum to campus presidents from the Chancellor's Office (C.O.). One-time allocations occurred earlier this year and become permanent base in the 2014/15 budget allocations.

#### ❖ Improving Student Success / Reduction of Bottleneck Courses Adjustments

The 2014/15 budget allocations make permanent the \$7.1 million 2013/14 funding for improving student success awarded by the C.O. in July 2013 following a request for proposal process. One-time allocations occurred in the fall and become permanent base in the 2014/15 budget allocations. The distribution of funds

for approved initiatives to reduce bottleneck courses will continue to be determined through the request for proposal process managed by the C.O. Academic Affairs division and related funding is moved from Systemwide Provisions (SWP) to the C.O.

❖ Other Base Adjustments

Other base budget adjustments include \$8.5 million increase for lease revenue bond debt service adjustments, and base adjustments from SWP to the C.O. (\$1.0 million) and to fund 2013/14 base enrollment adjustments (\$5.8 million) for three campuses (i.e. Channel Islands, Maritime, and San Bernardino). Also shown here is the base adjustment in the 2014/15 Governor's Budget to move \$197.6 million of general obligation bond debt service from statewide expenditures in General Government (Section 9600) to the CSU main 6610 GF appropriation.

❖ Campus Operating Revenue Interest Assessment

Campuses reimburse CSU system operations for interest earning distributions assessed by the state on student fee revenue held in trust. The total CSU 2014/15 operating revenue interest assessed (\$1.804 million) is \$1.179 million less than the 2013/14 \$2.983 million assessment representing a return to the CSU. The interest assessment has occurred since 2006/07 when CSU higher education fee revenue moved from a state fund to the CSU local Trust Fund. The CSU interest payment obligation is in budget statute and is meant to keep the state whole for interest earned on student fee revenue held in trust. The distribution by campus is based on the campus operating revenue that includes tuition and other fee revenue reported in 2013/14 FIRMS final budget submissions. The interest cost is calculated using the most recent Surplus Money Investment Fund (SMIF) interest rates.

❖ Tuition Fee Discounts, GF Adjustments based on Campus Relative Student Need

The difference between tuition fee discount increases (i.e. Attachment D: 2014/15 enrollment growth marginal cost financial aid of \$1,318 per FTES) and the updated total tuition fee discounts distribution based on student financial aid need and enrollment targets (Attachment E) results in GF allocation adjustments by campus.

**Attachment C – 2014/15 Governor's Budget Allocations, General Fund Expenditure Adjustments**

At this time, campus distribution of 2014/15 Governor's Budget GF increase shown in these preliminary allocations is a preliminary allocation to support 2014/15 enrollment growth only. The remainder of 2014/15 Governor's Budget GF increase is held centrally for future allocation and will cover CSU expenditure priorities, such as mandatory costs (i.e. health benefits, new space), faculty and staff compensation increases, student success and completion, and financing maintenance and infrastructure needs. CSU expenditure priorities are funded with both General Fund and tuition fee revenue increases CSU expects to receive during the fiscal year.

❖ Enrollment Growth Funding

The 2014/15 Governor's Budget allocations include 2.47 percent resident full-time equivalent students (FTES) growth systemwide, an additional 8,339 FTES, funded at a marginal cost rate of \$9,737 per FTES (GF and fees). The distribution of enrollment targets by campus is based on consultation with campus presidents.

As shown on Attachment C, the preliminary allocation of GF to support enrollment growth reflects the \$9,737 per FTES marginal cost expenditure increase for enrollment growth less total net tuition revenue from enrollment growth. The 2014/15 projected net tuition fee revenue for enrollment growth incorporates a deduction of \$1,318 per FTES for tuition fee discounts.

The 2014/15 resident student Marginal Cost of Instruction rate by program area is detailed in the following table:

<b>Program</b>	<b>2014/15 General Fund MC Factor Per FTES</b>	<b>2014/15 Net<sup>1</sup> Tuition Fees MC Factor Per FTES</b>	<b>2014/15 Total<sup>2</sup> MC Factor Per FTES</b>
Instruction	\$4,329	\$1,192	\$5,521
Research	0	0	0
Public Service	0	0	0
Academic Support	793	382	1,175
Student Services	661	309	970
Institutional Support	739	337	1,076
Operation and Maintenance of Plant	486	416	902
Student Financial Aid	0	0	0
<b>Totals</b>	<b>\$7,008</b>	<b>\$2,636</b>	<b>\$9,644</b>
Instructional Equipment	81	0	93
<b>Totals with I.E.</b>	<b>\$7,089</b>	<b>\$2,636</b>	<b>\$9,737</b>
			<b>\$11,055</b>
			<b>Less: MC Financial Aid (Tuition Fee Discounts)</b>
			<b>(\$1,318)</b>
			<b>2014/15 Total Marginal Cost of Instruction without MC Financial Aid</b>
			<b>\$9,737</b>
			<b>Net MC Tuition Fee Revenue<sup>1</sup></b>
			<b>(\$2,636)</b>
			<b>MC General Fund Support</b>
			<b>\$7,101</b>

<sup>1</sup> MC tuition fees support net of forgone financial aid; 2014/15 budget allocations incorporate projected campus NET revenue from enrollment growth.

<sup>2</sup> Based on most-recent past year total MC increased by 2.1 percent CA-CPI.

#### **Attachment D – 2014/15 Governor’s Budget Allocations, Tuition Fee Revenue Adjustments**

This coded memo includes tuition fee revenue adjustments related to changes in student enrollment patterns and 2.47 percent or 8,339 FTES 2014/15 enrollment growth systemwide. The enrollment included in budget plan tuition fee revenue projections encompass the 2014/15 budgeted resident enrollment target of 346,050 FTES along with 15,568 nonresident FTES for a total of 361,618 FTES. Nonresident FTES is based on the most recent past-year actual (2012/13).

The following table summarizes the projected 2014/15 tuition fee revenue adjustments as shown in Attachment D. In addition to revenue from enrollment growth, adjustments in estimated tuition fee revenue result from year-to-year changes in nonresident student enrollment growth (increase of 1,240 FTES) and reported student enrollment patterns and 2013/14 enrollment target adjustments.

	Gross Tuition Fee Revenue Adjustments	Tuition Fee Discounts / Financial Aid Set-Aside	2014/15 Net Tuition Fee Revenue Adjustment
2014/15 Tuition Fee Revenue Adjustments			
Change in Student Enrollment Patterns	\$11,252,000		\$11,252,000
2013/14 Base FTES Target Adjustments	7,256,000		7,256,000
2014/15 Tuition Fee Revenue from Enrollment Growth	52,622,000	(10,991,000)	41,631,000
Total 2013/14 Tuition Fee Revenue Adjustments	\$71,130,000	(\$10,991,000)	\$60,139,000

Following is a summary of the 2014/15 academic year tuition fee rates that are the same as 2011/12 tuition fee levels:

Tuition Fee Academic Year Rates	2014/15
<b>Undergraduate Programs</b>	
6.1 or more	\$5,472
0 to 6.0	\$3,174
<b>Credential Programs</b>	
6.1 or more	\$6,348
0 to 6.0	\$3,684
<b>Graduate and Other Post-Baccalaureate Programs</b>	
6.1 or more	\$6,738
0 to 6.0	\$3,906

**Attachment E – 2014/15 Governor’s Budget Allocations, Tuition Fee Discount Adjustments**

Attachment E provides the total 2014/15 tuition fee discount allocations by campus with an approximate \$11 million increase related to 2014/15 enrollment growth as shown in the 2014/15 tuition fee revenue adjustments in Attachment D. The preliminary tuition fee discounts distribution by campus is based on 2014/15 tuition fee levels, campus 2014/15 funded enrollment targets, and a recognition of the highest need students, defined as those with a family contribution less than or equal to \$4,000. The campus tuition fee discounts allocations are calculated after allowances for tuition fee waivers and Cal Grant fee awards.

Campus tuition fee discount allocations recognize the distribution of financial need for both the highest need students and students with family contributions between \$4,001 through \$11,500. While the allocation methodology aims to cover tuition fees for students with the highest level of need, systemwide financial aid policy enables campuses to make awards to eligible students with family contributions up to 50 percent of the cost of attendance for a student living off campus (approximately \$11,500). Questions about the tuition fee discounts distribution process and allocations may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at [dkulju@calstate.edu](mailto:dkulju@calstate.edu).

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Attachments