

AGENDA

COMMITTEE ON FINANCE

Meeting: **10:45 a.m., Thursday, October 28, 2004**
Glenn S. Dumke Auditorium

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Roberta Achtenberg
Carol R. Chandler
Debra S. Farar
Bob Foster
Eric Guerra
Raymond W. Holdsworth
Kathleen E. Kaiser
Frederick W. Pierce IV

Discussion Items

1. California State University 2005/2006 Support and Lottery Budgets with State University Fee Increase, *Action*

COMMITTEE ON FINANCE

California State University 2005/2006 Support and Lottery Budgets with State University Fee Increase

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The purpose of the item is to present the 2005/06 Support and Lottery budgets for approval.

2005/06 Support Budget

The Board of Trustees will be presented with the proposed 2005/06 CSU support budget, which reflects discussions with the Systemwide Budget Advisory Committee (SBAC), the Executive Council and the presentation made at the September meeting of this board. In their review of the 2005/06 budget, the Board will be provided with the state General Fund and student fee revenue assumed in the new "Compact for Higher Education" that anticipates \$224.8 million in new revenue for the CSU. In addition, this item will identify a recommended \$224.8 million expenditure plan to address mandatory costs, enrollment growth, financial aid, compensation, and long-term needs (technology, libraries, and deferred maintenance).

The California State University (CSU) and the University of California (UC) negotiated a Compact for Higher Education with the Governor's Office to begin the fiscal recovery of the university, establish long-term funding stability to enroll students, restore academic and student services programs, provide moderate-predictable-affordable student fee adjustments, and make progress on the salary lag for employees. The CSU's inability to address these budget priorities is attributed to the lack of state General Fund resources and budget reductions that have resulted in a net fiscal reduction of \$524 million to the university budget over the last three years. The Compact agreement is similar to the funding of Partnership agreements with prior administrations that not only provides fiscal stability to the University, but also allows for future

planning for enrollment, student fees, financial aid, compensation and restoration of the academic infrastructure (libraries, technology equipment, and deferred maintenance).

For the 2005/06 fiscal year, the Compact calls for an investment of \$224.8 million (state General Fund - \$123.6 million and student fee revenue - \$101.2 million) based on an increase of 3 percent for general operations and assuming 2.5 percent in state marginal cost for enrollment growth to support an additional 8,103 full-time equivalent students (FTES). The state General Fund and student fee revenue would enable the CSU to fund:

- \$41.9 million for mandatory costs
- \$63.7 million for 2.5 percent enrollment growth (8,103 FTES)
- \$23.3 million for financial aid
- \$88.1 million for compensation (3.5 percent effective July 1, 2005)
- \$7.8 million to fund long-term need (technology, libraries, and deferred maintenance)

The Compact recognizes, and funds, nearly \$137.8 million in mandatory costs, compensation, and long-term needs that have not been funded over the past three years. Funding provided for enrollment would allow CSU to serve an additional 8,103 FTES in 2005/06 and begin restoring enrollment reductions that resulted from significant General Fund budget cuts. The 23.3 million set aside for financial aid would bring the State University Grant funding to \$232.1 million, support 109,500 state University Grants in 2005/06 (an increase of 2,700 grants from the previous year) and allow the CSU to provide financial aid to cover the student fee increases for our most needy students.

The 2004/05 State of California budget was predicated upon assumptions about federal funding levels, one-time solutions, loans and the outcome of several initiatives on the November 2004 ballot and as a result the state will undoubtedly face a \$6 to \$10 billion budget gap in 2005/06. The Legislative Analyst Office will be releasing its "California Fiscal Outlook: LAO Projections, 2004/05 through 2009/10" in mid-November that will provide the first indication of the state's overall fiscal condition. There will be a level of uncertainty as to how the Governor or the Legislature will address the fiscal condition of the state unless the Governor calls a special session of the legislature, which has occurred in the past, or when he releases his 2005/06 state budget in January. The budget proposal before the Board represents CSU's understanding of the first-year funding commitment in the Compact Agreement, which reflects an effort to re-invest and restore critical resources to the CSU and our students.

State University Fee Increase

The board has the authority to establish, adjust, and abolish systemwide fees. The Compact agreement proposes fee increases for CSU undergraduate students that will average 10 percent over a three-year period beginning in 2004/05. Student fees were increased by 14 percent in

2004/05, and in 2005/06 and 2006/07 they are proposed to increase 8 percent each year for an average increase of 10 percent during this three-year period.

For graduate students in 2004/05 fees increased by 25 percent, except for teacher credential candidates whose fees increased by 20 percent. The Governor expects CSU graduate student fees to eventually reach levels that make them 50 percent higher than undergraduate fees, in recognition of the cost of these programs and the expected higher earnings these students will make once they have entered the workforce.

These fee increases will generate \$75,914,000 in revenue to fund the 2005/06 support budget. One fourth of this revenue or \$18,979,000 will be used to increase the CSU State University Grant pool. This pool is administered centrally and is allocated to campuses based on student need.

Assuming proposed 2005/06 undergraduate fees of \$2,520 and including the 2004/05 average campus-based fees of \$582, the total annual undergraduate fee of \$3,102 would be \$68 more than the lowest public comparison institution and \$2,554 less than the average fee for 2004/05 of CSU public comparison institutions. Comparison institution fee data for 2005/06 is not currently available.

**2005/06 CSU Comparison Institutions
 Academic Year Resident Undergraduate Student Fee Levels**

University	2003/04	2004/05	2005/06³
Rutgers University (Newark, NJ)	\$7,927	\$8,869	-
University of Maryland, Baltimore County	7,388	8,020	-
University of Connecticut (Storrs, CT)	6,844	7,490	-
Cleveland State University	5,916	6,618	-
State University of new York at Albany	6,343	6,383	-
University of Wisconsin at Milwaukee	5,107	5,835	-
Wayne State University (Detroit, MI)	5,693	5,819	-
COMPARISON AVERAGE¹	5,205	5,656	-
Illinois State University (Normal, IL)	5,340	5,588	-
George Mason University (Fairfax, VA)	5,112	5,448	-
University of Texas at Arlington	4,423	5,093	-
North Carolina State University	3,970 ²	4,260	-
University of Colorado at Denver	3,662	4,160	-
Georgia State University at Atlanta	3,920	4,154	-
Arizona State University at Tempe	3,595	4,066	-
University of Nevada at Reno	2,830	3,034	-
CALIFORNIA STATE UNIVERSITY	2,572	2,916	3,102

¹Average does not include CSU; ²2003/04 amount updated; ³Comparison institution data for 2005/06 not available

The recommendation before the Board is to increase state university fee rates for undergraduates by \$186 (8% increase), qualified credential program participants by \$216 (8% increase) and all other post-baccalaureate and graduate students by \$282 (10% percent) for the 2005/06 academic year. One fourth of the revenue from these fee increases will be set aside for State University Grant financial aid.

2005/06 Lottery Revenue Budget

Over the past several years CSU lottery revenue receipts have been strong. However, in light of the downturn in the state's economy and growing uncertainty over the level of support budget appropriations, a more conservative estimate of revenue is prudent as the CSU plans for fiscal year 2005/06. The lottery revenue that will be allocated to the California State University in 2005/06 is estimated to be \$41.5 million. After providing for a \$5.0 million systemwide reserve, the amount available for allocation is \$36.5 million. The \$5.0 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

The lottery budget proposed for fiscal year 2005/06 is as follows:

2005/06 Recommended Lottery Revenue Budget

	2004/05 Adopted Budget	2005/06 Recommended Budget
Sources of Funds		
Beginning Balance	\$ 5,000,000	\$ 5,000,000
Receipts	36,081,000	36,000,000
Projected Interest Earnings	1,500,000	500,000
Total Revenues	\$ 42,581,000	\$ 42,500,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 37,581,000	\$ 36,500,000
Uses of Funds		
<i>System Programs</i>		
Forgivable Loan/Doctoral Incentive Program	\$ 3,000,000	\$ 3,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Administrative Costs	341,000	491,000
	\$ 5,255,000	\$ 5,405,000
<i>Campus Based Programs</i>	\$ 32,326,000	\$ 31,095,000
Total Uses of Funds	\$ 37,581,000	\$ 36,500,000

Trustee Resolutions

The following resolutions are recommended for adoption:

1. State Appropriated 2005/2006 Support Budget

RESOLVED, By the Board of Trustees of the California State University, that the 2005/06 Support Budget is approved as submitted by the chancellor; and be it further

RESOLVED, That the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that such changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, That the chancellor is authorized to comply with requests of the

Department of Finance and the legislature regarding establishment of priorities within this budget; and be it further

RESOLVED, That copies of this resolution be transmitted to the California Postsecondary Education Commission, to the governor, to the director of finance and to the legislature.

2. **2005/06 State University Fee Level**

RESOLVED, By the Board of Trustees of the California State University, that the following schedule for the State University Fee, which incorporates an eight percent increase for undergraduate, eight percent increase for qualified credential program participants, and ten percent increase for other post-baccalaureate and graduate students, for the 2005/06 academic year, effective fall term 2005 is approved until further amended:

2005/06 State University Fee Schedule (Effective Fall 2005)

All Campuses, except California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Per Quarter</u>	<u>Per Academic Year</u>
Undergraduate			
6.1 or more	\$1,260	\$840	\$2,520
0 to 6.0	\$732	\$488	\$1,464
Credential Program Participants			
6.1 or more	\$1,461	\$974	\$2,922
0 to 6.0	\$849	\$566	\$1,698
Graduate			
6.1 or more	\$1,551	\$1,034	\$3,102
0 to 6.0	\$900	\$600	\$1,800

California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Winter Term</u>	<u>Per Academic Year</u>
Undergraduate			
6.1 or more	\$1,147	\$226	\$2,520
0 to 6.0	\$619	\$226	\$1,464
Credential Program Participants			
6.1 or more	\$1,331	\$260	\$2,922
0 to 6.0	\$719	\$260	\$1,698
Graduate			
6.1 or more	\$1,413	\$276	\$3,102
0 to 6.0	\$762	\$276	\$1,800

And, be it further

RESOLVED, That the chancellor may approve individual campus State University Fee rates that do not exceed the maximum fee rates established by this fee schedule, and be it further

RESOLVED, The chancellor is delegated authority to further adopt, amend, or repeal the State University Fee rate increase if such action is required by the budget act approved for 2005/06, and that such changes made by the chancellor are communicated promptly to the trustees.

3. 2005/2006 Lottery Revenue Budget

RESOLVED, By the Board of Trustees of the California State University, that the 2005/2006 Lottery Revenue Budget totaling \$41.5 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the Lottery Revenue Budget and to phase expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, That the chancellor is hereby granted authority to adjust the 2005/2006 Lottery Revenue Budget approved by the Board of Trustees to the extent of receipt of greater or lesser lottery revenue than budgeted in 2005/2006 to respond to opportunities or exigencies; and be it further

RESOLVED, That a report of Lottery Revenue Budget receipts and expenditures be made to the Board of Trustees.