

TRUSTEES OF THE CALIFORNIA STATE UNIVERSITY

**Office of the Chancellor
401 Golden Shore
Long Beach, California**

October 31, 2002 – 9:00 a.m.

Presiding: Debra S. Farar, Chair

Call to Order and Roll Call

Board Items

Consent Agenda

1. Reappointment of Ad Hoc Committee on Off-Campus Facilities
2. Appointment of Ad Hoc Committee on Executive Compensation

Discussion Agenda

3. Approval of Support Budget for 2003/2004 and 2003/2004 Lottery Revenue Budget

Public Comment

Adjournment

BOARD OF TRUSTEES

Reappointment of Ad Hoc Committee on Off-Campus Facilities

Presentation By

Debra S. Farar, Chair

In November 2001, the board confirmed the continuation of the Ad Hoc Committee on Off-Campus Facilities. In accordance with the Trustees' Rules of Procedure, Article VI, Section 6, this item will renew the appointment of the Ad Hoc Committee on Off-Campus Facilities for an additional year.

RESOLVED, By the Board of Trustees of The California State University that the Ad Hoc Committee on Off-Campus Facilities be renewed. The membership of this committee shall consist of:

Anthony M. Vitti, Chair
William D. Campbell
Debra S. Farar, Chair of the Board, ex-officio
Bill Hauck
Frederick W. Pierce IV
Charles B. Reed, Chancellor, ex-officio
Kyriakos Tsakopoulos

BOARD OF TRUSTEES

Appointment of Ad Hoc Committee on Executive Compensation

Presentation By

Debra S. Farar, Chair

In accordance with the Trustees' Rules of Procedure, Article VI, Section 6, an ad-hoc committee is established to review the executive compensation policy and practices of the California State University.

RESOLVED, By the Board of Trustees of The California State University that an Ad Hoc Committee on Executive Compensation be established. The membership of this committee shall consist of:

Murray Galinson, Chair
William D. Campbell
Debra S. Farar, Chair of the Board, ex-officio
Bill Hauck
Shailesh J. Mehta
Charles B. Reed, Chancellor, ex-officio
Anthony M. Vitti

BOARD OF TRUSTEES

California State University, 2003/2004 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Summary

The purpose of the item is to present the 2003/04 Support Budget and lottery budget for approval.

State Appropriated 2003/04 Support Budget

The Board of Trustees reviewed a draft of the chancellor's recommended state support budget for 2003/04 at the September Board of Trustees' meeting. The 2003/04 support budget recommends a 13.6 percent increase (\$378,606,000) over the adjusted 2002/03 current year appropriation. The current year budget is adjusted to include retirement cost (\$68,075,000) and restoration of the one-time reduction (\$38,000,000) in CSU's base budget in areas of long-term need. With the addition of \$30,303,000 in State University Fee Revenue projected as a result of new and year round operations (YRO) enrollment growth, the total increase in revenue for 2003/04 is projected to be \$408,659,000.

2003/04 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 CSU support budget appropriations, a more conservative estimate of revenue is prudent as the CSU plans for fiscal year 2003/04. The Lottery revenue that will be allocated to the California State University in 2003/04 is estimated to be \$39.1 million. After providing for a \$1.3 million systemwide reserve, the amount available for allocation is \$37.8 million. The \$1.3 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 2003/04 is as follows:

2003/04 Recommended Lottery Revenue Budget

	2002/03 Adopted Budget	2003/04 Recommended Budget
Sources of Funds		
Beginning Balance	\$ 5,000,000	\$ 5,000,000
Receipts	36,000,000	32,300,000
Interest	1,800,000	1,800,000
Total Revenues	\$ 42,800,000	\$ 39,100,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(1,300,000)</i>
Total Available for Allocation	\$ 37,800,000	\$ 37,800,000
Uses of Funds		
<i>System Programs</i>		
Forgivable Loan/Doctoral Incentive Program	\$ 3,000,000	\$ 3,000,000
California Pre-Doctoral Program	633,000	633,000
CSU Summer Arts Program	1,200,000	1,200,000
Systemwide Implementation Costs	341,000	341,000
	\$ 5,174,000	\$ 5,174,000
<i>Campus Based Programs</i>		
Campus Programs	\$ 30,826,000	\$ 30,826,000
Campus Interest Earnings	1,500,000	1,500,000
Systemwide Interest Earnings	300,000	300,000
	\$ 32,626,000	\$ 32,626,000
Total Uses of Funds	\$ 37,800,000	\$ 37,800,000

Trustee Resolutions

The following two resolutions are recommended for adoption:

1. State Appropriated 2003/2004 Support Budget

RESOLVED, By the Board of Trustees of the California State University, that the 2003/2004 Support Budget is approved as submitted by the chancellor and as included with agenda item 3 of the Board of Trustees October 31, 2002 meeting; 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. 2003/2004 Lottery Revenue Budget

RESOLVED, By the Board of Trustees of the California State University, that the 2003/2004 Lottery Revenue Budget totaling \$39.1 million included in agenda item 3 of the Board of Trustees October 31, 2002 meeting 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 2003/2004 Lottery Revenue Budget approved by the Board of Trustees to the extent of receipt of greater or lesser lottery revenue than budgeted in 2003/2004 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.

Support Budget

California State University

Accessible
Affordable
Quality





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Chancellor's Message

The CSU takes great pride in its mission to serve all eligible students by providing access to a high-quality education.

Although the California State University has experienced slow and steady enrollment growth for many years, the major influx of students in the past two years has reached “tidal wave” proportions. Last fall, the CSU grew by more than 20,000 students—equivalent to adding a new campus the size of CSU Sacramento—and a similar increase is projected for this fall. We can now say for certain that the long-predicted surge in student enrollment known as Tidal Wave II has officially arrived at the CSU.

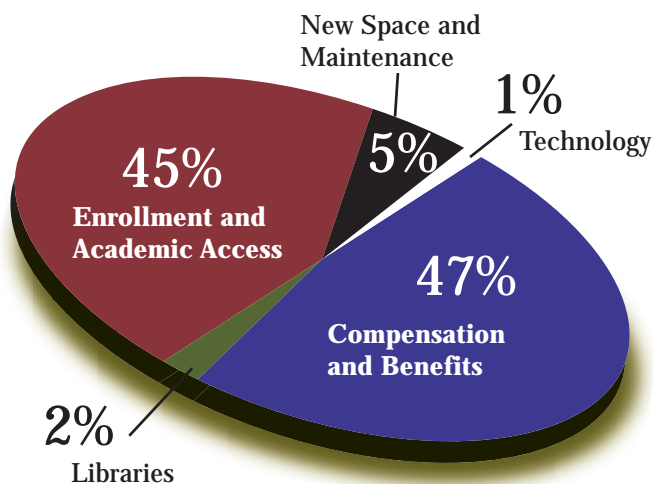
The CSU takes great pride in its mission to serve all eligible students by providing access to a high-quality education. To fulfill that mission, the CSU needs a budget that can address our escalating enrollment growth and give us the faculty and staff we need to ensure the success of our students. That is why the CSU's 2003/04 budget request is focused on two basic outcomes: providing the instructional and educational services required to accommodate

all qualified students eligible to attend the CSU, and retaining and recruiting more highly educated, skilled, and motivated faculty and staff.

The CSU's budget request is closely divided between these two areas. Enrollment and student access to academic programs require \$182.2 million of projected resources; compensation and employee benefits cost increases (which include significant increases in health benefits and insurance premiums) require \$193.6 million of projected resources. Together, these two priorities represent 92 percent of all planned expenditures increases in 2003/04.

The CSU reached these decisions about its budget after consultation and conversations with the System Budget Advisory Committee, campus presidents, the CSU Academic Senate, CSU employee representatives, and key

Total 2003/04 Support Budget Increase \$408,659,000



CSU financial, enrollment, and technology managers. We have spent the better part of five months assessing state economic conditions, the financial health of our campuses, enrollment trends, and student population projections. Additionally, we have received policy guidance from the state Department of Finance, the Governor's Office and CSU trustees. This extensive research has enabled us to develop a budget request that will move the university forward in terms of student access, educational quality, a balanced faculty workforce, competitive pay, employee recognition and satisfaction, and our ability to meet California's workforce needs.

This budget request assumes that the General Fund returns the \$38 million in one-time reductions made in 2002/03 to the CSU base budget. The budget request seeks restoration of the \$115.8 million of unfunded Partnership revenue in 2002/03, even though this amount does not reflect all of the Partnership funding loss in 2001/02 and 2002/03, due to fiscal challenges confronting the state in both 2001/02 and 2002/03. The CSU 2003/04 Support Budget is based on full funding of the partnership agreement. This budget is also based on the state's continuing to restrict increases in systemwide student fees by providing funds to backfill the revenue that would have been generated by a fee increase equal to the percentage change in California's personal per capita income.

The CSU's plan to address its enrollment demand includes \$20.8 million to open new facility space, increase the enrollment capacity of off-campus centers, and attend to some of the building and infrastructure maintenance projects that have been deferred over the years. We have requested another \$5 million for the technology infrastructure that will support the telecommunications, academic and instructional computing, and administrative services that are vital to student registration and classroom instruction.

As a part of a concurrent effort to expand our capacity, we have requested funding to move all CSU campuses to year-round operations. Five campuses require marginal cost funding support to complete the transition, at a cost to the state of \$7.7 million. The CSU believes that it is time to recognize that the capacity and impaction pressures that challenge one of our campuses impact all of our campuses. For instance, if alleviating academic year enrollment pressure at San Diego State University or CSU Long Beach requires providing state-supported summer enrollment opportunities at CSU Northridge, then that opportunity must be explored.

The CSU's plan to address its enrollment demand includes \$20.8 million to open new facility space, increase the enrollment capacity of off-campus centers, and attend to some of the building and infrastructure maintenance projects that have been deferred over the years.

...I am confident that together, we can forge a budget that captures the vision of the state's Master Plan and allows the CSU to fulfill its promise of access and quality to California's students. As generation after generation of CSU graduates understand, there is perhaps no greater promise a state can make to its citizens than the promise of educational opportunity.

Similarly, if off-campus centers are to be used effectively to address regional enrollment concerns, then the state must make some provision for funding the fixed cost requirements associated with growth above 500 full-time equivalent students (FTES) at these centers. Expansion of facility space and increased student services carry with them the requirement that staff be increased and that lease, rent, and utility costs be supported to avoid overcrowding space or diminishing services provided to existing students. The CSU requests that the state provide approximately \$3 million in financial support, which takes into account the full average cost of enrollment and supplemental costs related to physical plant facilities, operations, and maintenance at three off-campus centers that will reach or exceed the 500 FTES threshold in 2003/04.

As our student population continues to grow, it is also important that CSU continues to make available academic research materials that reflect current scholarship, promote informed discourse, and are drawn from reliable sources. I have proposed that \$10 million be earmarked in the 2003/04 Support Budget to increase spending in our libraries.

On the human resources side, we need to recruit and retain more high-quality employees to help us accommodate the needs of our incoming students. Striking the proper balance between tenure/tenure-track faculty and lecturers is a goal that has gained a wide audience in the university community and the state legislature. As a first step in what will be a multi-year process, the 2003/04 Support Budget request includes \$35.6 million to address three core components crucial to any determination of faculty/lecturer workload: funding the total cost of replacing retiring or other faculty annual separations, funding new faculty hires at the average new hire rate, and restoring a student-to-faculty ratio that achieves the optimal quality of instruction in the classroom.

These are only a few of the important issues that must be addressed as we complete the budget process for 2003/04. The answers will not come easily, and I am certain several compromises will have to be reached along the way. However, I am confident that together, we can forge a budget that captures the vision of the state's Master Plan and allows the CSU to fulfill its promise of access and quality to California's students. As generation after generation of CSU graduates understand, there is perhaps no greater promise a state can make to its citizens than the promise of educational opportunity.

Charles B. Reed, Chancellor
California State University



The 2003/04 Budget Plan

...the CSU works diligently with the governor and the legislature to continue providing the best and lowest cost education available in the nation to the constituents of the state of California.

The 2003/04 CSU Support Budget is based upon the parameters of the Partnership Agreement reached with the governor in May 2000. The agreement funds CSU at certain baseline levels linked to the university's commitment to deliver certain educational outcomes detailed in the yearly Partnership Agreement Accountability Report. The Partnership Agreement's baseline level of support provides a solid foundation for the CSU's planning and budgeting processes. Funding requests developed under the agreement require legislative approval each year. Therefore, the CSU works diligently with the governor and the legislature to continue providing the best and lowest cost education available in the nation to the constituents of the state of California.

The Partnership Agreement established the following minimum funding commitments for higher education support services at the CSU:

- 4% annual increase to the state General Fund base
- 1% annual increase to the state General Fund base for long-term budget needs that require multi-year funding obligations
- Full marginal cost funding for all projected enrollment growth
- Increases in systemwide mandatory fee rates as determined by the annual percentage change in the California Per Capita Personal Income (or equivalent support from the state General Fund)
- Separate funding for increases in state cost obligations for lease revenue bonds and CSU annuitant dental benefits

The CSU is provided significant flexibility under the Partnership Agreement to develop annual budget plans that maximize the use of these resources to best address the university's competing demands for resources. CSU may also request funds above the Partnership Agreement for new or expanded special initiatives, development of off-campus centers, and other goals important to the overall educational mission of the university.

As the CSU enters the final year of the current Partnership Agreement with the current administration, it is evident the Partnership Agreement is not only a success between the state and the CSU, but also with the students and citizens of the state.

Three-Year Budget Summary

	2001/02 Actuals	2002/03 Final Budget	2003/04 Request
General Fund Appropriations	\$2,592,720,273	\$2,680,280,000	\$3,058,636,000
Revenue	729,098,268	738,146,309	768,449,309
Reimbursements	167,314,962	169,869,057	169,869,057
Total CSU Appropriations	\$3,489,133,503	\$3,588,295,366	\$3,996,954,366
Partnership 4% Annual Funding Increase			106,103,000
Long-Term Core Budget Needs 1% Annual Funding Increase			26,526,000
General Fund Buyout of 4.28% Fee Rate Increase			16,294,000
YRO Implementation Enrollment Funding			7,713,000
5% Enrollment Growth			105,880,000
2002/03 Unfunded Partnership Revenue			115,840,000
2003/04 General Fund Increase			\$378,356,000
Increase in Student Fee Revenue from the 5% Enrolment Growth			28,238,000
Increase in Student Fee Revenue from YRO Conversions			2,065,000
2003/04 Revenue Increase			\$30,303,000
Total 2003/04 Increase			\$408,659,000

Highlights of the 2003/04 Support Budget Request

- \$78,609,000 for mandatory obligations, including \$32.2 million for health benefit increases
- \$137,672,000 for 5% enrollment growth, year-round enrollment support, and student financial aid
- \$94,734,000 for a 4% compensation pool for all employees effective July 1, 2003
- \$5,000,000 to finance purchase and refresh of technology-related network equipment and operations
- \$10,000,000 to address long-term shortfalls in funding for library acquisitions
- \$11,526,000 to continue reductions in the backlog of deferred maintenance
- \$5,957,000 to improve access to academic programs important to California's workforce and economic development
- \$35,615,000 to fund first-year costs associated with CSU's plan to increase the percentage of tenure and tenure-track faculty
- \$2,973,000 to finance fixed cost needs associated with the enrollment growth at CSU off-campus centers
- \$26,573,000 for non-faculty compensation adjustment

Source of Funds

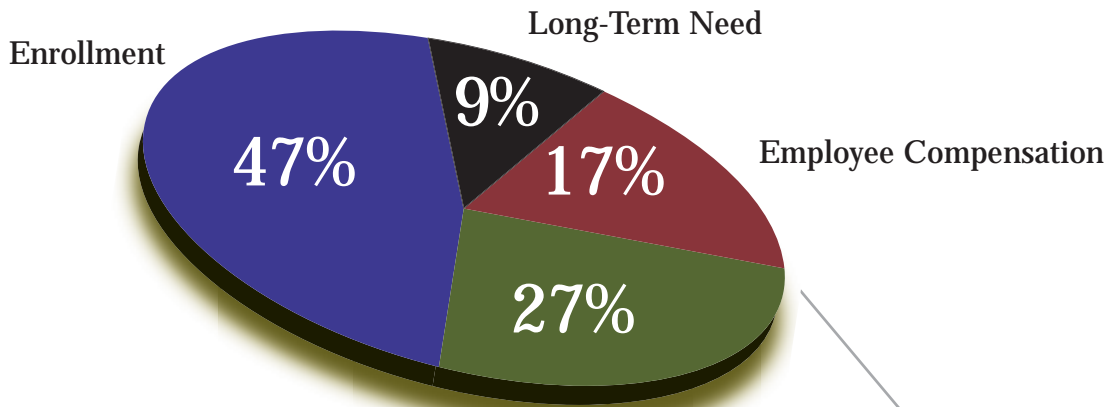
General Fund Increase			\$262,516,000
	<i>Partnership Funding</i>	132,629,000	
	<i>Enrollment Increase</i>	113,593,000	
	<i>Student Fee Increase Buyout</i>	16,294,000	
State University Fee Revenue			30,303,000
	<i>5% Enrollment Growth</i>	28,238,000	
	<i>YRO Enrollment</i>	2,065,000	
Subtotal, Partnership Revenue Increase			\$292,819,000
2002/03 Unfunded Partnership Revenue			115,840,000
Total Budget Plan Revenue Increases			\$408,659,000

Use of Funds

Mandatory Costs			\$78,609,000
	<i>Full-Year Cost of Faculty/Non-Faculty Compensation</i>	32,816,000	
	<i>Health Benefits Rate Increase</i>	32,206,000	
	<i>Insurance Premiums Increase</i>	7,265,000	
	<i>New Space</i>	6,322,000	
Enrollment			\$137,672,000
	<i>5% Enrollment Growth</i>	118,934,000	
	<i>YRO Enrollment Conversions</i>	9,778,000	
	<i>Student Financial Aid</i>	8,960,000	
Long-Term Need			\$26,526,000
	<i>Technology - Network Equipment</i>	5,000,000	
	<i>Libraries</i>	10,000,000	
	<i>Deferred Maintenance</i>	11,526,000	
Employee Compensation			\$50,012,000
	<i>Non-Faculty Parity Adjustment</i>	26,573,000	
	<i>1% Compensation Increase, All Employees</i>	23,439,000	
Subtotal, Partnership Revenue Expenditures			\$292,819,000
Employee Compensation (3% increase, effective July 2003, excludes 1% for Unit 6)			\$71,295,000
Assembly Concurrent Resolution 73 - 1st Year Cost Requirement			\$35,615,000
	<i>Maintain Faculty Position Base</i>	5,800,000	
	<i>Marginal Cost Supplement for Enrollment Growth</i>	16,791,000	
	<i>Student-Faculty Ratio of 18.1 to 1, 1st Year Phase-In</i>	13,024,000	
Off-Campus Centers			\$2,973,000
Workforce and Economic Development Programs			\$5,957,000
Total Budget Plan Expenditures			\$408,659,000

2003/04 Distribution of Partnership Funds

Mandatory Costs	\$78,609,000
Enrollment	\$137,672,000
Long-Term Need	\$26,526,000
Employee Compensation	\$50,012,000
Total Partnership Resources	\$292,819,000



CSU enrollment growth and student financial aid will receive the largest share of the \$292.8 million from the higher education Partnership Agreement in 2003/04 — 47 percent or \$137.7 million for those purposes. The CSU is proposing 42 percent or \$122.3 million of the Partnership funds to be used to fund employee compensation and related benefit costs. In addition, the CSU is proposing \$26.5 million to fund long-term budget need in the areas of technology, libraries, and deferred maintenance, which compose 9 percent of the 2003/04 Partnership Agreement. Also, the CSU is proposing to use \$6.3 million to open and maintain 878,200 square feet of new space at various campuses throughout the CSU system.

Mandatory Costs



Sources and Uses of Funds

Support Budget Revenue Components

In total, CSU anticipates an additional \$408.7 million to support the CSU's educational programs and services during the 2003/04 fiscal year. This increase is composed of \$262.5 million in new state appropriations, the restoration of \$115.8 million in unfunded 2002/03 Partnership Agreement funding, and \$30.3 million in student fee revenue associated with state-supported enrollment growth. These growth funds are added to the prior year's support budget, which has been adjusted to reflect the restoration of \$38 million for the 2002/03 one-time reduction in long-term need costs. CSU also expects to receive an additional \$68.1 million in General Fund revenue to cover the increased cost of employer-paid retirement benefits effective July 2002. These base budget adjustments for 2002/03, plus General Fund augmentations and fee revenue projections constitute the revenue sources of the CSU Support Budget.

In total, CSU anticipates an additional \$408.7 million to support the CSU's educational programs and services during the 2003/04 fiscal year.

Four Percent General Fund Increase	\$106,103,000
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The Partnership Agreement provides an annual increase of 4 percent over the prior year General Fund appropriations to the CSU. The 2003/04 General Fund appropriation was adjusted to restore \$38 million in one-time appropriation deferrals and remove lease bond and deferred maintenance payments prior to the 4 percent calculation. Revenue from the annual 4 percent increase in state General Fund support is provided under the Partnership Agreement to sustain the quality of CSU educational programs.

One Percent General Fund Increase: Long-Term Need	\$26,526,000
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A 1 percent increase in base General Fund appropriations is provided under the Partnership Agreement for long-term budget need. This funding is provided for expenses that require funding obligations that cannot be addressed in a single budget year. These include costs for deferred maintenance, technology, and libraries.

State Share of Marginal Cost Funding for Enrollment **\$113,593,000**

Campus Year-Round Operation Summer Conversions (\$7,713,000)
New Enrollment Growth Demand (\$105,880,000)

The CSU will convert 1,683 FTES matriculated students currently taking self-supported summer instruction at campuses to state-supported programs in 2003/04. This action follows interest by the state to offer the broadest level of state-supported instruction to students to help address Tidal Wave II enrollment demand and to help students progress to degree more quickly. The Partnership Agreement stipulates the state will fund all projected enrollment growth at the marginal cost of instruction per full-time equivalent student (FTES).

The CSU is projecting a 5 percent increase of 16,057 FTES in general enrollment growth for fiscal year 2003/04. The CSU is funded under the Partnership Agreement at the full marginal cost of instruction for this enrollment growth. The state share of these costs is determined by reducing the total marginal cost rate calculated for the fiscal year by the estimated student contribution of State University Fee revenue. The full marginal cost of instruction for 2003/04 is \$7,813 per FTES. The state share of this cost is \$6,594 per FTES.

General Fund Buyout of Student Fee Rate Increase **\$16,294,000**

The Partnership Agreement provides that student fee rates for the State University Fee can increase annually by the percentage change in the California Per Capita Personal Income (CA-PCPI). The California Department of Finance has identified the change in the CA-PCPI for fiscal year 2003/04, which has been used to develop the budget request. The state has bought out annual CSU fee rate increases, with the exception of fiscal year 2003/04, throughout the Partnership Agreement. The state buyout of revenue generated by the fee rate increase does not include fee revenue that would have been used to increase student financial aid.

The CSU is projecting a 5 percent increase of 16,057 FTES in general enrollment growth for fiscal year 2003/04.

Given the current economic climate in California, the CSU understands there must be a great deal of flexibility built into this budget plan.

State University Fee Revenue

\$30,303,000

New Enrollment Growth Demand (\$28,238,000)

Year-Round Operations Enrollment Conversions (\$2,065,000)

Revenue associated with the 5 percent enrollment growth and 1,683 matriculated FTES associated with completing the conversion to state-supported summer terms is included in the budget plan for 2003/04. CSU fee policy currently requires that one-third of all revenue from the State University Fee associated with this enrollment be used to increase funding available for financial aid grants to students with need and for students eligible for state-mandated fee waivers. Of the revenue projected from enrollment growth in 2003/04, \$9 million will be available to increase CSU financial aid to students. The remainder is used to satisfy the CSU revenue requirement for the marginal cost of instruction of enrollment and to support CSU educational services.

2002/03 Unfunded Partnership Agreement Revenue

\$115,840,000

As a result of the state's declining fiscal condition, the 2002 Budget Act included half the resources necessary to fully fund the 4 percent Partnership Agreement. Full funding of the Partnership Agreement is critical to the CSU's ability to meet agreed upon goals that support access and quality to ensure the success of students attending the CSU. It should be understood that investing only half of the funding will have a long-term impact on enrollment access and the ability to provide the support services necessary to meet the outcome expectations assumed in the Partnership Agreement.

The Partnership Agreement invests in the quality of the CSU experience by working with K-12 and community colleges to improve student preparation and reduce the need for remediation instruction. Another goal of the Partnership Agreement is addressing one of the state's highest education priorities by improving the number, preparation, and quality of K-12 teachers. Finally, the Partnership investment allows for increasing transfer agreements, course articulation, the shift to year-round operations, and community

service-learning programs that are essential to the success and timely graduation of our students.

The current fiscal crisis facing California will present a challenge to fully funding the Partnership Agreement without additional tax revenue to the state General Fund. The future fiscal condition of California is dependent on an educated workforce that is the direct result of investing in our students through the Partnership Agreement.


Budget Plan for Increased Revenue

The budget plan for 2003/04 assumes the CSU will receive its full share of resources based on the Partnership Agreement, restoration of all one-time cost deferrals from 2002/03, and additional funds above the Partnership Agreement to meet the educational mission of the university. Given the current economic climate in California, the CSU understands there must be a great deal of flexibility built into this budget plan. Consequently, the priority for planned expense must reflect:

1. Mandatory costs the university must fund to satisfy annual obligations
2. Ability to meet enrollment access demand
3. Compensation funding to retain and recruit highly qualified faculty and staff
4. Long-term budget needs that maintain the quality of the university

The CSU has used these principles to develop a budget plan that reflects the needs and obligations of the university and allows it to fulfill its educational mission.

Budget Plan for the Partnership Agreement

 Mandatory Costs	\$78,609,000
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Employee Compensation (\$32,816,000)

The 2003/04 Support Budget addresses full-year costs of the compensation agreements ratified by the faculty and staff unions and

Completing campus conversions to year-round state-supported instruction requires full marginal cost funding for 1,683 FTES matriculated during the regular academic year who enroll in self-supported summer courses to further progress to degree. The state has agreed to provide full marginal cost funding for these enrollment conversions.

approved by the CSU Board of Trustees in May 2002 through the 2002/03 fiscal year.

Health Care Benefits (\$32,206,000)

CSU employee health care premiums will increase dramatically in January 2003. The 2003/04 full-year cost of this increase will be addressed with a \$32.2 million systemwide budget allocation, which represents the costs associated with the 28.5 percent increase in CSU employer-paid health care premium costs.

Insurance Premium Increases (\$7,265,000)

The CSU Risk Management Authority risk pool program includes liability insurance, industrial disability leave/non-industrial leave/unemployment insurance (IDL/NDI/UI), workers' compensation insurance, and property insurance. Due to legislation changes and the rising cost of individual claims, the CSU 2003/04 Support Budget includes \$7.3 million to increase campus base budgets to offset increases in insurance costs.

New Space (\$6,322,000)

CSU provides funding for regular and scheduled maintenance to ensure the quality of its facilities for their entire useful life. CSU will open 878,200 square feet of new space in 2003/04. This new space will require \$6.3 million in permanent base budget support for ongoing maintenance and custodial, landscape, utilities, and administrative services.

Enrollment	\$128,712,000
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Year-Round Operations Enrollment Conversion (\$9,778,000)

Completing campus conversions to year-round state-supported instruction requires full marginal cost funding for 1,683 FTES matriculated during the regular academic year who enroll in self-supported summer courses to further progress to degree. The state has agreed to provide full marginal cost funding for these enrollment conversions. The budget plan for 2003/04 reflects the \$9.8 million funding increase that will be required

after \$3.2 million already allocated in the CSU base budget is used to offset campus enrollment costs.

New Enrollment Growth Demand (\$118,934,000)

Funding for 5 percent enrollment growth (16,057 FTES) as projected for 2003/04 will require \$118.9 million in direct instruction, academic support, student services and institutional support funding at a marginal cost rate of \$7,407 per FTES. CSU also provides \$406 per FTES to increase the availability of financial aid grants to students with need and to cover the cost of state-mandated fee waivers for eligible students. Combined, CSU provides \$7,813 per FTES for the marginal cost of instruction in 2003/04 in accordance with methodology adopted by the state in 1996.

Financial Aid **\$8,960,000**

One-third of the revenue from the student fees associated with CSU's projected 16,057 FTES enrollment growth, as calculated by the marginal cost methodology (\$6.5 million), will be used to increase the CSU State University Grant pool administered centrally and allocated to campuses based on student need. The remainder of the revenue set aside for financial aid will be used, as necessary, to finance increases in mandatory fee waivers established by state statutes.

Long-Term Budget Need **\$26,526,000**

Technology (\$5,000,000)

The CSU will use \$5 million to complete equipment financing associated with the telecommunications capital buildout to improve CSU technology-based services. This final increment of a \$20 million financing arrangement will support the purchase of more than \$80 million in equipment required to make the telecommunications buildout a functioning enterprise in our classrooms, offices, and buildings. After the financing costs are paid, the \$20 million base will be used to refresh equipment on a regular three-year cycle.

The CSU understands the need to retain and recruit the highest quality staff to provide the highest quality education to the citizens of California.

Libraries (\$10,000,000)

CSU will use \$10 million to address systemwide library resources and services that provide access to information at all campuses and to increase volumes contained in individual campus library collections.

Deferred Maintenance (\$11,526,000)

Although CSU has successfully sustained support for regular and scheduled maintenance, the costs associated with the university's ongoing backlog of deferred maintenance projects require critical attention. Resources will be used to reduce and ultimately halt the growth in backlogged repairs. CSU has been able to allocate only \$2.8 million in permanent base funding to address a backlog that currently exceeds \$365 million, as determined through agreements reached with the state legislature in fiscal year 1996/97. CSU will use \$11.5 million in 2003/04 to increase permanent funding for deferred maintenance to \$14.3 million and further reduce the backlog.

Compensation

\$50,012,000

The CSU proposes to use \$50 million of Partnership Agreement revenue to fund a 2.46 percent increase for non-faculty staff to address the 2003/04 fiscal year priority of achieving parity with the current percentage increases negotiated for faculty salaries and a 1 percent general compensation increase for all employees effective July 1, 2003. The CSU will negotiate agreements with represented employees through the collective bargaining process to determine the actual distribution of these funds.

Budget Plan for Funds Above the Partnership Agreement

Compensation

\$71,295,000

The CSU requests \$71.3 million above the Partnership Agreement to fund a 3 percent general compensation increase for all employees effective July 1, 2003. The request for an additional 3 percent in compensation funding is

consistent with previous CSU budget requests associated with the Partnership Agreement. The CSU will negotiate agreements with represented employees through the collective bargaining process to determine the actual distribution of these funds.

Assembly Concurrent Resolution 73 (ACR 73)

\$35,615,000

In response to legislation passed in May 2001, ACR 73 (Strom-Martin), the CSU Academic Senate, the California Faculty Association, and the CSU Office of the Chancellor developed a plan to increase the percentage of tenured and tenure-track faculty in the California State University. The plan contains the following features:

1. A ratio of 75 percent tenured and tenure-track faculty to 25 percent lecturer faculty, measured in terms of Full-Time Equivalent Faculty (FTEF) can be achieved incrementally over an eight-year period.
2. Achieving this goal is the joint responsibility of the CSU administration, the CSU faculty, and the state.
3. To achieve this goal, the CSU must conduct between 1,800 and 2,000 annual searches for new tenure-track faculty.
4. To ensure that these searches yield new hires from a national hiring pool at the current CSU success rate of 75 percent, the state must provide expanded funding for recruitment and hiring. The CSU must broaden its success at the top of the pool, not deepen its penetration into the middle of the pool if it is to maintain educational quality.
5. To attract and retain the best faculty, the state must provide compensation funding for new positions at least equivalent to the average of current CSU employment offers. These new positions are necessary to achieve the goal of 75 percent tenured and tenure-track faculty without jeopardizing the employment status of current lecturers.
6. Annual funding requirements for this plan range from \$4.8 million to \$35.6 million.

The \$35.6 million request for 2003/04 represents the first-year phase-in cost of the eight-year CSU plan to increase the percentage of tenure and tenure-track faculty. Annual costs over years two through eight are expected to range between \$4.8 million and \$12 million.

Off-Campus Centers **\$2,973,000**

The state has a long-standing obligation to fund fixed costs associated with the development and expansion of instructional space. One component of this obligation is the use of off-campus centers to address access and capacity demands at CSU. Off-campus centers provide regular academic degree programs in geographic areas that are not adequately served by existing CSU campuses. In January 2000 the CSU Board of Trustees adopted policies for the establishment of CSU off-campus centers with an enrollment threshold of 500 FTES and the expansion of existing centers above the 500 FTES threshold (REP 05-99-04). Upon achieving permanent status at the 500 FTES threshold, there is general recognition by the CSU and the state that fixed costs related to satisfying the additional academic, student services and facilities requirements—including additional personnel—must be funded. This budget requests approximately \$3 million to support new fixed costs requirements at three campus off-campus centers: Bakersfield-Antelope Valley, Fullerton-El Toro, and San Bernardino-Coachella Valley.

Workforce and Economic Development Programs **\$5,957,000**

CSU has established a long-term goal to increase funding support for academic programs that are important to a strong and expanding California economy and workforce, such as agriculture, computer technology, engineering, nursing, and biotechnology programs. CSU will use \$6 million in 2003/04 to permanently increase funding support for program costs that exceed, and cannot be accommodated within, the marginal cost funding campuses receive for enrollment growth.



Support Budget

Major Funding Issues
California State University
Support Budget

Mandatory Costs

- Health Benefits
- Insurance Premiums
- New Space

Compensation

- Mandatory Costs
- Non-Faculty Parity
- General Compensation Increase

Enrollment

- 5 Percent Growth
- YRO Conversion
- Financial Aid

Long-Term Need

- Technology: Network Equipment
- Libraries
- Deferred Maintenance

Increase Tenure/Tenure-Track Faculty

Off-Campus Centers

Workforce and Economic Development Programs



Health Care Premium Increase

\$32,206,000

Health care provider costs have escalated over the past several years and are expected to continue this trend.

CSU employee health care benefits are administered by the California Public Employees' Retirement System (CalPERS). CalPERS offers a selection of health maintenance organizations (HMOs) and fee-for-service plans to its enrollees. Health care premiums are shared between the CSU and employees, with the CSU funding a significant portion of the premium costs. The 2003/04 CSU budget plan includes a \$32.2 million increase to help address costs associated with employer-paid health care premium increases that will become effective in January 2003. Health care cost increases are based on the difference between the old and new employer-paid contributions multiplied by the number of CSU health care benefit enrollees.

Health care provider costs have escalated over the past several years and are expected to continue this trend. From 1999 through upcoming 2003 calendar year, CalPERS health care employer-paid premiums will have increased approximately 56.2 percent with the greatest increase in 2003.

Calendar Year (contract period)	CalPERS Health Care Premium Increase*
1999	9.9%
2000	1.3%
2001	10.9%
2002	7.6%
2003	28.5%
Increase in Government Code Rate Since 1999	56.2%

*Premium increases reflect Government Code rate changes with the exception of 2003/04 where the lower overall health care provider rate changes (28.5%) are reflected rather than Government Code rate changes (29.3%).

In January 2003, CSU employer-paid health care premium rates will exceed the current average rates by 28.5 percent. In negotiating 2003 rates with health maintenance organizations, CalPERS' ability to control costs as a large buyer was mitigated by the cost pressure on health care providers. Despite its significant purchasing power, CalPERS was unable to renew contracts with several health maintenance organizations (Health Net, Health Plan of the Redwoods, PacifiCare, and Universal Care) because their premium costs

could not be favorably negotiated. The health maintenance organizations (HMO) choices in 2003 are limited to Blue Shield of California, Kaiser Permanente, and Western Health Advantage. CalPERS continues to offer available fee-for-service plans (PERSCare and PERSChoice Preferred Provider plans with associated plans). CalPERS joined the National Coalition on Health Care, which comprises large companies and unions that have been campaigning for reductions in health care costs. However, health care premium rates are expected to continue to climb and may result in additional changes in CalPERS health care provider choices in the future.

Although employer-paid health care premium rates will increase greatly in January 2003, employee costs will not change significantly for most CSU employee participants. However, employees displaced by the loss of HMO providers may experience cost increases as a result of their new health provider selections during the 2003 plan year. Additionally, while the CSU 2003/04 budget request includes additional health care funding to cover increases for the fiscal year beginning July 1, 2003, the new health care rates are effective January 1, 2003. Therefore, the CSU will incur unfunded, one-time mandatory costs (projected to total more than \$18 million) during the first half of the 2003 calendar year.



Insurance Premium Increases

\$7,265,000

The risk pool cost components include reinsurance, administration, claims and legal, claims payable, and projected claims incurred.

The CSU Risk Management Authority risk pool program includes liability insurance, industrial disability leave/non-industrial leave/unemployment insurance (IDL/NDI/UI), workers' compensation insurance, and property insurance. Prior to 1995/96, the CSU systemwide office paid all related claims and expenses. Beginning in 1995/96, the CSU Risk Management Authority (CSURMA) risk pool was established and campuses assumed accountability for liabilities. The risk pool was developed to encourage participatory campus risk management while sharing liability costs. CSU systemwide funds (\$14.2 million) were permanently allocated to campuses to establish the risk pool. Since that time, campuses have assumed total responsibility for increased liability insurance costs. In 2001/02 and 2002/03, additional subsidies (\$2.2 million) were provided to campuses to offset rising property insurance costs.

The cost to fund the 2003/04 CSURMA risk pool program is \$56.9 million, an increase of \$7.3 million from the prior year. The risk pool cost components include reinsurance, administration, claims and legal, claims payable, and projected claims incurred. The CSURMA risk pool funding in 2003/04 for workers' compensation alone (\$33.8 million) is 20 percent above projected 2002/03 costs. While the number of workers' compensation claims has gone down (1,887 in 2001/02 versus 1,979 in 2000/01), the cost per claim has increased. Workers' compensation insurance costs are escalating due to litigation, inflation of medical costs, and increased benefits. The increase in benefit costs is attributable to recent legislation (AB 749) effective January 1, 2003. Increased benefit costs incurred will include higher benefit minimums in 2003, 2004, and 2006, greater death benefits, and annual cost of living adjustments.

Although CSU workers' compensation costs are increasing significantly, CSU rates have not risen as quickly as rates on a statewide basis and CSU has benefited from self-insuring. Rates produced by the Workers' Compensation

Insurance Rating Bureau of California (WCIRB) and approved by the State Insurance Commissioner represent a 53 percent increase in pure premium (claim and legal costs) from January 2002 through January 2003 (compared to CSU's 20 percent increase). The State Workers' Compensation Insurance Fund rates will be based on the larger WCIRB rates.



New Space Maintenance

\$6,322,000

CSU provides funding for regular and scheduled maintenance to ensure the quality of its facilities for their entire useful life.

CSU will open 878,200 square feet of space in 2003/04. This space will require \$6.3 million of permanent base support at a rate of \$7.20 per square foot for regularly scheduled building maintenance and custodial, landscape, utilities, and administrative support services.

CSU is scheduled to open 878,200 square feet of new space in 2003/04. Funding of this new space will be provided at a new rate of \$7.20 per square foot. This equates to \$6,322,000 in permanent base budget support for regular maintenance. Regular maintenance includes the costs for utilities, building maintenance, and custodial, landscape, and administrative support.

As reported in previous support budget documents, the CSU has been reviewing industry standards to increase the current rate of funding for new space. A final methodology has not been established. In lieu of a new standard, the CSU will adjust the current rate of \$6.45 per square foot to \$7.20 per square foot based on the cumulative change in the California Consumer Price Index (CA-CPI) since 1999. CSU used this inflationary index absent a new standard based on current industry norms and projections.

Although the CSU does not intend to increase the new space funding rate by the change in California's inflation each year, there is general consensus that the \$6.45 per square foot rate is no longer providing an adequate base for opening and operating a new building or for mitigating growth in the CSU deferred maintenance backlog. Although CSU efforts to maintain its funded ongoing maintenance budget have been successful, the CSU deferred maintenance need continues to grow because the cost of critical repairs in older buildings exceeds the average funding available for ongoing maintenance. Consequently, delays in the scheduled repair of building space five years old or less offset some of the gains that are made as critical repairs occur in older buildings. Current information provided by the campuses indicates that the \$7.38 per square foot cost standard CSU currently recognizes for ongoing maintenance must be more appropriately budgeted at \$8.39 per square foot. Campuses use productivity and efficient management of available resources to satisfy this unfunded need.

Ongoing Regular Maintenance and Scheduled Repair

Annual Regular Maintenance and Scheduled Repair Budget	Maintained Square Feet	Budgeted Cost Standard (Sq. Ft. x \$7.38)	CSU Budget	CSU Budget versus Standard
1996/97	31,308,000	\$231 Million	\$192 Million	\$39 Million
2002/03	35,215,000	\$260 Million	\$296 Million	— ¹

CSU closed the funding gap in ongoing maintenance in 2000/01 following a \$32.7 million increase in permanent base budget support from the state. Since then, CSU has maintained its ongoing maintenance budget to mitigate increases in its deferred maintenance backlog.

¹Costs exceed new funds appropriated for new space.

	Maintained Square Feet	Cost Standard \$/Sq Ft.	Budgeted \$/Sq Ft	Campus Resources
1996/97 Campus Reported Budget	31,308,000	\$7.38	\$6.13	\$1.25
2002/03 CSU Final Budget	35,215,000	\$7.38	\$6.45	\$0.93
2002/03 Campus Reported Budget		— ²	\$6.45	\$1.94

² The CSU cost standard is being increased to \$8.13 in 2003/04 (\$7.20 regular maintenance; \$0.93 scheduled repairs) pending further review of common industry standards and the \$8.41 average cost at CSU campuses.

Compensation

The CSU 2003/04 Support Budget includes mandatory costs related to the full-year cost of the faculty (Unit 3) compensation three-year agreement, the full-year cost of the non-faculty 2002/03 compensation increase, and the full-year cost of the State Employees Trades Council (CSU bargaining unit 6) two-year agreement.

The CSU 2003/04 Support Budget includes mandatory costs related to the full-year cost of the faculty (Unit 3) compensation three-year agreement, the full-year cost of the non-faculty 2002/03 compensation increase, and the full-year cost of the State Employees Trades Council (CSU bargaining unit 6) two-year agreement. Further, the CSU 2003/04 budget request includes a 2.46 percent parity compensation adjustment for non-faculty to achieve a comparable increase for these employees to that provided for faculty, and a 1 percent compensation increase for faculty and staff. These compensation components will be funded within the Partnership Agreement. In addition, the 2003/04 Support Budget includes a 3 percent compensation increase for faculty and staff above the Partnership Agreement. The 1 percent and 3 percent compensation pools will be distributed as determined by collective bargaining.

The following information further details the components of the CSU 2003/04 Support Budget regarding employee compensation funding.

2003/04 Compensation Funding Summary

Mandatory Costs	\$32,816,000
<i>Full-Year Cost of Faculty (Unit 3) Compensation Three-Year Agreement (2.64%)</i>	<i>\$29,920,000</i>
<i>Full-Year Cost of Non-Faculty 2002/03 Compensation Increase (.18%)</i>	<i>1,917,000</i>
<i>Full-Year Cost of Unit 6 Two-Year Compensation Agreement (2%)</i>	<i>979,000</i>
Total Mandatory Costs	\$32,816,000
Non-Faculty Compensation Adjustment for Parity with Faculty Agreement (2.46%)	26,573,000
1 Percent Compensation Increase, Faculty and Staff (w/o Unit 6)	23,439,000
2003/04 Compensation Funding Increase within the Partnership Agreement	\$82,828,000
3 Percent Compensation Increase, Faculty and Staff (above Partnership) (excludes 1% of Unit 6)	71,295,000
Total 2003/04 Compensation Funding Increase	\$154,123,000

Mandatory Compensation Costs (\$32.8 million)

The 2003/04 Support Budget uses revenue from the CSU Partnership Agreement to address the unfunded cost of the compensation agreement ratified by the faculty union and approved by the CSU Board of Trustees in May 2002 through the 2002/03 fiscal year. The union agreement calls for a 6.14 percent increase in faculty compensation to be phased in over two years at a cost of \$69.1 million. The agreement provides:

- A 2 percent compensation increase effective April 1, 2002
- An additional 3.18 percent compensation increase effective July 1, 2002
- An additional .96 percent for continuing 2002/03 compensation costs in 2003/04

CSU received permanent funding in 2001/02 and 2002/03 to cover \$39.2 million of the total cost of the faculty compensation package. CSU was able to supplement this appropriation with one-time carryover funds to address faculty concerns for (1) competitive salaries, (2) pay increases for faculty serving as counselors and department chairs, (3) health benefits for part-time lecturers as codified by state legislation (AB 211), and (4) recognition of faculty who remain in service to the university and provide experience in the classroom. Because carryforward funds can only be used once, CSU now has a mandatory cost obligation to permanently fund these provisions of the bargaining agreement negotiated with its faculty. An additional \$29.9 million is required to fully fund the 2002/03 unfunded continuing cost of the negotiated agreement. The faculty compensation agreement does not include any salary or related benefits increase to be negotiated for fiscal year 2003/04, when the bargaining on compensation will be reopened.

The 2003/04 Support Budget uses revenue from the CSU Partnership Agreement to address the unfunded cost of the compensation agreement ratified by the faculty union and approved by the CSU Board of Trustees in May 2002 through the 2002/03 fiscal year.

Mandatory Costs of Negotiated Bargaining Agreements for Compensation

Full-Year Cost of Faculty Compensation Three-Year Agreement (2.64%)	\$29,920,000
Full-Year Cost of Non-Faculty 2002/03 Compensation Increase (.18%)	1,917,000
Full-Year Cost of Unit 6 Two-Year Compensation Agreement (2%)	979,000

Total Mandatory Costs of Current Compensation Agreements **\$32,816,000**

A portion of the Partnership revenue CSU is budgeted to receive in 2003/04 has also been used to address the unfunded cost of the non-faculty compensation agreements approved through fiscal year 2002/03. The total cost of these agreements equals \$37 million, which represents a 2 percent compensation increase in 2001/02 and a 1.68 percent compensation increase in 2002/03. CSU received permanent funding to cover \$35.1 million of the total cost of these agreements. The remaining \$1.9 million represents CSU's continuing mandatory cost obligation for non-faculty compensation agreements. These costs do not include any salary or related benefits increase to be negotiated for fiscal year 2003/04 for the skilled crafts employee group represented by SETC.

CSU negotiated a three-year collective bargaining agreement with the SETC for 2001/02, 2002/03, and 2003/04. The agreement calls for CSU skilled crafts workers to receive a 1.68 percent compensation increase in 2002/03 and a 2 percent increase in 2003/04. CSU was appropriated funds to support a 1.5% increase in compensation costs and must fund the 0.18 percent continuing portion of the 2002/03 Unit 6 agreement (included in the Non-Faculty Compensation adjustment on the table) and all of the 2003/04 salary-related provisions (\$979,000), as a mandatory cost item in 2003/04.

Compensation Parity with Faculty (\$26.6 million)

Faculty Compensation Agreement (2001/02, 2002/03, and Continuing Negotiated Costs)	6.14%
Non-Faculty Compensation Agreements (2001/02, 2002/03, and Continuing Negotiated Costs)	3.68%
Difference (Non-Faculty versus Faculty Agreements)	-2.46%
Compensation Parity Costs	\$26,573,000

To preserve compensation parity with faculty, CSU non-faculty employees' compensation will require the equivalent of a 2.46 percent cumulative increase over their 2001/02 base compensation. Compensation parity preserves standard differentials between faculty and academic administrators and addresses the individual retention and recognition needs of each CSU represented employee group as collective bargaining negotiations begin for fiscal year 2003/04 under the guidelines established by the Higher Education Employer-Employee Relations Act (HEERA). The cost to address CSU parity concerns is \$26.6 million, which would be distributed as determined through collective bargaining.

2003/04 Compensation Increase (\$94.7 million)

In a competitive statewide and national marketplace, it is critical that CSU offers salary and benefit packages that assist efforts to retain highly qualified, motivated staff. CSU competes for qualified employees in local and nationwide private and public sector employment markets. The ability to offer a competitive compensation package is critical to CSU's ability to recruit and retain faculty, staff, and management employees who contribute to CSU higher education excellence. The CSU Board of Trustees recognizes compensation for faculty, staff, and management as a key element of the university's success. The CSU 2003/04 Support Budget request includes a 1 percent general compensation increase within the Partnership Agreement and a 3 percent increase above Partnership funding for faculty, staff, and management.

U.S. Department of Labor, Bureau of Labor Statistics, Changes in Employment Cost Index for 2001/02 Salaries and Wages

State and Local Government	3.20%
Private Industry	3.60%
Average	3.40%
CSU 2001/02 Final Budget Funded Compensation	2.00%

In the past two fiscal years, CSU final budget funding did not allow for competitive compensation increases. As illustrated in the table on page 34, the Bureau of Labor Statistics reports that the 2001/02 average employment cost index for increases in private industry and state and local government salaries and wages was 3.4 percent, whereas CSU final budget compensation funding provided a 2 percent increase.

CSU must also continue its efforts to address the faculty salary lag identified by the California Postsecondary Education Commission (CPEC). CPEC annually issues a report on faculty salaries at California public universities to the Department of Finance and the Office of the Legislative Analyst. The table on this page provides information on CSU's faculty salary lag history.

In fiscal year 2002/03, the CPEC projected faculty salary lag was 10.6 percent. Funding for CSU faculty compensation has increased by 5.2 percent over their compensation base budgeted for 2001/02. When compared with the salary lag projected by CPEC for 2002/03, faculty compensation falls short of the lag by 6.5 percent entering the 2003/04 budget cycle.

CSU will use funds provided by the Partnership Agreement and will seek funds above the Partnership Agreement to provide a 4 percent (\$94.7 million) compensation increase for faculty and staff effective July 1, 2003. The cost of a 1 percent increase is based upon salaries and wages budgeted by campuses for 2002/03, which are then adjusted for the 2002/03 employer-paid retirement increase that was effective July 1, 2002.

The table on the next page identifies the cost of a 1 percent salary increase for faculty and staff.

Fiscal Year	CPEC Projected Faculty Salary Lag	CSU Compensation Increase (Final Budget)	Unfunded Faculty Salary Lag
1996/97	9.6%	4.00%	5.6%
1997/98	10.8%	4.00%	6.8%
1998/99	11.2%	5.70%	5.5%
1999/00	11.1%	6.00%	5.1%
2000/01	8.9%	6.00%	2.9%
2001/02	7.9%	2.00%	5.9%
2002/03	10.6%	1.50%	9.1%
2002/03 adjusted*	10.6%	4.14%	6.5%

**The faculty three-year agreement (2001/02 through 2003/04) includes increases above final budget. The cumulative annualized increase through 2002/03 is 6.14 percent resulting in an additional 2.6 percent to address the salary lag and a 2002/03 adjusted current faculty salary lag of 6.5 percent.*

The retirement adjustment to the base compensation appropriated in 2002/03 reflects the CalPERS employer-paid retirement rate changes that became effective at the start of the fiscal year (July 1, 2002). The CSU typically receives a mid-year appropriations adjustment from the state to cover the cost of the change in employer-paid retirement rates. CSU estimates the increase in employer-paid retirement rates will be \$68.1 million.

A 4 percent compensation increase for faculty and staff should keep the university competitive in the local, state, and national marketplaces. CSU will use Partnership revenue to fund a 1 percent increase for faculty and non-faculty employees and is requesting 3 percent above the Partnership Agreement to fund the remaining cost increase. The actual distribution of the compensation increase would be determined by individual collective bargaining agreements negotiated with employees.

Cost of One Percent Salary Increase

	2002/03 Base	2002/03 Retirement Adjustment	2002/03 Adjusted Base	2003/04 1% Salary Increase Cost (Adjusted Base x 1%)
Faculty-Unit 3				
Salaries	\$1,085,882,000	\$0	\$1,085,882,000	\$10,859,000
Retirement	44,878,000	35,259,000	80,137,000	801,000
Social Security	77,228,000	0	77,228,000	772,000
Total	\$1,207,988,000	\$35,259,000	\$1,243,247,000	\$12,432,000
Staff and Management				
Salaries	\$1,003,876,000	\$0	\$1,003,876,000	\$10,039,000
Retirement	41,489,000	32,816,000	74,305,000	743,000
Social Security	71,396,000	0	71,396,000	714,000
Total	\$1,116,761,000	\$32,816,000	\$1,149,577,000	\$11,496,000
Grand Total	\$2,324,749,000	\$68,075,000	\$2,392,824,000	\$23,928,000

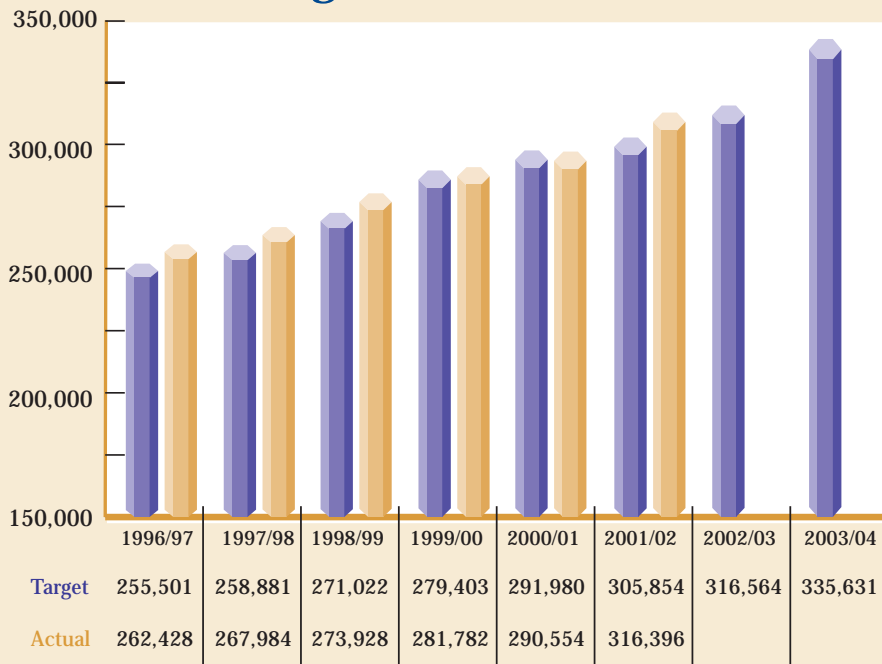
Enrollment Growth

\$118,934,000

This projection in enrollment growth is based on an assessment of actual and projected enrollment data and trends.

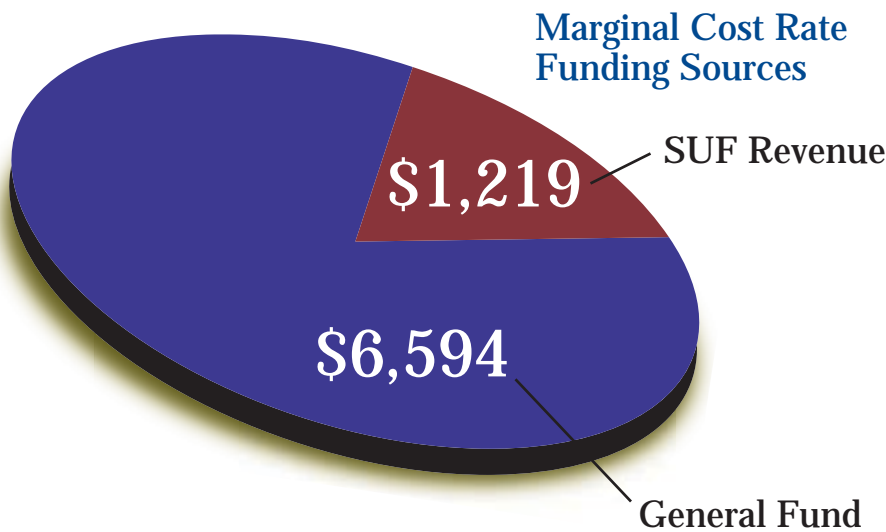
The CSU will increase full-time equivalent student (FTES) enrollment by 5 percent or 16,057 FTES. This projection in enrollment growth is based on an assessment of actual and projected enrollment data and trends. CSU enrollment growth is funded in accordance with the marginal cost methodology approved by the legislature in 1996. The marginal cost rate for enrollment growth in 2003/04 is \$7,813 per FTES. The CSU budget plan provides \$118.9 million directly to campuses to support enrollment growth at a rate of \$7,407 per new student. The remaining share of marginal cost funding (\$406 per FTES) will be used to increase the CSU State University Grant budget, which is allocated to campuses on the basis of students with qualified need, by \$6.5 million.

CSU Target and Actual Enrollments



The CSU is funded for enrollment growth on the basis of the marginal cost funding methodology negotiated by the CSU, University of California, Department of Finance, and Legislative Analyst's Office at the request of the legislature. This methodology funds the CSU, on a per student basis, at the average cost of specified budget factors that have been reduced by deflators to approximate the economy of scale for fixed costs. The \$7,813 per FTES marginal cost rate for 2003/04 is funded from two sources: State University

Fee revenue paid by students and General Fund support provided by the state. The state share of the marginal cost of instruction is determined by reducing the marginal cost rate by the percentage share of State University Fee revenue to total General Fund and State University Fee revenue.



Marginal Cost Funding Detail

Gross Marginal Cost Funding	\$7,813
<i>Student Fee Revenue based on percentage share of 2002/03 General Fund Appropriations and projected State University Fee Revenue</i>	-1,219
<i>2003/04 General Fund Cost of Enrollment Growth per FTES</i>	\$6,594
Gross Marginal Cost Revenue	\$7,813
Less: Marginal Cost Funding for Systemwide Financial Aid (1/3 of Student Fee Revenue Share, \$1,219 ÷ 3)	-406
Marginal Cost Funding for Campus Related Enrollment Growth	\$7,407
2003/04 Projected Enrollment Growth (FTES)	16,057
2003/04 Marginal Cost Funding (\$7,407 x 16,057 FTES)	\$118,934,000



Year-Round Operations (YRO)

\$9,778,000

In 1999/2000, the CSU embarked on a plan to implement state-supported year-round operations at all 23 campuses to increase access for all students.

In 1999/2000, the CSU embarked on a plan to implement state-supported year-round operations at all 23 campuses to increase access for all students. The CSU already had established year-round programs (four quarter terms) at four campuses prior to embarking on plans to convert all CSU campuses to year-round operations within a two-year timeframe. The state initially provided \$2.2 million to support CSU conversion planning. In fiscal year 2000/01, the state expanded CSU conversion plans to include the conversion of existing matriculated summer term enrollments operated through self-supported programs to state-supported summer instruction. Since 1999/2000, the state has provided a total of \$35.9 million to implement state-supported year-round operations at CSU through a combination of planning funds, fee buy-downs for matriculated students taking self-supported summer instruction to progress toward degree, and marginal cost funding to establish fully operational summer academic terms. CSU has used these funds to establish year-round summer terms at 16 of the 23 CSU campuses. CSU will use an additional \$9.8 million in state funding support in fiscal year 2003/04 to complete implementation of state-supported summer terms at all CSU campuses (excluding the California Maritime Academy, which already operates its summer cruise, and CSU Channel Islands, which has not established a student base sufficient for a summer term).

The two-year conversion plan for matriculated students in self-supported summer programs began with 5,115 FTES budgeted for conversion in summer 2001. CSU used \$18.9 million of the funds provided in 2000/01 to reduce fees for matriculated students taking self-supported summer instruction and \$12.4 million in new General Fund appropriations received in the Budget Act of 2001 to fund conversions at 10 campuses at the full marginal cost of instruction. In 2002/03 the CSU planned to use augmented partnership funds in the amount of \$10.8 million to convert 1,923 FTES to complete the two-year conversion plan. However, the state provided only \$1.35 million to

convert 240 FTES at the Chico campus. For fiscal year 2003/04, the CSU has budgeted \$9.8 million in new revenue to complete the two-year conversion plan by funding the conversion of 1,683 FTES at the five remaining campuses.

CSU Financial Aid

\$8,960,000

The CSU State University Grant (SUG) program provides financial assistance to students with need. The students who qualify for this program have financial contributions from their families of \$4,000 or less.

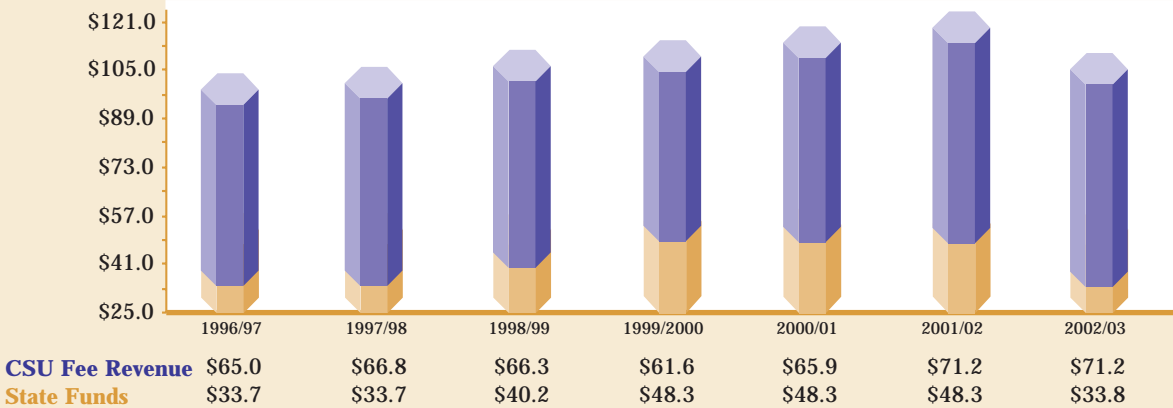
One-third of the projected \$28.2 million in fee revenue derived from new enrollment growth will be set aside for CSU student financial aid programs. CSU will increase support for student financial aid by \$9 million in 2003/04. Of this amount, \$6.5 million will be used for the CSU State University Grant (SUG) program, and the remaining \$2.4 million will be used, as needed, to fund increases in the number of mandatory State University Fee waivers CSU must provide in accordance with state statutes.

State University Grants (\$6,519,000)

The CSU State University Grant (SUG) program provides financial assistance to students with need. The students who qualify for this program have financial contributions from their families of \$4,000 or less.

The SUG program is funded from two sources: General Fund appropriations provided by the state and State University Fee revenue from students. The SUG program currently awards over \$105 million to students who qualify for this financial assistance.

State University Grant Fund Sources (dollars in millions)



Funding provided by the state currently totals \$33.8 million, which reflects the permanent reduction of \$14.5 million from CSU's 2001/02 SUG base. All other funds in the SUG budget are provided from State University Fee revenue. Since 1993/94, increases in the SUG budget have been obtained exclusively from student fee revenue.

2001/02 State University Grant Funds-General Fund	\$48,300,000
2001/02 State University Grant Funds-CSU	71,200,000
Total, 2001/02 CSU State University Grant Budget	\$119,500,000

2002/03 State University Grant Funds-General Fund	\$33,800,000
2002/03 State University Grant Funds-CSU	71,227,000
Total, 2002/03 CSU State University Grant Budget	\$105,027,000

Anticipated Grant Increase from Enrollment Growth Revenue	6,519,000
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2003/04 State University Grant Funds-General Fund	33,800,000
2003/04 State University Grant Funds-CSU	77,746,000
Total, 2003/04 CSU State University Grant Budget	\$111,546,000

CSU will use one-third of marginal cost revenue appropriated for enrollment growth in 2003/04 (\$406 per FTES) to increase systemwide funding for the SUG program. This increase represents one-third of the fee income used in the marginal cost methodology that funds CSU enrollment growth. This set-aside will increase CSU grant funding to students with need by \$6.5 million in 2003/04.

State-Mandated Fee Waivers (\$2,441,000)

Under current law, there are three state-mandated fee waiver programs: the CSU Cal Veteran Waiver for children of disabled/deceased veterans

(Education Code 32320), the Allan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code 68120), and the newly established fee waiver for California residents who were dependents of victims killed in the September 11, 2001, terrorist attacks (Education Code 68121).

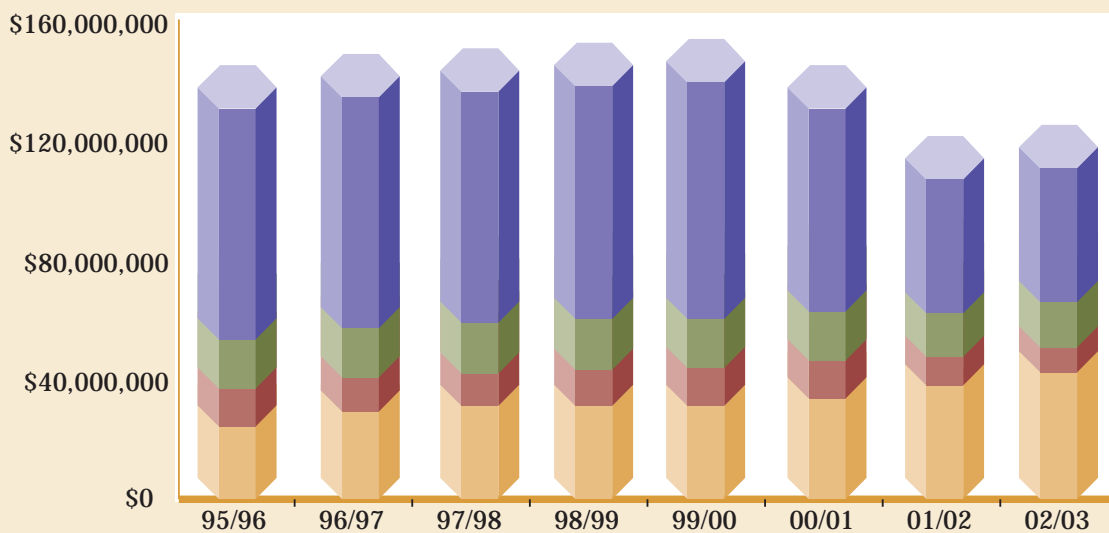
Currently, the state of California does not provide General Fund support to fund these mandatory fee waiver programs. The CSU has adopted the practice of using a portion of the funds set aside for financial aid from incremental growth in State University Fee revenue to support increases in the number of students eligible for these state-mandated fee waivers.

Long-Term Budget Need

\$26,526,000

CSU continues to address its long-term budget need composed of expenses that are too costly, or that have had historical unfunded deficits that are too large, to finance in a single budget year. The cost of deferred maintenance, instructional equipment replacement, maintaining relevant library collections, and keeping technology current are examples of these types of core needs that require a multimillion dollar annual commitment. The governor agreed that these multi-year commitments should be funded as a separate component of the higher education Partnership Agreement.

Annual Investment Required for Long-Term Budget Need



Instructional Equipment

Multi-Year Deferred Maintenance Cost

Annual Library Inventory Cost

Technology

The total budget investment necessary to address long-term budget need (as illustrated on the preceding chart) reflects the continuing impact of permanent reductions in state General Fund appropriations to the CSU, such as the permanent base budget reductions that occurred in the early 1990s, the budget reductions required in 2001/02, and the \$43 million one-time reduction taken in 2002/03. The amount of the investment required to address the need in the budget year is determined by the annualized cost of historical budget deficits, such as deferred maintenance and the yearly cost of ongoing needs such as replacement of fully depreciated instructional equipment. This investment is reflected in the 1 percent financial component funded within the Partnership for sustained multi-year budget commitments. The 1 percent commitment for 2003/04, \$26.6 million, will provide funding to invest in the following obligations.

CSU has made some headway in reducing the combined long-term need requirement for four program areas: instructional equipment, libraries, deferred maintenance, and technology. From a high of \$144.8 million in 1998/99, CSU has used Partnership resources to reduce the combined annual requirement in these four areas to \$110.2 million in 2001/02. This reduction primarily reflects permanent budget increases for libraries, deferred maintenance, and technology. The annual depreciation of instructional equipment will receive greater emphasis in the years ahead.

Technology: Network Equipment and Operations - The buildout of the telecommunications infrastructure to serve students and bring the institution greater efficiency requires \$69.7 million for related equipment and media elements that are vital components for network operations. The media component provides the cabling in the inter-building duct banks being constructed through the Capital Outlay Program. The equipment, or network electronics, facilitates an integrated computing environment with required client/server applications. CSU will use \$5 million of its long-term funding to complete the establishment of a \$20 million base to finance the equipment costs for this buildout over four years. The first installment of \$10 million was

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The CSU technology plan was formally presented during the state budget process in 1999/2000 and has received state funding for capital and operating implementation in each of the past three fiscal years. This investment recognizes that technology is essential to today's academic programs.

funded in the 2001/02 CSU Support Budget. An additional \$5 million was included in the 2002/03 budget but subsequently was deleted as part of a one-time reduction. Once the \$5 million for the 2002/03 budget is restored and an augmentation of \$5 million is approved as part of the 2003/04 budget, the total augmentation of \$10 million will complete the \$20 million need. After the equipment and media purchases are complete, these funds will be redirected in subsequent years for the amortized costs of equipment and infrastructure refresh and replacement on a three-year basis as identified in the university's technology plan to remain current with network technology advances. The CSU technology plan was formally presented during the state budget process in 1999/2000 and has received state funding for capital and operating implementation in each of the past three fiscal years. This investment recognizes that technology is essential to today's academic programs.

Libraries - Structural budget deficiencies in CSU libraries have occurred as state funding was reduced during the early 1990s economic downturn and as CSU budget funding was no longer determined by formula-based cost standards. CSU calculates that a structural deficiency of 132,000 volumes annually for library books, serials, and periodicals currently exists. The cumulative cost to remedy this deficiency (since 1990/91) is estimated at \$86 million. The CSU estimates that a permanent base of \$12 million must be established in order to halt and close the \$86 million deficit.

In fiscal year 2000/01, the CSU used \$3 million of its long-term commitment provided by the Partnership Agreement for systemwide electronic resources, reducing the unfunded annual need to \$9 million. No additional funds to address this need were available in 2001/02 because the 1 percent Partnership commitment was eliminated in the Final Budget. No additional funds were available in 2002/03 to address this need due to the state's budget crisis.

In 2003/04 the CSU is requesting \$10 million for libraries. Of this \$10 million request, \$9 million is needed to permanently establish a \$12 million base budget; \$1 million is requested to assist campuses with new programmatic factors associated with advances in library technology and special acquisitions costs for campus permanent collections.

The “deficit” this funding gap creates is best viewed from the standpoint of the libraries’ collections. The inability to purchase the full range of new books deemed basic to the curriculum creates holes in the collections. When students go to the stacks to find books on a particular subject, they often find that the books are too old to be useful. With restored funding, more current books can be purchased, but the cost of acquiring out of print books to fill the holes is significantly more expensive than had they been purchased upon publication.

For 2003/04, of the \$10 million being requested, \$8 million will be allocated to campuses (\$7 million for expansion and update of the collections of books, periodicals, and serial subscriptions as well as to acquire other non-print resources, such as sound recordings required to support academic programs, and \$1 million for programmatic factors and special acquisition needs determined on a campus by campus basis), and \$2 million to systemwide programs for electronic information resources.

This funding will provide further expansion of the Electronic Core Collection of bibliographic and full-text resources, for continued growth and enhancement of systemwide information access through the Pharos system of World Wide Web-based unified information access, and for other projects designed to increase effective use of information resources. With this funding, the annual need remaining for libraries will be eliminated.

Deferred Maintenance - CSU deferred maintenance projects remain an area of significant budgetary deficiency. Deferred repairs were scheduled for repair at one point, but due to project cost, timing, and/or lack of available resources these scheduled repairs were deferred to subsequent years.

Between the 1994/95 and 1999/2000 fiscal years, the state and CSU provided permanent base budget resources for ongoing maintenance support sufficient to halt the growth in a \$351 million estimated deferred maintenance backlog. In 2000/01, CSU used long-term funding provided by the Partnership Agreement to reduce the then current backlog by \$2.8 million. No funds were available to further reduce the backlog in 2001/02 or 2002/03. Consequently,

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not only was further reduction of the backlog halted, inflation caused the long-term deferred maintenance need to increase to approximately \$365 million in 2002/03.

The budget plan for 2003/04 uses \$11.5 million of the 1 percent General Fund increase for long-term need toward the continued reduction of the deferred maintenance backlog. Combined resources of \$14.3 million (the \$2.8 million continuing funds from 2000/01 plus the \$11.5 million in new base budget support in 2003/04) will be used to reduce the inflation-adjusted deferred maintenance backlog to \$350.7 million.

It should be noted that the CSU commitment to increase and sustain its maintenance budgets is, by strict definition, intended to focus funding on the scheduled maintenance of infrastructure systems and equipment that require maintenance at regular intervals in order to ensure that they will reach their useful life expectancy. This strategy is expected to eliminate growth of the deferred maintenance backlog. However, these funds must also be used to address a backlog of infrastructure systems or equipment having a remaining useful life that has been shortened because scheduled maintenance has not been performed when required. At the same time, the funds currently provided for scheduled maintenance are often the only source of funds available to perform repairs to infrastructure systems or equipment to keep them in service when in fact they should be replaced as an item of capital renewal, because even by manufacturers' standards they have outlived their useful life. Expenditure of funds to keep this equipment in service has a very small benefit other than keeping the item functioning at a minimal performance level until it fails.

Unfortunately, because CSU capital renewal efforts are limited to renovation projects in its Capital Outlay Program, the university expends considerable sums of support funds to keep these systems and equipment operating. The funds expended in this category prohibit the CSU from being able to avoid a continuing increase in its comprehensive deferred maintenance backlog.



CSU Response to Increase the Percentage of Tenure/Tenure-Track Faculty

\$35,615,000

ACR 73

In response to legislation passed in May 2001, ACR 73 (Strom-Martin), the CSU Academic Senate, the California Faculty Association, and the CSU Office of the Chancellor, developed a plan to increase the percentage of tenured and tenure-track faculty in the California State University. The plan contains the following features:

In response to legislation passed in May 2001, ACR 73 (Strom-Martin), the CSU Academic Senate, the California Faculty Association, and the CSU Office of the Chancellor, developed a plan to increase the percentage of tenured and tenure-track faculty in the California State University.

1. A ratio of 75 percent tenured and tenure-track faculty to 25 percent lecturer faculty, measured in terms of Full-Time Equivalent Faculty (FTEF) can be achieved incrementally over an eight-year period.
2. Achieving this goal is the joint responsibility of the CSU administration, the CSU faculty, and the state.
3. To achieve this goal, the CSU must conduct between 1,800 and 2,000 annual searches for new tenure-track faculty.
4. To ensure that these searches yield new hires from a national hiring pool at the current CSU success rate of 75 percent, the state must provide expanded funding for recruitment and hiring. The CSU must broaden its success at the top of the pool, not deepen its penetration into the middle of the pool if it is to maintain educational quality.
5. To attract and retain the best faculty, the state must provide compensation funding for new positions at least equivalent to the average of current CSU employment offers. These new positions are necessary to achieve the goal of 75 percent tenured and tenure-track faculty without jeopardizing the employment status of current lecturers.
6. Annual funding requirements for this plan range from \$4.8 million to \$35.6 million.

In the California State University and across the country, there is serious concern about the increasing numbers of temporary faculty, as opposed to permanent (tenured and tenure-track) faculty, in institutions of higher education. There is growing alarm that recent hiring trends in higher education, necessitated by budget deficiencies, have upset the appropriate balance between tenured/tenure-track faculty and lecturer faculty. The trend is important because tenured and tenure-track faculty bear the primary responsibility for student advising, program development and revision, and participation in shared governance. When their proportions decline, the quality of these efforts also wanes.

In response to this trend and concerns raised by the legislature in ACR 73 (Strom-Martin), the 2003/04 CSU budget plan includes a request for \$35.6 million to implement the first phase of an eight-year comprehensive effort to increase the percentage of tenured and tenure-track faculty in the CSU to 75 percent. *The Plan to Increase the Percentage of Tenured and Tenure-Track Faculty in the California State University* was developed jointly by the CSU Academic Senate, the California Faculty Association, and the CSU Chancellor's Office. After vigorous and open discussion of many issues, the plan represents a consensus of the groups involved. While each organizational group may address the goal of ACR 73 and the formal report accompanying the CSU budget plan in additional ways—given the different charge of each organization—each of the three parties involved in the establishment of the multi-year goals is committed to facilitating the implementation of strategic actions that will ensure success. CSU will endeavor over the next eight years to secure the budgetary supplements necessary to achieve a reasonable balance between tenured/tenure-track faculty and lecturer faculty.

Currently, the proportion of permanent faculty has declined to approximately 63 percent of the total full-time equivalent faculty (FTEF) positions. (FTEF is the unit of measure most typically used to express this ratio; it is the standard used by the California Community Colleges in achieving their target ratio.) The CSU plan would increase this proportion to 75 percent over an eight-year period. To achieve this goal without jeopardizing the employment status of current lecturers, the CSU will need to add new positions devoted to hiring tenure-track faculty beyond those required by projected enrollment growth. Thus the proposed plan creates the need for expanded state funding on an

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annual basis - starting with an initial phase-one implementation cost of \$35.6 million, and annual increases thereafter ranging from \$4.8 million to \$12.4 million. Most of this funding would cover the compensation costs of new, permanent faculty positions and the recruitment and hiring costs associated with these new positions.

This plan will require eight years to accomplish. Although CSU would like to move faster, the number of individual search processes that can be reasonably managed in an academic year is limited. In the past year, the CSU conducted slightly more than 1,150 faculty searches. The recently concluded collective bargaining agreement between the CSU and the CFA commits the parties to conduct 1,200 faculty searches in the current year. The ACR 73 plan would require CSU to conduct between 1,800 and 2,000 annual searches—a significant challenge given the already heavy workload of CSU faculty and academic administrators.

Incremental Implementation Cost of ACR 73 Budget Plan - Phase 1

Replacement positions for Tenure/Tenure-Track separations and retirements (600/year)	\$ 5,800,000
New Tenure-Track positions for Enrollment Growth @ \$70,200 Average New Hire Salary)	16,791,000
New Tenure-Track positions to phase-in improvement in Student/Faculty Ratio	13,024,000
New Tenure-Track positions to phase-in increased percentage of Tenure/Tenure-Track faculty*	0
Total, 2003/04 Annual Cost	\$ 35,615,000

**There are no costs associated with increasing the percentage of tenure/tenure-track faculty in 2003/04 due to the hiring considerations that can be reasonably accommodated in year one of the eight-year budget plan.*



Off-Campus Center Program Expansion

\$2,973,000

Off-campus centers are generally recognized as key components for providing student access to the university.

Off-campus centers are generally recognized as key components for providing student access to the university. Off-campus centers provide regular academic degree programs in geographic areas that cannot be served adequately by existing CSU campuses. Before a center is established, compelling evidence has been provided that the area to be served by a new center has substantial demand for academic programs that cannot be met by the regional campus or by other public or private higher education institutions in the area. Permanent centers should be treated as a priority of the state; they currently are not.

Public support for off-campus centers has often been the key impetus for their development. The financial and civic commitments communities have made and the emotional support these centers generate in the community are the core ingredients that ensure enrollments at these facilities will be sustained over time. Just as the communities and the universities have made major investments in the establishment of off-campus centers, the state shares a responsibility for the continued operation of a permanent facility once enrollment thresholds have been met. Traditionally, the state has recognized that there are fixed as well as variable costs associated with enrollment thresholds at off-campus centers.

Prior to fiscal year 1993/94, the fixed costs supporting the operational and facility space needs of the centers were funded by the state as ancillary support for the CSU academic program. Since that time, enrollments at CSU campuses have been building at a pace that will soon outstrip current capacity. CSU has implemented several management policies and procedures to accommodate all eligible students seeking enrollment, and off-campus centers have been an important method of diminishing enrollment pressures at the main campuses. CSU assumes all variable costs for these centers until they reach the 500 FTES threshold. After the 500 FTES threshold has been reached, the centers are eligible for permanent status and must be funded for

associated fixed cost increases. These fixed cost increases are the responsibility of the state. Given the strong community and business support these centers have received and the major commitments they have made, the state should show the same commitment by funding the increased fixed costs needs of these centers.

In January 2000, the CSU Board of Trustees adopted policies for the establishment of CSU off-campus centers with an enrollment threshold of 500 FTES and the expansion of existing centers above the 500 FTES threshold (REP 05-99-04). These policies included the expectation that campuses would be responsible for the fixed and variable cost enrollment needs of up to 500 FTES. These costs are borne by the campus through enrollment growth funding and academic and administrative staffing assigned from the home campus for program support. In considering the expansion of an existing center beyond 500 FTES, which must be consistent with enrollment demands in the region where the center is located, it is expected that there will be an impact upon systemwide financial resources. The additional fixed cost need, including outlays for acquisition, operations, and maintenance of facility space, cannot be supported through the enrollment growth funding received from the state on the margin. Marginal cost funding from the state discounts the support needed to provide educational services below traditionally recognized enrollment thresholds.

Upon achieving permanent status at the 500 FTES threshold, there is general recognition by the CSU and the state that fixed costs related to satisfying the additional academic, student services, and facilities requirements—including additional personnel—must be funded. The California Postsecondary Education Commission must review these costs as well as the core instructional value of the permanent center. Additionally, there is generally strong community support from local civic and governmental agencies associated with these permanent centers, and the fixed cost requirements typically include economic development and joint-use projects that benefit the academic mission of the center and the region it serves.

Given the strong community and business support these centers have received and the major commitments they have made, the state should show the same commitment by funding the increased fixed cost needs of these centers.

CSU will continue to work with the California Postsecondary Education Commission, the Legislative Analyst's Office and the Department of Finance to reach final agreement on a state-approved methodology for funding permanent off-campus centers.

This budget requests approximately \$3 million to support new fixed cost requirements at three campus off-campus centers: Bakersfield-Antelope Valley, Fullerton-El Toro, and San Bernardino-Coachella Valley. Based on standards recognized by the state through the marginal cost methodology for funding enrollment growth and referenced by the California Postsecondary Education Commission in a recent report, *Providing for Access: California Higher Education Enrollment Demand and Resources into the 21st Century*, the 2003/04 cost formula identifies \$991,000 in additional fixed cost need as off-campus centers grow to between 500 and 1,250 FTES. Staff representatives for the Legislative Analyst's Office and the Department of Finance are reviewing the physical space standard of this methodology in October 2002.

Additional fixed cost funding is required by the off-campus center to provide for costs associated with additional student services at the off-campus site, staff and resources needed to expand and improve the library, increased custodial support, increased technology and technical staff that support the availability of distance learning programs, and curriculum development, joint-use or economic development projects that expand, assist, and support the off-campus center academic programs.

CSU will continue to work with the California Postsecondary Education Commission, the Legislative Analyst's Office and the Department of Finance to reach final agreement on a state-approved methodology for funding permanent off-campus centers. However, the basic funding components that would be inherent in such an agreement form the basis of the CSU funding methodology described below.

The methodology comprises two cost standards: the cost to provide educational services based on the average cost differential of CSU enrollment growth funding and the facility and operations need established by square footage calculations linked to additional academic or academic-related space. The educational services standard for fixed cost is based on the full average cost differential of educational support services based on state funded marginal cost multiplied by 500 FTES.

For 2003/04, the standard supports the following cost differential for off-campus centers:

\$8,956	Gross Marginal Cost per FTES
- 7,813	Discounted Marginal Cost per FTES
<hr/>	
\$1,143	Fixed Cost Differential per FTES (x 500 FTE = \$571,500)

The funding provided by this cost standard addresses the fixed cost needs associated with the increased enrollment-related operational and administrative costs of instructional support, academic support, student services, and institutional support services.

The facility operations standard in the methodology is based on the campus acquisition and support of space requirements that serve up to 500 FTES. The off-campus center funding methodology for enrollments over 500 FTES provides support for the square footage differential required at the center to reach a maximum threshold of 1,250 FTES enrollment. This square footage differential (51,600 square feet) is multiplied by the current rate of operations for new space (\$7.20 per square foot) and the ongoing cost of regularly scheduled maintenance (\$0.93 per square foot). Total funding provided at this rate of \$8.13 times the 51,600 square feet differential yields a fixed cost requirement of \$419,500. Funds provided for facility operations include all additional costs associated with new lease or permanent space requirements for instruction and instructional support, academic support, student services, and institutional support.

Antelope Valley

Antelope Valley enrollment has surpassed initial expectations. Enrollment projections for this fast growing off-campus center show student populations of 792 college year FTES 2002/03 increasing up to 1,209 calendar year FTES in 2012/13.

Currently the off-campus center has modular buildings on the Antelope Valley Community College campus. There is room for one additional modular; after that the off-campus center will need to lease commercial space elsewhere until a permanent site or alternative solution is found.

Antelope Valley enrollment has surpassed initial expectations. Enrollment projections for this fast growing off-campus center show student populations of 792 college year FTES 2002/03 increasing up to 1,209 college year FTES in 2012/13.

Additional funds will allow this campus to accommodate increasing enrollment by adding another modular building, leasing more space off site and maintaining the Center's distance-education instructional television studios. Distance learning and Internet methods of instruction will continue to play an important role for this center.

Funding is required to provide the necessary support for the increased enrollment in the areas of academic, student, and institutional support infrastructure.

Coachella Valley

Faced with a large and growing underserved population in the Coachella Valley, CSU San Bernardino embarked on a successful fundraising campaign to finance permanent facility construction in the city of Palm Desert. The state and the region's business and civic leaders have supported this expansion as an important addition to the economic, social, and educational quality of life.

Enrollment at the off-campus center is expected to surpass the 500 FTES threshold for additional fixed cost support in 2003/04. Actual enrollment at the end of the 2001/02 college year was 413 FTES. The campus has already developed plans for additional expansion to accommodate the projected surge in enrollments as new buildings open for enrollment growth in this underserved area.

El Toro

Fixed costs are required for the expansion of the CSU Fullerton off-campus center to the former Marine Corps Air Station at El Toro. This expanded off-campus center is projected to serve 900 FTES in 2002/03 and 1,250 FTES when fully occupied. The current off-campus center at Mission Viejo cannot accommodate additional growth, and the main campus is very near its capacity limit and Master Plan ceiling.

It is estimated that CSU Fullerton exceeded its 22,000 FTES enrollment target in 2001/02 by nearly 1,000 FTES. Enrollment at the campus has grown

The [Coachella Valley] campus has already developed plans for additional expansion to accommodate the projected surge in enrollments as new buildings open for enrollment growth in this underserved area.

at an annual average rate of 6.5 percent since 1995/96. CSU Fullerton is projected to have an enrollment of 27,700 FTES by 2010. Orange County is projected to account for 5,300 FTES of this expected enrollment growth. Additionally, projections of Orange County high school graduates show a growth rate of 35.8 percent between 1999 and 2008. Community college enrollment in the county is expected to expand by 32.8 percent between 1999 and 2010.

Funds provided for the fixed cost needs at the El Toro site will help alleviate the enrollment pressure on Northridge's main campus and will better serve the educational needs of the Orange County population of students driving the increasing growth.



Workforce and Economic Development Programs

\$5,957,000

...these permanent funding increases will augment base budget support for CSU strategic academic programs, which will allow expansion of current programs and course offerings, address state industry employment needs, and proactively accommodate student demand in specialized fields of study.

CSU has established a long-term goal to increase funding support for academic programs that are important to a strong and expanding California economy and workforce. The first phase of increased funding concentrates on agriculture, computer technology, engineering, nursing, and biotechnology programs. The state acknowledged the premium cost of these strategic programs in the budget for fiscal year 2000/01 by designating \$10 million in one-time General Fund resources to renew and refresh instructional equipment in these program areas. These strategic programs now require permanent budget augmentations to support the expansion and improvement of academic programs that strengthen California's workforce and address state economic development needs.

The 2003/04 CSU budget plan includes \$6 million to permanently increase funding support to recognize program costs that exceed and cannot be accommodated within the marginal cost funding CSU receives for enrollment growth. Factors contributing to these higher than marginal costs include smaller class sizes, more expensive laboratory equipment, and higher salaries to compete nationally for quality instructors. For example, the student to faculty ratio (SFR) funded through marginal cost for 2002/03 is 18.9 to 1, whereas the SFR for CSU nursing programs has historically been in the range of 10.6 to 1. Further, the systemwide academic salary rate funded through marginal cost for 2002/03 is \$47,524, whereas the average salary rate for faculty instruction in CSU computer science is currently \$77,218.

In addition to the 2003/04 planned expenditure, the CSU will request additional budget increases, subject to full funding of the Partnership Agreement, for academic areas important to California's workforce and economic development over each of the next two years. In total, these permanent funding increases will augment base budget support for CSU strategic academic programs, which will allow expansion of current programs and course offerings, address state industry employment needs, and proactively accommodate student demand in specialized fields of study.