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January 7, 2010

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RE: Report on Implementation of Budget Reductions for 2008/09 and 2009/10 Fiscal Years

Language in the 2009-10 Budget Act (provision 12 of Item 6610-001-0001) directs the California State University (CSU) to provide a report to the Legislature and Governor describing the implementation of the unallocated reductions to state support of the CSU in the 2008-09 and 2009-10 fiscal years. The budget act language specifies that the report include information about changes in enrollment, changes in personnel costs, receipt of funds related to the federal American Recovery and Reinvestment Act (ARRA), new fee revenues, and other general purpose funding sources. The enclosed report is provided to meet these budget act requirements.

Should you have any questions about this report please contact me at (562) 951-4560 or rturnage@calstate.edu.

Sincerely,



Robert Turnage
Assistant Vice Chancellor for Budget

RT: lm

Enclosure

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California State University (CSU)
Report on Implementation of Budget Reductions for 2008/09 and 2009/10 Fiscal Years
January 7, 2010

Language in the 2009-10 Budget Act (provision 12 of Item 6610-001-0001) directs the California State University (CSU) to provide a report to the Legislature and Governor describing the implementation of the unallocated reductions to state support of the CSU in the 2008-09 and 2009-10 fiscal years. The budget act language specifies that the report include information about changes in enrollment, changes in personnel costs, receipt of funds related to the federal American Recovery and Reinvestment Act (ARRA), new fee revenues, and other general purpose funding sources. This report is provided to meet these budget act requirements.

In order to understand the magnitude of the unallocated reductions to state support of the CSU, and the CSU's implementation of those reductions, one must start with the 2007-08 CSU support budget as a benchmark. This was the last CSU support budget that could be looked upon as a normal budget. This was also the last CSU budget enacted by the Legislature and Governor that was consistent with the provisions of the Governor's Higher Education Compact with the two public university systems. It therefore included funding increases for enrollment growth, mandatory cost obligations, general operations and compensation increases for faculty and staff. The 2008-09 and 2009-10 budget acts not only lacked "Compact" increases, but included severe reductions relative to the 2007-08 base. Table 1 summarizes these reductions as well as other relevant changes to the CSU support budget during this time period.

Table 1---
CSU Support Budget—2007-08 through 2009-10 (dollars in millions)

	2007-08	2008-09	2009-10	\$ Change from 2007-08	% Change from 2007-08
State General Fund	2,971	2,873	2,346	- 625	- 21.0 %
Lottery	44	40	40	-4	-9.1 %
State University Fee	1,176	1,251	1,618	442	27.3 %
Redirection to Financial Aid	-276	-314	- 435	- 159	57.6 %
Reversion of General Fund	---	---	-716	-716	n/a
Federal Stabilization (ARRA)	---	---	717	717	n/a
Revenue Totals	3,915	3,850	3,570	-345	-8.8 %
Unfunded Mandatory Costs	---	-73	-113	-113	n/a
Change in Fiscal Resources (cumulative)	---	-138	-458	-458	-11.7 %

2008-09 Unallocated Reductions

As shown in Table 1, state General Fund support for the CSU was reduced by approximately \$98 million in 2008-09. This reduction was “mid-year” in terms of timing and was entirely unallocated; that is, the Legislature did not specify how the CSU would implement the reduction. This reduction in state support had two parts. First, in response to a call by the Governor for state entities to reduce spending in order to conserve cash for a rapidly worsening state fiscal situation, the CSU reduced spending by \$31.3 million. This was understood to be one-time in nature and the CSU implemented the reduction through various one-time measures, including postponement of non-critical equipment and supply purchases, reduced staff travel, and postponed filling of non-critical staff vacancies. The Legislature reverted the \$31.3 million to the General Fund as part of its revision of the 2008-09 Budget Act in February 2009. The second element of funding reduction was a \$66.3 million cut to the General Fund appropriation made as part of the February budget act revision. This reduction was understood as ongoing in nature. Implementation of this funding reduction was necessarily limited by its mid-year timing to steps that could be taken quickly by the Chancellor’s Office and the 23 campuses. Thus, in the short term (2008-09) expenditures were reduced by further restraint on travel, purchases and filling of vacant positions. Moving forward, however, the Chancellor’s Office and campuses have begun implementation of a variety of cost-saving initiatives such as regional sharing of certain campus support functions. For example, the CSU will soon implement the regional sharing of information technology security officers. Also, the CSU will soon establish regionally-shared virtual network operation centers.

Table 1 reflects a \$75 million increase in revenue from the State University Fee (the primary source of student fee revenue). This increase reflects a 10 percent increase in fee rates approved by the Board of Trustees in May 2008 that was estimated to add \$112 million in new revenue. Of this estimated increase, \$38 million was redirected to increase funding for student financial aid. (Other changes that affect revenues, such as numbers of students and the “mix” of undergraduate and graduate numbers, account for the difference between the estimated \$112 million increase and the actual \$75 million increase.) The increased redirection was pursuant to Board of Trustee policy and intended to mitigate the effect of the fee increase on students with financial need. The amount of new revenue was close to the amount needed to meet new mandatory cost obligations for 2008-09, which totaled \$73 million. These obligations included increases in employer-paid health insurance premiums, the operation and maintenance of newly constructed instructional space, and the provision of a 2 percent general salary increase for faculty that took effect June 30, 2008, under a collective bargaining agreement that had been adopted at the full urging of the Governor and the Legislature.

The absence in the 2008-09 Budget Act of the annual funding increase called for by the Compact triggered a reopening of negotiations on salary increases for that fiscal year, under clauses contained in the CSU's collective bargaining agreements. Pursuant to those clauses, the CSU provided no general salary increases for staff. The general salary increase for faculty was limited to the 2 percent provision mentioned above, which was not subject to renegotiation due to its effective date of June 30, 2008. This resulted in increased annual cost to the CSU of \$30.6 million, beginning in 2008-09. The CSU also provided \$7 million of merit-based salary adjustments for eligible faculty pursuant to another bargained provision that was not subject to renegotiation. The subsequent absence of any Compact increase in 2009-10 resulted in triggering of the same clauses and the absence of general salary increases in that fiscal year as well.

Enrollment Management in 2008-09. The state provided the CSU funding for 2.5 percent annual enrollment growth during the three fiscal years 2005-06 through 2007-08. Nevertheless, enrollment demand during that period outpaced enrollment growth funding. While the state funded 342,893 full-time equivalent students (FTES) in 2007-08 (California residents), CSU campuses served 353,914 resident FTES. This means that, through various short-term measures, CSU campuses served 11,021 FTES for whom no state funding was provided. The gap between students served and students funded was not sustainable, even with continuing growth in state funding. When it became apparent, with the introduction of the Governor's 2008-09 budget proposal in January 2008, that there was little likelihood that the state would fund enrollment growth, the Chancellor instructed campuses to close Fall 2008 application deadlines no later than March 1st. This relatively early closure was intended to help manage enrollment levels closer to funded targets, and thereby preserve the quality of instruction and services for students. Nevertheless, some enrollment growth would inevitably occur during 2008-09 due to the momentum of recent enrollment growth. For example, the record high "class" of new students admitted during 2007-08 effectively ensured that the number of continuing students would rise in 2008-09. As it turned out, FTES did grow in 2008-09, but at a substantially decelerated rate of less than one percent.

2009-10 Unallocated Reductions

As Table 1 shows, the extent of unallocated reduction to the CSU's state support was much greater in 2009-10 than in 2008-09. State General Fund appropriations for the CSU in the 2009-10 Budget Act totaled \$2.346 billion. This was \$625 million, or 21 percent, less than the level of state support in 2007-08. Subtracting the \$66.3 million permanent reduction experienced in 2008-09, the CSU faced a new unallocated reduction in state support of close to \$560 million for 2009-10. Thus, while the CSU experienced significant fiscal stress in 2008-09, it experienced an unprecedented fiscal crisis in 2009-10 that forced a series of difficult decisions and impacts. Many of the impacts have not fully played out, owing to the long lead times required to implement changes in enrollment levels and changes in faculty and staffing levels.

Table 1 shows two separate, yet offsetting, budgetary actions affecting the 2009-10 fiscal year. One action was a reversion of \$715.5 million that the Legislature and Governor enacted in late July 2009. The second action involves the \$716.5 million of one-time funds received by the CSU from the education stabilization fund created by the federal ARRA. One action reduced funding for the CSU on a one-time basis while the other increased funding on a one-time basis. The amounts are nearly the same but opposite in effect. In effect, they cancel each other out, as portrayed in Table 1. The fact that these two budgetary actions cancel out actually simplifies the analysis of the CSU's budgetary position for 2009-10. It means that the key elements to focus upon are (1) state General Fund, (2) State University Fee, (3) redirection of fee revenue to financial aid, and (4) mandatory cost obligations.

As shown in Table 1, the CSU faced an unallocated reduction of \$625 million for 2009-10, measured against the 2007-08 state funding benchmark. This situation was compounded further by mandatory cost obligations of about \$113 million, measured against the same benchmark. This meant that the CSU faced a total fiscal "resource gap" of approximately \$738 million relative to the 2007-08 benchmark. The strategy that the CSU took to address this unprecedented gap was based on balancing out multiple concerns. The primary concerns were to preserve as much as possible: (a) the quality of the academic program, (b) access to necessary courses, (c) access to financial aid, (d) faculty and staff jobs, and (e) the financial and fiscal integrity of the university. The strategy included the following key elements:

- Reducing compensation expenditures an estimated \$270 million by implementing furloughs.
- Increasing State University Fee rates by 20 percent. This July 2009 action by the Board of Trustees followed a 10 percent increase authorized in May, the compounded increase equaling 32 percent. (As noted earlier, a 10 percent fee increase also had been approved for the prior fiscal year.) With at least one-third of the increased fee revenue to be set aside for financial aid, the combined fee actions provide an estimated net increase of \$283 million for CSU operations, measured against 2007-08.
- Increasing non-resident tuition rates by 10 percent, for an estimated revenue increase of about \$11 million. (Non-residents of California also pay the increased State University Fee.)
- Allocating the residual gap of roughly \$175 million—after accounting for the first three actions above-- to the 23 campuses and Chancellor's Office and assigning responsibility to campus presidents (to the Chancellor in the case of the Chancellor's Office) to make necessary expenditure reductions or reallocations based on consideration of differing local circumstances and needs.
- Realigning enrollment levels with funding levels through intensive admission and enrollment management measures.

Below, we provide additional information regarding the CSU approach to addressing unallocated reductions in 2009-10.

Furloughs. Reducing faculty and staff compensation expenditures was an essential element of addressing the resource gap, given that salaries and benefits account for about 85 percent of the CSU's annual expenditures. Furloughs were seen as the best option under the circumstances because they:

- mitigated the extent to which layoffs otherwise would have been necessary,
- preserved health care and retirement benefits,
- mitigated the extent to which reductions in instruction and services to students otherwise would occur, and
- could be implemented rapidly (subject to agreement by collective bargaining for represented faculty and staff).

Public safety personnel were exempted from furlough. This exemption was later extended to staff of student health centers. The CSU reached furlough agreements with the bargaining units for faculty and most staff. Furloughs commenced for those employees, as well as management, executive and other non-represented employees, in August 2009. The furlough agreements require 24 furlough days during 2009-10 for those on full-year status and 18 furlough days for those faculty serving in academic year appointments. The furloughs result in a 9.2 percent reduction in pay for affected employees over the course of the 2009-10 fiscal year.

Two of the CSU's 13 bargaining units declined to enter into furlough agreements, preferring that provisions of their existing contracts control necessary spending reduction—including the option of layoffs. To capture the necessary cost reductions, alternatives such as voluntary reduction in time and pay, retirements and unfilled vacancies, have mitigated layoffs for some individuals slated for layoff. Even with these alternatives, to date 59 individuals out of the nearly 1,000 skilled trades employees represented by the State Employees' Trade Council have been laid off, or will soon be laid off. One employee has been laid off of the 15 skilled trades employees represented at the California Maritime Academy by the International Union of Operating Engineers.

As mentioned earlier in this report, the Chancellor's Office and campuses are left with a residual need to reduce expenditures by roughly \$175 million, even after allowing for expenditure reductions achieved through furloughs. At the time this report was prepared, it was not clear to what extent additional layoffs might be required across the CSU system to achieve the necessary spending reductions.

Increased State University Fee. The CSU historically has been committed to access and affordability. The CSU's fee rates and financial aid policies have reflected that commitment. However, the magnitude of the decline in state support over the last two fiscal years has forced a sharp increase in CSU's reliance on fee revenue. Without additional fee revenue to help address the resources gap, reductions in access to courses and services would have been severe and program quality would have been deeply harmed. The Board of Trustees' policy that at least one-third of increased fee revenue be redirected to financial aid, along with increased state and federal financial aid, protected students with significant financial need from the fee increases. In 2009-10 we estimate that 187,000 undergraduate students—roughly 55 percent of CSU undergraduates—will see their entire State University Fee (including the entire fee increase) covered either by the State University Grant, fee waiver, Cal Grant or federal Pell grant. Increases authorized by Congress in 2009 for Pell Grants will result in an estimated \$81 million increase in financial aid for CSU students. Also, the federal stimulus package expanded tax credits for university fees, which are available for family incomes of up to \$180,000.

The State University Fee now equals \$4,026 for a full-time undergraduate for the academic year. Adding the average of campus-based fees brings total undergraduate charges to \$4,893 for the academic year. Notwithstanding the dramatic percentage increase in the State University Fee over the last two years, the dollar amount remains exceptionally low compared to other universities across the nation. Historically, CSU fees have been tracked against tuition and fees charged at 15 public comparison institutions selected by the California Postsecondary Education Commission. The average tuition/fee at the 15 comparison institutions in 2009-10 is \$8,054, or 65 percent higher than the CSU. Only one of the 15 institutions—the University of Nevada at Reno—has a lower tuition/fee; it is \$37 lower than the CSU average.

Intensified Enrollment Management. As discussed above, the CSU began efforts to align actual enrollment levels with funded enrollment levels when it became apparent that enrollment growth funding would not be provided in 2008-09. With the mid-year funding cuts enacted in February 2009, and the growing indications of more severe cuts in 2009-10, the need to realign enrollment levels with available resources took on real urgency. Making large changes in enrollment levels requires long lead times. For example, the priority application period for Fall terms occurs in November of the prior calendar year, about nine months before the start of Fall semesters. Moreover, once students are admitted and begin attending, the university has an obligation to serve the students over their multi-year academic journey. This means that FTES levels can continue to rise even while numbers of newly admitted students are declining.

Understanding the complexities and time requirements of enrollment management, yet also understanding the urgent need to realign enrollment levels with available resources, the CSU established a two-year plan for this purpose in July 2009. On the assumption that serious resource constraints would continue into the 2010-11 fiscal year, campus FTES targets were reduced from funded 2007-08 levels by a systemwide average of 9.5 percent. Since larger campuses have greater “degrees of freedom” to reduce enrollments (due to economies of scale in budgets and program infrastructure), reductions in targets were “tiered” to campus size, ranging from 10.8 percent for the largest campuses to no reduction for the three smallest campuses. Under the current enrollment management plan, campuses have two years to reach their lower targets. For campuses that were significantly above their “old” targets in 2008-09, simply reaching those targets in 2009-10 could prove challenging.

The unprecedented severity of state funding reduction has resulted in the use of various enrollment management measures that have been available for several years but that have not been needed until now. In this sense, they are “new” for most CSU campuses and academic programs, as well as the affected public. All of the CSU’s current enrollment management measures, however, are consistent with long-standing requirements of state law and Board of Trustee policies, with one exception. In July 2009, the Board of Trustees revised CSU regulations to authorize campus presidents to review the academic status of so-called “super seniors” (students with more than enough credits to graduate) and to confer degrees on students as appropriate. This policy change helps free up space and resources for students still in need of credits to graduate.

One-time Resource for Additional Course Sections in Winter and Spring 2010. While it is imperative for the CSU to align FTES with available funding, it is also important that enrolled students be able to continue progress toward their degrees. Accordingly, in October 2009 the Chancellor announced that \$25.6 million from scarce one-time resources would be distributed to enable campuses to offer more sections in critical “bottleneck” courses during winter and spring 2010.

Concluding Remarks

As discussed in this report, the magnitude of unallocated reductions faced by the CSU in the current and prior fiscal years has been unprecedented and has necessitated a series of difficult decisions and impacts. The CSU’s strategic response has attempted to balance multiple concerns. The primary concerns were to preserve as much as possible: (a) the quality of the academic program, (b) access to necessary courses, (c) access to financial aid, (d) faculty and staff jobs, and (e) the financial and fiscal integrity of the university.