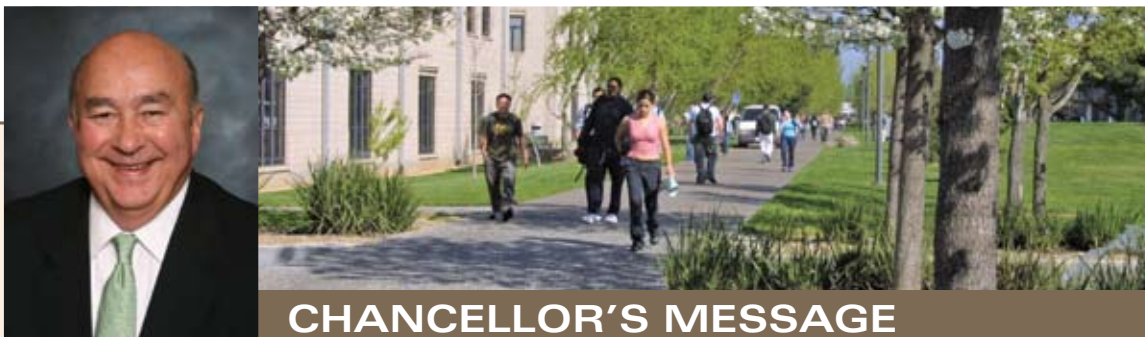


# 2008/09 Support Budget Executive Summary





The California State University enrolls over 450,000 students, graduating nearly 88,000 last year to address the workforce needs in California, especially in critical industries such as agriculture, engineering, business, technology, media, and computer science. There is a pressing demand for student access to the CSU, particularly among traditionally underrepresented communities, as indicated by fall 2007 applications for Latino students, which increased by 15 percent, and for African-American students by 12 percent. Access to the CSU campuses has also grown because the CSU offers a quality education at the most affordable four-year public university system in the country.

Supported by the Higher Education Compact, the state provides funding for nearly 10,000 additional students who enroll at the CSU each year. However, the CSU has experienced a demand for student access of 18,000 additional students in the 2006/07 academic year and anticipates over 23,000 additional students in the 2007/08 academic year. Unfunded growth of 13,000 students, at a time when the CSU is serving an unprecedented number of underrepresented students, represents a cost of over \$77 million that is being absorbed by the CSU. The state needs to recognize this increasing demand and provide the funding necessary to offer an affordable educational opportunity to all qualified students who wish to earn a degree from the California State University.

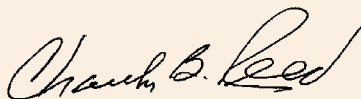
The CSU is involved in numerous efforts to increase educational opportunities for underrepresented students as exhibited in a variety of outreach and academic preparation programs. In collaboration with the California Department of Education and the State Board of Education, the California State University developed the Early Assessment Program (EAP) to provide students, their families, and high schools the opportunity to assess 11th grade student readiness for college-level English and mathematics, i.e., skills that students who choose either to enter college or the workforce directly out of high school will need to be successful. The CSU has also initiated "Super Sundays" to work with churches in the Los Angeles and Oakland areas that serve large African-American congregations in an effort to increase the pool of African-American students, particularly male, who are eligible to attend a four-year university. The CSU created the "How to Get to College" poster, which describes the steps for middle and high school students (grades 6–12) and their families to take to prepare and apply for college and includes information regarding financial aid. The poster, which has served as a model for similar publications at universities across the country, won a silver medal in the Council for Advancement and Support of Education (CASE) international Circle of Excellence Awards competition.

The 2008/09 CSU budget represents a continuation of state education priorities under the Higher Education Compact to ensure student access, address compensation issues, increase student financial aid, and fund CSU mandatory costs. Funding provided by the governor and legislature for K-12 math and science teacher preparation programs will allow the CSU to double the production of teachers by the 2010/11 academic year. The CSU has signed a Memorandum of Understanding with the California Community Colleges to establish integrated two-year to four-year programs that provide a continuous and seamless sequence of preparation for math and science teaching. CSU campuses are working with their regional feeder community colleges to establish fully aligned math and science programs.

The CSU will continue efforts to address the workforce needs of California in the areas of nursing, engineering, and the sciences. The CSU will produce an additional 750 new nurses in the next three years, and is committed to addressing the shortage of mid-level managers with engineering experience by piloting a number of Professional Science Master's (PSM) programs. The CSU plans to have 14 PSM programs on 12 campuses within the next three years. Programs will be in bioinformatics, biostatistics, biotechnology, clinical project management, computational science, ecological economics, environmental science, and forensic science. These critical workforce needs are being addressed with private foundation funding.

The Higher Education Compact affords CSU campuses with the fiscal stability to plan student enrollment, hire qualified faculty and staff, grow critical education programs, and mitigate overwhelming increases in student fees. The CSU recognizes that the Compact funding does not address the cost of the current collective bargaining agreements or demand for student enrollment. The Compact makes only moderate progress to address the \$522 million reduction in recent CSU budgets and does not fully address the current demand for student services, nursing programs, K-12 teachers, or compensation needs. With the understanding that the Compact represents the floor and not the ceiling for state higher education support, this budget proposes "above Compact" requests to support essential CSU funding priorities in 2008/09.

The CSU recognizes the state's overall fiscal condition and competing challenges that affect the decision to support additional funding above the Higher Education Compact. However, there are fundamental areas that are represented in the 2008/09 CSU budget that are not only vital for students completing their degrees, but also play a major role in California's economy and, ultimately, add tax revenue to the state's General Fund. The CSU funding priorities for 2008/09 were formed in consultation with the members of the CSU Board of Trustees, campus presidents, representatives of the CSU Academic Senate, members of the System Budget Advisory Committee (which includes student, faculty, staff, alumni, union, and administrative representatives), and the chief administrative and academic officers of the CSU, with an eye toward the long-range goals and needs of the university. Full funding under the Compact and recognition of the CSU's additional funding request represent a modest yet critical investment that will produce an overwhelming rate of return from our students and a major benefit to the workforce and fiscal stability of the State of California.



Charles B. Reed, Chancellor



## TABLE OF CONTENTS

### CHANCELLOR'S MESSAGE 1-2

### 2008/09 SUPPORT BUDGET

Three-Year Budget Summary	5
Highlights of the 2008/09 CSU Support Budget	5
Distribution of Expenditure Increases	6
CSU Support Budget Plan	7
Sources of Revenue	8-11
Uses of Revenue	12-17
2008/09 Budgetary Challenges	18-26





## 2008/09 SUPPORT BUDGET

### THREE-YEAR BUDGET SUMMARY

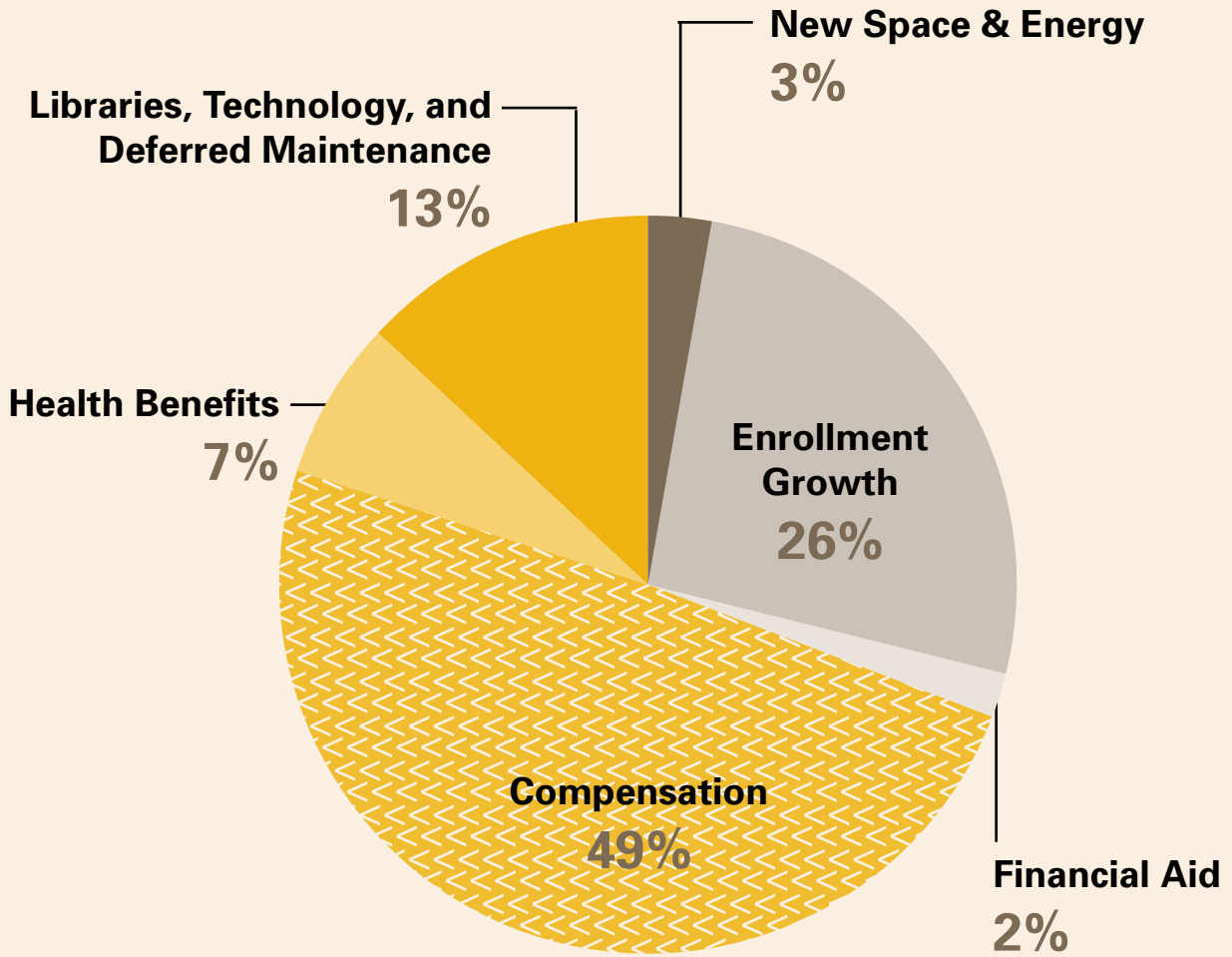
	2006/07 Actuals	2007/08 Final Budget (Adjusted <sup>1</sup> )	2008/09 Request
General Fund Appropriations	\$2,807,971,000	\$2,977,296,000	\$3,265,508,000
Revenue	1,296,549,000	1,376,853,000	1,408,898,000
Reimbursements	148,483,000	123,529,000	123,529,000
<b>Total CSU Appropriations</b>	<b>\$4,253,003,000</b>	<b>\$4,477,678,000</b>	<b>\$4,797,935,000</b>
	4% General Operations Increase		116,960,000
	1% Core Academic Support Needs		29,240,000
	2.5% Enrollment Growth		68,825,000
	10% Fee Revenue Augmentation		73,187,000
	<b>Total General Fund Increase</b>		<b>\$288,212,000</b>
	<b>Revenue from Enrollment Growth</b>		<b>\$34,444,000</b>

<sup>1</sup> The 2007/08 GF Final Budget was \$2,985,874,000 before adjustment. The adjusted GF Appropriations include a post-final budget employer-paid retirement adjustment of -\$8,578,000.

### HIGHLIGHTS OF THE 2008/09 CSU SUPPORT BUDGET

- \$82.5 million for 2.5 percent resident enrollment growth (8,572 FTES)
- \$91.1 million for a 3 percent compensation pool for all employee groups
- \$63.2 million to reduce the salary gaps
- \$33.5 million for academic technology
- \$36 million for mandatory costs obligations, including \$21.8 million for health care benefit increases
- \$6.9 million for financial aid set-aside from enrollment growth (33 percent of Marginal Cost Fee Revenue)
- \$6.5 million to continue reductions in the backlog of deferred maintenance
- \$3 million to address long-term shortfalls in funding for library acquisitions

### DISTRIBUTION OF EXPENDITURE INCREASES



## CSU SUPPORT BUDGET PLAN

### Sources of Funds

<b>Total General Fund Increase</b>		<b>\$288,212,000</b>
General Operations	\$116,960,000	
Core Academic Support Needs	\$29,240,000	
2.5% Enrollment Growth (8,572 FTES)	68,825,000	
10% Fee Revenue Augmentation	73,187,000	
<b>State University Fee Revenue from Enrollment Growth</b>		<b>34,444,000</b>
<b>Total Revenue</b>		<b>\$322,656,000</b>

### Budget Plan Expenditures

<b>Mandatory Costs</b>		<b>\$35,957,000</b>
Health Benefits	\$21,755,000	
New Space	6,000,000	
Energy	4,000,000	
Full Year SSI	4,202,000	
<b>Enrollment Growth</b>		<b>\$82,531,000</b>
2.5% Enrollment Growth (8,572 FTES)	82,531,000	
<b>Financial Aid from Enrollment Growth</b>		<b>\$6,858,000</b>
<b>Compensation -- 3% Increase for All Employee Groups</b>		<b>\$91,125,000</b>
<b>Funding Available for Year 3 of 5-Year Salary Lag Plan</b>		<b>\$63,185,000</b>
<b>Long-Term Need</b>		<b>\$43,000,000</b>
<b>Total Expenditures</b>		<b>\$322,656,000</b>

## SOURCES OF REVENUE

The 2008/09 California State University Trustees' Support Budget is based on revenue assumptions derived from the Higher Education Compact, a six-year agreement signed in May 2004 with the governor, the University of California, and the CSU. Beginning in fiscal year 2005/06 and through 2010/11, the governor agreed to include in his annual state budget sufficient funds to support scheduled base budget increases for general operations, enrollment, and mandatory cost obligations for debt service and annuitant benefits. The Compact is highly beneficial to the CSU in that it provides a stable financial base to plan for future needs and goals. In exchange for this pledge of funding, the CSU is accountable for addressing state goals for student access, academic program quality, student support services, and effective managerial resources. The CSU provides student and institutional outcome data that addresses operational efficiency, utilization of systemwide resources, and student progress.

Revenue components of the Compact include the following increases for 2008/09:

- 4% for General Operations (\$116,960,000)
- 1% for Core Academic Support Needs (\$29,240,000)
- 2.5% for Enrollment Growth (\$68,825,000)
- 10% Fee Revenue Augmentation (\$73,187,000)

### General Operations Increase

In 2008/09, the CSU budget will be based on a 4 percent increase for general operations in accordance with the Compact agreement. Each year, the increase for general operating support is calculated using the prior-year General Fund appropriation adjusted for scheduled lease revenue bond payments.

### Core Academic Support Needs

Beginning in 2008/09, the Compact also includes an additional 1 percent increase to the prior year's base to address the annual budgetary shortfalls in state funding for instruction in core areas of the budget critical to maintaining the quality of the academic program—including instructional equipment, instructional technology, and libraries—and for ongoing deferred maintenance.

For 2008/09, the 4 percent increase for general operations and 1 percent increase for core academic support needs are calculated as follows:

<b>2007/08 General Fund Final Budget</b>	<b>2,985,874,000</b>
Lease Revenue Bond Payments	(61,883,000)
<b>Total, CSU 2007/08 General Fund Base Budget</b>	<b>2,923,991,000</b>
<b>2008/09 General Fund Increase for General Operations</b> (2007/08 Base Budget x 4%)	<b>116,960,000</b>
<b>2008/09 General Fund Increase for Core Academic Support Needs</b> (2007/08 Base Budget x 1%)	<b>29,240,000</b>

**Enrollment Funding**

The Compact includes a 2.5 percent annual enrollment increase. For 2008/09, a 2.5 percent increase in CSU resident student enrollment yields an additional 8,572 Full-time Equivalent Students (FTES). In total, the CSU will be funded to serve 351,968 resident FTES in 2008/09.

Based on the 2007 Budget Act marginal cost methodology, the gross marginal cost rate for 2008/09 is \$10,428. The state share of this rate is \$8,029 per FTES, which reflects a \$2,399 offset for student fee revenue. The \$8,029 state share multiplied by the 8,572 FTES enrollment growth equals \$68,825,000. One-third of the marginal cost fee revenue is set aside for financial aid (\$800 per FTES).

The marginal cost calculation is estimated based on the updated methodology that began in 2006/07 that included a change in the graduate unit load for a full-time equivalent student from 15 to 12 units per term, including a component to recognize the cost to maintain existing space and open new space to support existing and future enrollment levels, and limits the marginal cost calculation to resident student growth only.

While beneficial marginal cost components were added in 2006/07, the state Department of Finance (DOF), the Legislative Analyst's Office (LAO), the University of California (UC), and the California State University have yet to agree on a methodology that results in variations of marginal cost funding rates. The CSU will continue to participate in the review of the marginal cost calculation methodology with the DOF, LAO, and UC and strive for a consistent annual methodology that will adequately cover the cost of enrollment growth.

### Fee Revenue Augmentation

The 2008/09 budget plan includes a revenue augmentation of \$73.2 million to support CSU budget plan expenditures. With no change in CSU fee rates included in the 2008/09 budget request, additional state funding is needed to address critical needs associated with mandatory cost obligations and market-driven competitive salary requirements for the recruitment and retention of professionally trained and highly skilled employees.

Following are the 2008/09 CSU State University Fee rates, with no change from 2007/08:

CSU STATE UNIVERSITY FEE (SUF) RATES		
STUDENT LEVEL	2008/09 % change from prior year	2008/09 SUF Rate
<b>Undergraduate</b>		
Regular	0.0%	2,772
Limited	0.0%	1,608
<b>Credential Program Participants</b>		
Regular	0.0%	3,216
Limited	0.0%	1,866
<b>Graduate/Post-Baccalaureate</b>		
Regular	0.0%	3,414
Limited	0.0%	1,980

The CSU continues to maintain the lowest undergraduate fees among the California Postsecondary Education Commission's (CPEC) 15 higher-education comparison public institutions. (The 15 comparison institutions have historically been referenced for faculty compensation and student fee comparisons.) The average 2007/08 academic year resident, undergraduate student fees at the CSU are \$3,521 and, at comparison institutions, \$7,122. The average 2007/08 academic year resident, undergraduate student fees include both systemwide and required campus fees. The total CSU 2007/08 systemwide and campus fees average is comprised of \$2,772 for the undergraduate SUF (6.1 units or more) and \$749 for the average campus-based fees that must be paid to apply to, enroll in, or attend the university.

### **SUF Revenue From Enrollment Growth (\$34,444,000)**

Revenue associated with a 2.5 percent increase in resident FTES enrollment (8,572 FTES) is projected to generate \$34.4 million in new student fee revenue. The Compact agreement calls for the university to set aside 20 percent to 33 percent of new State University Fee revenue for financial aid. The current 2008/09 budget plan sets aside one-third of the student fee portion of the marginal cost of instruction for financial aid, \$6.9 million. The financial aid set-aside will be used to increase the CSU State University Grant (SUG) pool. The \$27.6 million balance of enrollment growth revenue will support all other marginal cost areas.

2008/09 2.5 Percent Resident Enrollment Growth Revenue	34,444,000
One-Third Financial Aid Set-Aside	(6,858,000)
2008/09 SUF Fee Revenue from Growth Net of Financial Aid	27,586,000

## USES OF REVENUE

The 2008/09 California State University Trustees' Support Budget recommends an expenditure plan based on estimated revenue from the Compact agreement. The expenditures outlined below address the university's minimum needs for the 2008/09 fiscal year and include mandatory costs, enrollment growth, financial aid, compensation, reducing the salary gap, and long-term need.

### Mandatory Costs (\$35,957,000)

Mandatory costs are expenditures the university must pay regardless of the level of funding appropriated by the state. These costs include health benefit rate increases, new space, energy, and the full year cost of negotiated compensation agreements. Without funding for mandatory costs, campuses would be required to redirect existing resources from other program areas to meet these obligations. In order to preserve the integrity of CSU programs, the 2008/09 support budget plan provides for the following mandatory cost obligations:

Health Benefits	\$21,755,000
New Space	\$6,000,000
Energy	\$4,000,000
Full-Year, Service-Based Salary Increases	\$4,202,000
	<b>\$35,957,000</b>

### Enrollment Growth (\$82,531,000)

Resident enrollment for the CSU will increase by 2.5 percent or 8,572 FTES in 2008/09. This enrollment growth will require \$82.5 million to meet direct instruction, academic support, student services, institutional support needs, and plant operations. The 2.5 percent enrollment growth will be funded using a marginal cost rate of \$9,628 per full-time equivalent student, which does not include the student fee portion of the marginal cost rate (\$800) that has been set aside for the CSU State University Grant financial aid program. The following table summarizes 2008/09 marginal cost funding for the 2.5 percent resident enrollment growth based on the 2007 Budget Act methodology adopted by the legislature:

<b>ESTIMATED 2008/09 MARGINAL COST PER FULL-TIME EQUIVALENT STUDENT</b>	
Gross Marginal Cost Funding Per FTES <sup>1</sup>	\$10,428
Less: Student Fee Revenue <sup>2</sup>	(\$2,399)
Proposed State Funding Rate	\$8,029
Gross Marginal Cost Revenue	\$10,428
Less: Marginal Cost Funding for Systemwide Financial Aid (1/3 of \$2,399 Student Fee Revenue)	(\$800)
Marginal Cost Funding for Campus-Related Enrollment Growth	\$9,628
2008/09 Projected Enrollment Growth (FTES)	8,572
2008/09 Marginal Cost Funding (\$9,628 x 8,572)	\$82,531,000

<sup>1</sup> Marginal Cost Calculation (MCC) currently includes average new hire assistant professor salary rate in fall 2006 with the average 2007/08 faculty salary increase; by January Governor's Budget, the MCC will be updated to include fall 2007 average new hire assistant professor salary rate.

<sup>2</sup> Based on the average systemwide fee revenue collected from each FTE student, discounted for financial aid

A 2.5 percent increase from the 2007/08 resident FTES base of 342,893 (including BSN and MSN FTES) is 8,572 FTES. This results in a 2008/09 base of 351,465 FTES. With new BSN and MSN and nonresident FTES added, the 2008/09 total is 365,125 FTES.

<b>FULL-TIME EQUIVALENT STUDENTS (FROM 2007/08 LEVELS)</b>		
	2007/08	2008/09
Resident Students	342,390	351,465
2007/08 New BSN Undergraduate Nursing Students	340	340
2006/07 New MSN Graduate Nursing Students	163	163
Nonresident Students (for nonresident tuition fee paying purposes)	13,403	13,157
Total FTES	356,296	365,125
Resident Student Growth		8,572

### Financial Aid from Enrollment Growth (\$6,858,000)

One-third of the revenue from student fees generated from growth enrollment, as calculated from the marginal cost fee revenue component, will be used to increase the CSU State University Grant pool. This pool is administered centrally and is allocated to campuses based on student need. In 2008/09, the CSU estimates that it will award approximately \$283,364,800 in State University Grants to students with need.

#### 2008/09 STATE UNIVERSITY GRANT FUNDING INCREASE

Financial Aid Set-Aside from Student Fee Portion of Marginal Cost Calculation for Enrollment Growth (\$800 x 8,572 FTES)	<b>\$6,858,000</b>
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### Compensation Increases, 3% Increase for All Employee Groups (\$91,125,000)

The CSU Board of Trustees recognizes compensation for faculty, staff, and management as a key element of the university's success. The ability to offer a competitive compensation package is critical to the CSU's ability to recruit and retain faculty, staff, and management employees who contribute to the CSU's mission of excellence. The CSU plans to use \$91,125,000 of the Higher Education Compact to fund a 3 percent compensation pool, subject to collective bargaining, for all employee groups, effective July 1, 2008. The 2008/09 cost of a 1 percent compensation increase is based on campuses' 2007/08 final budget salaries and salary-related benefits (OASDI, Medicare, and retirement) and is summarized in the following table:

#### ESTIMATED 2008/09 COST OF 1 PERCENT COMPENSATION INCREASE

	2007/08 FINAL BUDGET COMPENSATION (Adjusted <sup>1</sup> )	2008/09 COST OF 1% INCREASE
Faculty	1,565,900,000	15,659,000
Staff	1,471,606,000	14,716,000
Total	3,037,506,000	30,375,000
Cost of 3% Increase		91,125,000

<sup>1</sup> Adjusted for 2007/08 employer-paid retirement reduction

### **Funding for Year Three of the Five-Year Salary Lag Plan (\$63,185,000)**

The CSU developed a five-year strategic plan beginning in 2005/06 to reduce salary lags for all CSU employees. Lack of funding for adequate compensation increases between 2001/02 and 2004/05 largely contributed to ongoing compensation deficiencies for all CSU employee groups. The sum of CSU average compensation increases from 2001/02 to 2005/06 totaled only 7 percent.

The 2007/08 compensation pool was 5.72 percent, which included a 3 percent compensation increase for all employee groups and a 2.72 percent increase to address faculty and staff salary lags. Of the total 5.72 percent compensation increase, 4.62 percent was funded within the Higher Education Compact and CSU systemwide allocations, whereas the 1.1 percent balance must be funded by campuses without additional allocation.

In 2008/09, the CSU will continue to address faculty and staff salary lags with a total planned 2008/09 compensation pool of 5.83 percent that includes the 3 percent (\$91.1 million) general compensation increase for all employee groups and an estimated 2.83 percent (\$86 million) to address salary lags. An estimated 2.08 percent, \$63,185,000, of salary lag compensation increases will be funded in 2008/09 systemwide final budget allocations with the remaining 0.75 percent or \$22,823,000 funded by campuses. Actual compensation increases for represented employee groups are determined by individual collective bargaining agreements.

Through the duration of the five-year plan to address salary lags, a 3 percent compensation increase for all employee groups is assumed each year along with additional compensation increases to reduce salary lags. The estimated cost between 2008/09 and 2010/11 to address salary lags is \$245 million and to fund the 3 percent annual compensation increase for all employee groups is \$296 million, resulting in total compensation costs of \$541 million. Based on Higher Education Compact funding levels to support the CSU's budget plan between 2008/09 through 2010/11, an estimated \$490 million will be available to fund compensation during that period.

Additionally, there are critical salary-related concerns within a number of CSU classifications that require special attention. With regard to CSU faculty, the 2007/08 CPEC-projected faculty salary lag is 19.1 percent. After adjustment for the 2007/08 faculty compensation increases, the unfunded projected faculty salary lag is 12.9 percent. The 2006/07 actual salary lag for CSU presidents was 46 percent. While the 2007/08 CPEC-projected presidents salary lag is not yet known, it is estimated to lower to approximately 37 percent after 2007/08 salary increases. Faculty and president salary lags are based on the California Postsecondary Education Commission's (CPEC) 20 higher-education comparison institutions. Also, CSU Human Resources preliminary 2006/07 staff market analyses indicate that many classifications have double-digit salary lags that include physician, health care support, and various technical and administrative support groups. The CSU is making a concerted effort to address the salary inequity of these employee groups.

## **Long-Term Need (\$43,000,000)**

The 2008/09 budget plan includes greater funding to reduce deficiencies in the CSU's long-term budget needs than in prior years. Long-term budget needs are those areas in which historical deficits prohibit full funding within a single budget year. These areas of need are recognized in the Compact. Beginning in 2008/09, the Compact includes an additional 1 percent increase to the prior year's base to address the annual budgetary shortfalls in state funding for core areas of the budget critical to maintaining the quality of the academic program—including instructional equipment, instructional technology, libraries, and deferred maintenance.

In 2008/09, \$33.5 million will be used to fund improvements in academic technology across the CSU. A study completed in summer 2005 found that there has been chronic underfunding of academic technology. Major cost areas were identified by campus representatives as falling below minimum baseline targets under even the most conservative assumptions and definitions, which address existing and emerging baseline needs, core academic technology needs, and systemwide academic technology initiatives.

This study identified the need to increase academic technology funding by \$116.5 million over a five-year period. The CSU began to address this need through a permanent allocation of \$5 million in fiscal year 2007/08. Expenditures in 2007/08 were focused on the development of the necessary structural foundation to address these needs and to begin development of the digital marketplace initiative that serves to strengthen investments in learning management systems and enhances faculty development in academic technology. The CSU continued its focus on improving student success by providing online information, testing tools, and learning modules to allow students to be "college-ready" in mathematics and English.

The \$33.5 million included for fiscal year 2008/09 will significantly broaden academic technology support across the CSU through further development and maintenance of the initiatives begun in 2007/08 and expansion of efforts in the target areas of existing and emerging baseline needs, core academic technology needs, and systemwide academic technology initiatives. Expenditures will be in direct support of these initiatives and will also provide the necessary technological infrastructure and related human resources required to achieve these technology initiatives.

The remaining \$9.5 million will be directed to address backlogs in library volumes (\$3 million) and deferred maintenance projects (\$6.5 million). This \$9.5 million allocation will help the CSU mitigate further growth of deficiencies in these areas until more funding can be provided specifically for them.

The current estimated backlog in CSU purchases for library volumes, serials, and periodicals is \$6 million. The backlog principally affects the CSU's ability to maintain and grow its core collection of materials needed for student academic research. Although the CSU is investigating alternative approaches to address deficiencies in its permanent collections, core-funding support is needed to pursue these efforts.

The CSU's defined backlog of deferred maintenance currently totals \$423 million. The annualized cost to fund deferred maintenance over a 10-year period would be \$42.3 million. The deferred maintenance backlog is compounded by annual inflationary cost increases for completing repairs and insufficient budget support that restricts the CSU's ability to adequately fund special repairs as buildings age.

## 2008/09 BUDGETARY CHALLENGES

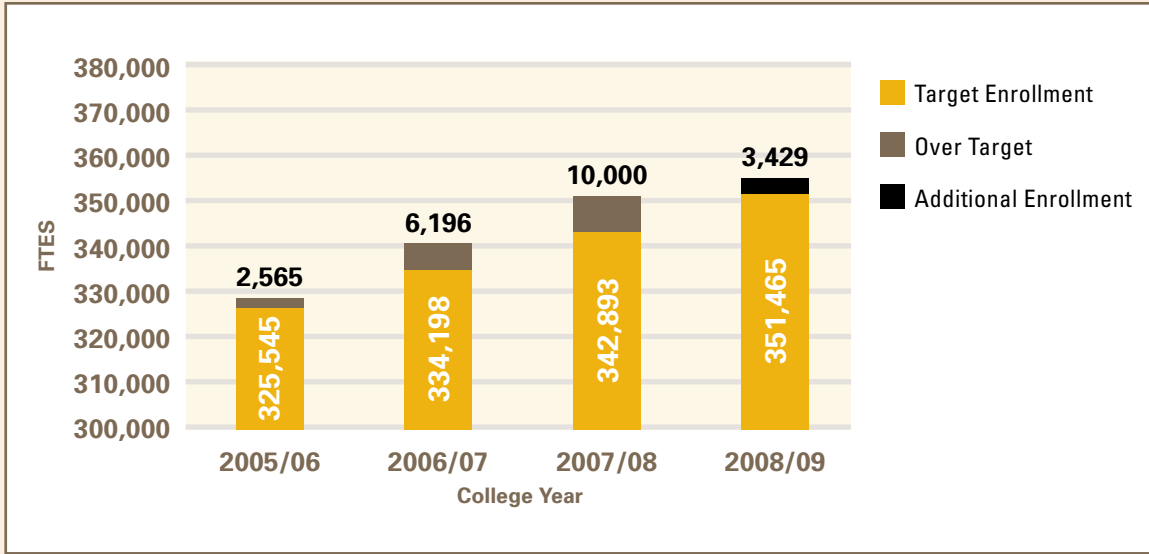
### Ongoing Budget Augmentations

The CSU's annual support budget increase is primarily dedicated to serving new students and funding annual cost increases included in the Higher Education Compact. The Compact, however, does not provide funding for new and expanded initiatives to address pressing state needs and priorities neglected during years when state resources were insufficient to fully address education program requirements. The "above Compact" funding requested in the 2008/09 CSU Support Budget addresses the following state needs and priorities:

2008/09 ONGOING AND PERMANENT BUDGET AUGMENTATION REQUESTS	
PROGRAM/NEED	REQUEST (\$MILLIONS)
Additional 1 Percent Student Enrollment Growth (3,429 FTES)	\$27.5
Clinical Nursing Support	\$7.8
Teaching Performance Assessment	\$10.0
Student Services for Success and Authentic Access	\$24.6
One Percent Compensation	\$30.4
Applied Research	\$12.0
First-Year Implementation for Increasing Ratio of Tenured Faculty	\$42.9
	<b>\$155.2</b>

### Additional 1 Percent Student Enrollment Growth (\$27.5 Million)

The Compact calls for 2.5 percent annual enrollment growth at the CSU through fiscal year 2010/11. The requested level of funding supports the state's goal of providing quality education to California students. Although the Compact was established for this purpose, the base assumption for enrollment growth is inadequate to meet the state's educational needs. Since 2005/06, the CSU has absorbed the cost of over-target enrollment by temporarily redistributing resources based on estimates of future budget year enrollment funding. CSU student enrollment demand has exceeded funded enrollment over the past few years—a trend that is expected to continue exponentially through 2008/09. However, CSU student enrollment projections for 2007/08 and 2008/09 show significant increases in student growth (and associated costs) that can no longer be absorbed by the university. Student enrollment demand projections for 2008/09 are expected to exceed targeted budgets by nearly 3 percent. The university cannot absorb costs associated with this over-target enrollment growth without impacting student access and availability of courses. The chart on the next page identifies over-target enrollment growth from 2005/06 through 2008/09. Data for 2005/06 and 2006/07 represent actual over-target enrollment growth.



The CSU is requesting \$27.5 million to fund 2008/09 over-target student enrollment growth of 1 percent (3,429 FTES) to ensure higher education needs are adequately met by the CSU. The requested funding will allow the CSU to meet these demands, and therefore retain higher education students within the State of California. As a result, these students will graduate and become educated professionals who contribute toward California’s growing economy.

**Clinical Nursing Support (\$7.8 Million)**

Each year, California’s demand for nurses exceeds the number of students who are prepared to enter the nursing workforce. By the year 2010, over 47,000 additional nurses will be needed to serve California’s population. Currently, California’s institutions of higher education graduate only 6,000 nurses annually. To meet California’s demand, California higher education will need to graduate at least 9,000 additional nurses annually for a total of 15,000 annually. In 2003/04, only 15 percent to 20 percent of students seeking admission to CSU clinical nursing programs could be accommodated due to limited numbers of qualified faculty, facilities, and clinical placement opportunities in health care facilities.

To help meet California’s demand for qualified nurses, the California State University seeks funding for a second cohort of students enrolled in its Entry Level Masters (ELM) degree program and its Bachelor of Science Nursing (BSN) degree program. Both programs received state budget support in 2006/07 and 2007/08, respectively, for the first cohort of what has been planned as a three-cohort level of sustained expansion of CSU nursing program enrollments.

The CSU is also seeking support for the development of doctoral nursing programs that will train future CSU nursing faculty and advanced practice nurses, for whom accreditors are requiring doctoral degrees as the minimum level of educational attainment.

In total, the CSU requests \$7.8 million to increase funding support for nursing production in these three areas. Second-year student cohorts for both ELM and BSN students are funded at a state marginal cost rate of \$14,460 per FTES.

New cohort of 163 FTES in the ELM program	\$2,357,000
New cohort of 340 FTES in BSN program	\$4,917,000
Doctoral Nursing Program Development	\$519,000

### Teaching Performance Assessment (\$10 Million)

Teacher quality and assessment of teacher competence are areas of continuing state and national interest. Through standards set by the California Commission on Teacher Credentialing (CCTC) and monitored during accreditation, institutions have in the past been required to assess their candidates and determine their readiness to begin teaching prior to recommending them for a teaching credential. Assessment methods have been the purview of institutions, and state standards have not addressed issues of validity and reliability in assessment practices. Information emanating from these activities has generally been useful at the program level, but not reportable in an overall teacher education accountability system that is based on outcomes of candidate preparation.

The Teaching Performance Assessment (TPA) requirements in statute and the Assessment Quality Standards adopted by the CCTC in 2002 require each institution to ensure that every one of its teacher candidates has been assessed in a valid, fair, and reliable manner and that each faculty member scoring the TPA has been trained in the calibrated scoring procedures that are part of the approved assessment system. These requirements bring practices that are typically part of standardized testing programs to bear on an assessment system that is required by law to be embedded in programs and administered by faculty. The performance-based assessment approach is unprecedented in California and the nation. In the last two years, faculty members have reported that planning for and piloting these new requirements has led to improvements in candidate assessment and, deriving from this, in preparation programs.

TPA implementation will require the following new campus-based activities:

- Training for faculty in the scoring of the TPA instrument the campus elects to use
- Scoring of candidate TPA, estimated at an average of two hours per candidate
- Administration and oversight of the TPA system
- Creation and ongoing maintenance of data systems that allow for the collection and reporting of candidate performance data

- Procedures and equipment for videotaping of candidate classroom performance
- Submission of implementation plans to the CTC for approval under CTC-adopted Assessment Quality Standards
- Development of procedures and reporting mechanisms that provide candidates with a diagnostic analysis of their teaching strengths and weaknesses, which they can take with them and use in their induction programs

The CSU requests \$10 million to implement required teaching performance assessments on the 22 campuses that prepare candidates for teaching credentials and in CalStateTEACH, using procedures that conform to standards that have been adopted by the CCTC. Implementation is required to fulfill the mandates of Chapter 517, Statutes of 2006 (Senate Bill 1209–Scott), which requires that teacher preparation programs in California implement rigorous TPA procedures with all teacher credential candidates beginning in 2008/09. The CSU projects the costs at \$500 per candidate to implement the requirement—consisting of \$100 per candidate in one-time start-up costs and \$400 per candidate in ongoing cost, and projects that 20,000 candidates will require assessment. These figures are based on thorough pilots of different designs for TPAs that have been conducted during the past three years. The funds requested will be used to (1) establish TPA procedures that conform to state-approved standards and (2) implement TPA requirements with all affected candidates beginning fiscal year 2008/09 in conformance with Senate Bill 1209.

### **Student Services for Success and Authentic Access (\$24.6 Million)**

Baseline statistics show that CSU students are succeeding to the baccalaureate at the graduation rate and pace comparable to that which would be expected on the basis of national statistics for regional comprehensive universities. However, the CSU presidents, system leadership, faculty, and staff want to set a new standard that is better than national norms. Key objectives are to increase the graduation rate and reduce the time to degree for undergraduates. These coordinated programs intend to reduce delay in reaching a degree and to increase the number of initial matriculants who, in fact, graduate, while recognizing that not all students who enroll will graduate for various reasons. The CSU, through its accountability process, has named this a high-priority long-term need, on which it reports to the CSU Trustees, state policy-makers, and the public. The CSU can increase the graduation rate, reduce the time to degree, and foster success, especially with new populations where college-going and graduation rates have been lower than average.

In 2003, the Trustees adopted a three-part graduation initiative with goals to improve student services for undergraduates, enhance undergraduate advising, strengthen new student orientation, staff tutoring/learning/study skills help centers, and improve articulation efforts. The three-part initiative includes (1) the Early Assessment Program of outreach to students still in high school, (2) the Campus Actions to Facilitate Graduation initiative, and (3) the Lower Division Transfer Patterns program. Student services for the second and third parts of this major initiative include new-student orientation, advising, articulation with community colleges, and other similar functions, all of which require adequate resources to enable success.

This three-part initiative was adopted in order to develop, for California, the educated workforce required for global competitiveness in the next decades. Of all the first-time freshmen in the California State University in 2006/07, 61.7 percent were from traditionally underrepresented groups. It is typical for such students to be the first in their families to aspire to and attend college, and so the CSU has made the success of these students, and all students, a systemwide priority. Key in this goal is to offer specific support at points of special vulnerability to discouragement and dropout. These students are California's tomorrow.

The CSU requests \$24.6 million for Student Services for Success (\$16 million) and Authentic Access (\$8.6 million). The Student Services for Success funding will improve and expand advising opportunities for students, hire more tutors, strengthen new student orientation programs, provide additional staff or learning centers, and improve orientation efforts with California Community Colleges. The Student Services for Authentic Access will support outreach and authentic access efforts to California's lowest income families and disabled students, as well as enhance online access to degree programs for underserved populations and those without direct access to a CSU campus.

### **One Percent Compensation (\$30.4 Million)**

Total compensation packages are critical to support recruitment and retention of highly qualified and motivated faculty, staff, and management. The inability of the university to offer compensation increases that keep pace with the annual rise in inflation or increases within the state and national marketplace erode the CSU's ability to attract and retain a highly motivated and qualified workforce.

Employee salary lags were exacerbated due to lack of funding for adequate compensation increases between 2001/02 and 2004/05 and have resulted in ongoing compensation deficiencies for all CSU employee groups. Based on U.S. Department of Labor reports, public and private sector average increases in employment salaries and wages summed 14.5 percent over the five-year period from 2001 to 2005 while salary increases in the CSU over that same period summed only about 7 percent.

Also, there are critical salary-related concerns within a number of CSU classifications that require special attention in the bargaining process if the CSU is to successfully negotiate contracts in the

years ahead. With regard to CSU faculty, the 2007/08 projected unfunded salary lag is 12.9 percent, based on the California Postsecondary Education Commission's (CPEC) 20 comparison institutions. Also, systemwide CSU Human Resources is currently finalizing 2006/07 staff market analyses. Upon preliminary analysis, it has been observed that many classifications have double-digit salary lags that include physician, health care support (e.g., nurse practitioner, LVN, and RN), and various technical and administrative support groups (e.g., accounting clerks, desktop publishing/graphics specialists, equipment systems specialists, and public affairs/communication specialists).

The persistent salary lags have contributed to the university's challenges to retain and recruit critical faculty and staff and could impact the ability of the CSU to meet educational and business operational goals and requirements. This supplemental funding request of \$30.4 million would further assist the CSU to address the impact of minimal compensation funding in prior years on all CSU employee groups.

### **Applied Research (\$12 Million)**

The CSU is requesting \$12 million to perform applied research in four areas critical to California's economic well-being: Agriculture (\$5 million), Biotechnology (\$3 million), Marine Studies (\$3 million), and Fresh Water Studies (\$1 million). These four programs share several common elements:

- Address areas of research vital to the current and future well-being of the State of California
- Align with the CSU educational mission and the CSU's role in providing the educated workforce needed to drive California forward
- Utilize a peer-based, proposal evaluation process to ensure that state funds are expended only on projects that are deemed to have high value to the state and a solid scientific basis for support
- Yield many times their state funding in matching and/or additional research funds

### **Agriculture**

Agriculture is recognized as a vital element of the state's economic engine. Agricultural enterprises contribute in excess of \$32 billion to the California economy and are essential to the state's economic vitality. The CSU produces over 52 percent of California's college graduates in agriculture-related majors. Closely related to and integrated with its core educational mission, the CSU is also a leader in performing applied research to improve the efficiency, productivity, profitability, and sustainability of California agriculture and its allied industries.

Providing additional funding for applied agriculture research funding will prevent the loss of jobs, the loss of crops, the loss of the economic value of crops, the degradation of agricultural resources, the loss of farms and farmers, and/or the loss of opportunities to derive greater value from agricultural

enterprises. This funding will support innovative approaches such as sustainable agriculture in an effort to promote farming practices that are ecologically sound and economically viable. Funding for sustainable agriculture would provide matching resources to similar efforts on the federal level through the SARE (Sustainable Agriculture Research Education) programs. Failure to advance state-of-the-art research and remain at the cutting edge of knowledge and technology will result in California agriculture losing its competitive edge and leadership in a global market. And, finally, failing to invest in agricultural research would forego the external resources that flow to the state in leveraged research projects.

### **Biotechnology**

By 2003, revenues from biotech products had increased to \$39.2 billion nationally, and employment in the industry was increasing at roughly 15 percent per year. More significantly, California is home to at least one-half of the biotechnology companies in the country and more than two-thirds of the workers in this industry are at the Bachelor of Science (BS) or Master of Science (MS) degree levels. California currently is, and has the potential to continue to be, the leader in this increasingly important, knowledge-based industry.

As manufacturing jobs and industries decline, it is vital for California to do everything possible to secure its leadership role in high-paying, knowledge-based industries like biotechnology. The CSU serves a crucial role in the two-pronged strategy to help secure the benefits of this industry for California. The CSU educates the BS and MS graduates that make up two-thirds of the workers in the industry and is a critical partner to perform the collaborative research to move the industry forward. Failing to provide additional applied biotechnology research funding could make it difficult for the state to maintain its leadership position in a growing industry with high-paying jobs.

### **Marine Studies**

California has the largest ocean economy in the nation, totaling over \$42 billion in gross state product in 2000. And yet, the coastal margins of California are coming under increasing pressure from land use, growing volumes of commercial trade, invasive species, harmful algal blooms, marine pathogens, and declining fisheries—all of which are taking place within a context of climate change. The consequences of failing to provide additional marine studies applied research funding fall into three distinct categories: lost opportunities, increased risk, and lost political capital. Given the importance of the coastal environment to California (and the nation) and the emergence of a wide range of new threats, expenditures (of resources and intellect) to preserve and protect the quality of the coastal environment are essential to maintaining the economic vitality of the state.

**Fresh Water Studies**

Water is critical to the future growth and the quality of life in California and, therefore, ensuring the availability of affordable and adequate supplies of high-quality water is among the state's highest priorities. Fulfilling this goal demands an integrated and concerted research program. The fresh water research activities in the CSU address the critical policy and research needs of agricultural, urban, and environmental water uses in California. With an ever-growing population, water use, water policy, water products, water quality, water technology, and water research will become even more critical to the future economic well-being of the state and its citizens. The majority of the citizens of the state assume that affordable and adequate water supplies will always be available, and it is the responsibility of government to ensure that these expectations for the future are met by funding water studies.

**First-Year Implementation to Increase Ratio of Tenured Faculty (\$42.9 Million)**

For the past three years, the California State University has been faced with enrollment challenges that significantly exceeded enrollment growth funding provided by the state. To accommodate this student demand for access, campuses have employed a number of faculty on one-time and temporary means to enroll as many students as reasonably possible while maintaining the quality and integrity of CSU academic programs. One area that has assisted in this effort is the hiring of temporary faculty to address undergraduate course demand and increasing admissions of first-time freshmen as a proportionate share of new enrollment growth.

In May 2001, the state legislature identified this reliance on temporary faculty, as opposed to permanent (tenured and tenure-track) faculty, in institutions of higher education to assist with meeting the challenge of student access demand (ACR 73). There is growing alarm that recent hiring trends in higher education, necessitated by recovery from prior-year budget deficiencies, competitive salary lags, increasing student demand, and limited enrollment growth funding support, upsets an 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 the proportion of tenure/tenure-track faculty declines within the CSU, the quality of these efforts also wanes.

In response to legislation passed in May 2001, 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 over eight years. The final report and implementation plan contains the following features:

1. Sets a goal to achieve 75 percent tenured and tenure-track faculty to 25 percent lecturer faculty, measured in terms of Full-Time Equivalent Faculty (FTEF) systemwide and a Student to Faculty Ratio (SFR) of 18:1.
2. Declares that the goal is the joint responsibility of the CSU administration and faculty, and the state.
3. Recognizes annual funding requirements for this plan will fluctuate from year to year based on enrollment and SFR improvement, ranging from \$15 million to \$43 million. Total costs over the eight-year period based on 2007/08 dollars will equal roughly \$204.5 million, which averages to approximately \$26.6 million per year for successful implementation.
4. Requires the CSU to conduct between 1,800 and 2,000 annual searches for new tenure-track faculty.
5. Acknowledges that the state will need to provide adequate resources for expanded funding for recruitment and hiring, so the CSU can compete in the national faculty marketplace.
6. Provides for compensation funding for new positions at least equivalent to the average of current CSU employment offers.

The CSU has taken several steps to implement these provisions. Requests for additional state resources were stymied between fiscal years 2002/03 and 2005/06 as the CSU experienced budget reductions that resulted in a net budget loss of over \$522 million. Additionally, the CSU has discussed steps that could be taken within current levels of funding resources to increase the number of tenure/tenure-track recruitments annually, reduce the Weighted Teaching Unit load of faculty to stimulate additional tenure/tenure-track hiring, and implement steps to reduce the number of faculty in temporary positions after three years.

In furtherance of these and other efforts, as well as the continuing concerns first raised by the legislature in 2001, the 2008/09 CSU budget plan includes a request for \$42.9 million to implement the first phase of the eight-year comprehensive effort to increase the percentage of tenured and tenure-track faculty. The first-year phase calls for:

Improve Current Employees Tenure/Tenure-Track Faculty Ratio	\$9,680,000
Increase Percentage of Tenure/Tenure-Track Faculty	\$13,554,000
Improve CSU Student Faculty Ratio to 18:1 First-Year Cost	\$19,657,000
<b>Total First-Year Implementation Cost Request</b>	<b>\$42,891,000</b>

