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BUSINESS AND FINANCE, OFFICE OF BUDGET DEVELOPMENT (562) 951-4560



July 31, 2003

TO: Chief Financial Officers

Code Memorandum: B 03-04

FROM: Patrick Lenz

A handwritten signature in black ink that reads "Patrick J. Lenz".

Subject: 2003/04 Final Budget Allocations

The Governor is expected to sign into law AB 1765 that was enacted by the legislature on July 29, 2003 and makes Final Budget appropriations for fiscal year 2003/04. Campuses will be advised of the chapter number for the Budget Act of 2003 when the bill has been signed.

This memorandum explains the allocations that have been approved in response to actions affecting the CSU Support Budget. Three actions have been taken affecting allocations provided to campuses in coded memorandum B 03-02, Revised Governor's Budget Allocations:

- May Revise adjustments in systemwide appropriations for State pro-rata charges were removed and the charges were transferred to non-General Fund sources
- Funding for the Center for California Studies was restored in the amount of \$1,151,000
- Unallocated reductions in the amount of \$84.5 million were added to the cuts already identified in the Governor's Budget

In response to the increase in unallocated reductions, the CSU budget plan was adjusted as follows:

1. The Board of Trustees approved an increase in the State University Fee that raised rates for undergraduate and graduate students 30% above the mid-year fee rates approved for fiscal year 2002/03, a 5% and 10% increase in rates over the Governor's Budget for undergraduates and graduates, respectively.
2. General Fund appropriations for enrollment growth were reduced by \$60 million, resulting in funded enrollment growth targets for the 2003/04 college year that is 13,782 FTES or 4.3% above the 321,132 FTES enrollment target funded for 2002/03.

In total, the CSU is appropriated \$2,492,021,000 in General Fund dollars for fiscal year 2003/04. It is projected that new enrollment growth will add \$32.6 million in State University Fee revenue and that the impact of the 2002/03 and 2003/04 fee rate increases will add \$237.7 million in new revenue for the fiscal year (additional revenue will be realized in Summer 2004, which marks the beginning of the 2004/05 fiscal year). CSU will increase its financial aid grant pool by \$86 million to reflect the increases in student enrollment and fee rates.

The Final Budget includes a provision for Supplemental Report Language representing directives from the legislature. CSU has agreed to Supplemental Report Language representing the legislature's intent regarding campus budgets in the 2003-04 fiscal year:

- Protect, to the greatest extent possible, undergraduate and graduate instruction;
- Recognize that academic support and Maintenance and Operations play an important role in quality of education provided at the CSU;
- To the extent possible under the law, the CSU would use alternative funding sources to mitigate the impact of budget reductions, we would reduce administrative costs while serving the student effectively, manage the CSU system, and remain accountable to the State;
- Where feasible, defer 2003-04 expansion for CMS new start-up projects; and
- Meet extensive reporting requirements on student enrollment, average class size, number of course sections, CSU employees, and actual expenditure data.

Attachment G contains the Supplemental Report Language adopted by the legislature and campuses are advised to use these statements of legislative intent as a guide in making decisions in consultation with campus constituencies that adhere to enrollment targets and funding levels that have been appropriated. The Chancellor's Office will be working with campuses to investigate any complaint that campuses are not adhering to the intent of the SRL.

The legislature has also adopted Assembly Bill 1756, Budget Trailer legislation indicating their intent to control spending in the preparation of the Governor's 2004-05 budget. Issues specific to the CSU include no proposed funding by the Department of Finance for employee salary increases, discretionary price adjustments, and enrollment growth. Section 55 of AB 1756 regarding the specific language of the bill is contained in **Attachment H**.

Campus budget submissions that reflect the allocations provided in this memorandum are due in the Budget Office on or before August 15, 2003. Campus budget officers should have already received instructions for the transmittal of final budget submissions.

If you have questions regarding 2003/04 Final Budget appropriations, please contact me at your convenience.

The table below summarizes the net impact of 2003/04 Final Budget allocations.

Campus	Change in General Fund	Change in Fee Revenue	Net Impact
Bakersfield	(\$1,438,200)	\$5,722,000	\$4,283,800
Channel Islands	(703,000)	2,063,000	1,360,000
Chico	(10,644,800)	9,674,000	(970,800)
Dominguez Hills	(3,433,800)	9,699,000	6,265,200
Fresno	(7,839,600)	13,545,000	5,705,400
Fullerton	(8,694,400)	22,929,000	14,234,600
Hayward	(6,397,300)	9,312,000	2,914,700
Humboldt	(6,101,600)	4,663,000	(1,438,600)
Long Beach	(13,093,300)	24,200,000	11,106,700
Los Angeles	(8,654,200)	14,257,000	5,602,800
Maritime Academy	(1,140,000)	335,000	(805,000)
Monterey Bay	(1,337,400)	2,967,000	1,629,600
Northridge	(4,147,400)	22,988,000	18,840,600
Pomona	(8,585,900)	13,016,000	4,430,100
Sacramento	(12,480,800)	18,451,000	5,970,200
San Bernardino	(3,278,700)	12,694,000	9,415,300
San Diego	(15,628,000)	21,737,000	6,109,000
San Francisco	(7,506,400)	19,925,000	12,418,600
San Jose	(10,999,600)	18,394,000	7,394,400
San Luis Obispo	(13,924,800)	11,404,000	(2,520,800)
San Marcos	(1,258,200)	6,165,000	4,906,800
Sonoma	(4,529,400)	5,243,000	713,600
Stanislaus	(3,310,500)	4,964,000	1,653,500
Campus Total	(\$155,127,300)	\$274,347,000	\$119,219,700
Chancellor's Office	(2,778,899)	761,000	(2,017,899)
International Programs	(398,701)	436,000	37,299
Summer Arts	(17,100)	16,000	(1,100)
Systemwide Provisions	(29,937,000)	0	(29,937,000)
CSU Total	(\$188,259,000)	\$275,560,000	\$87,301,000

Changes in campus General Fund support includes the permanent adjustment of \$19.5 million for the one-percent campus enrollment growth authorized and the one-time addition of \$9.4 million to assist changes in enrollment targets. Change in Revenue reflects the State University Fee projected increases that correspond to these General Fund adjustments.

Final Budget adjustments are presented in seven attachments accompanying this memorandum:

Attachment A	2003/04 Gross Budget Summary
Attachment B	2003/04 General Fund Adjustments
Attachment C	2003/04 Budget Reduction Details
Attachment D	2003/04 State University Fee Adjustments
Attachment E	2003/04 Enrollment Funding and FTES Targets
Attachment F	2003/04 State University Grant Allocations 2003/04
Attachment G	2003/04 Legislative Mandates, Directives and Intent Language

Attachment A: Summary of 2003/04 Budget Allocations – General Fund

Attachment A summarizes the General Fund and State University Fee revenue adjustments that will be made to campus 2002/03 FIRMS budget submissions. Campus may report back changes to State University Fee adjustment and changes in Other Fees and Reimbursements; however, these changes cannot change the General Fund allocation that has been provided. Campus reported fees and reimbursements and the General Fund appropriation identified in B 03-04 will comprise the Final Budget appropriation reported publicly for the 2003/04 fiscal year. Campus FIRMS submissions due August 15th should also include changes in support from other State-reported fund sources (Lottery, CERF, Parking, etc.), which will also be reported as the Final Budget appropriation for fiscal year 2003/04.

State University Grants (Attachment F) The State University Grant adjustment reflects net impact of both the set-aside and redistribution of State University Fee revenue associated with fee rate increases and the marginal cost set-aside associated with enrollment growth. State University Grant allocations are based on a 100% distribution of the \$191.1 million 2003/ 04 SUG pool, which includes the 2002/ 03 initial SUG appropriation of \$105,035,000, plus one-third of the anticipated revenue increases for the annualized amount of the 2002/03 and 2003/04 fee increases, and a portion of the revenues generated for budgeted enrollment growth.

Final Budget SUG allocations are based on the 2002/ 03 database of financial aid expenditures and 2003/04 enrollments targets. Attachment G provides a detailed display of the SUG allocations. Campus FIRMS submissions must match the 2003/04 State University Grant Total Allocation shown on Attachment F. Questions concerning the methodology or information in this attachment should be directed to Mary Robinson, (562) 951- 4737.

Attachment B: 2003/04 General Fund Budget Adjustments

Attachment B identifies General Fund changes only. Although the 2% enrollment funding included in the Governor's Budget appears as a revenue increase, a reduction equivalent to the campus allocation of these funds has been included in the Unallocated and Program Budget Reductions total. The \$15 million unallocated reduction included in the Final Budget has been reduced from the \$105.9 million enrollment allocation included in the Governor's Budget for 5% enrollment growth. This reduction left \$90.9 million as the State share of marginal cost funding for enrollment growth in 2003/04, which translates to 13,782 or a 4.3% increase over the 321,132 FTES enrollment target funded in 2002/03.

The General Fund increase for New Space only reflects funding that could not be accommodated from campus fee revenue increases. Total New Space funding for the fiscal year is \$6.3 million, of which \$5.2 million has been funded with revenue from enrollment growth. The distribution by campus is displayed in the box on the right.

Attachment C: 2003/04 Budget Reduction Details

The Governor’s Budget specified \$183.3 million in program reductions and \$142.8 million in unallocated budget cuts to achieve an overall reduction of \$326.1 million in General Fund costs. The Governor’s Budget assumed the unallocated cuts on CSU programs would be offset by \$142 million in revenue from fee increases implemented in 2002/03 and assumed for 2003/04.

The Final Budget increased the unallocated reduction by \$69.5 million. The Board of Trustees approved the budget recommendation to address this additional reduction by eliminating \$45 million allocated to campuses for 2% enrollment growth funded in the Governor’s Budget and by adopting a 30% increase in undergraduate and graduate fees (5% and 10% above the Governor’s Budget assumption for undergraduate and graduate fee rate increases, respectively) to yield an additional \$25 million in fee revenue after providing for financial aid. The Final Budget also restored \$1,151,000 million cut from the Center for California Studies Fellows program.

Coded memorandum B 03-02 explains the methodology used to prorate the \$53.2 million Student Services reduction, \$58.1 million Academic and Institutional Support reductions, and the \$142.7 million unallocated reductions included in the Governor’s Budget based on 2002/03 General Fund budget allocations. The methodology used for assessing the remaining reductions are also explained in B 03-02 and are repeated below.

Increase in the Student Faculty Ratio The allocation of reductions for increasing the student faculty ratio is based on the \$7,813 marginal cost funding per FTES calculated for the 2003/04 budget process. The faculty salary and benefits share of that total equals \$3,026 per FTES. Campus FTES targets for 2002/03 were divided by 18.9 to calculate faculty required to teach budgeted enrollment targets. Since the Governor’s Budget proposes that CSU faculty teach one additional FTES, the calculated faculty requirement for each campus is multiplied by \$3,026 to determine the presumed marginal cost savings for the State, and therefore additional costs for the campus. This methodology follows the methodology used by the Department of Finance to determine the reduction associated with the student faculty ratio increase.

Reduction in Funding for Outreach The Governor’s Budget for 2003/04 includes a \$12.6 million reduction in CSU’s outreach programs. To achieve this reduction, CSU has

	New Space @ \$7.20/sq.ft.
Bakersfield	\$165,900
Channel Islands	388,400
Chico	24,000
Dominguez Hills	127,900
Fresno	3,200
Fullerton	234,100
Hayward	133,400
Humboldt	
Long Beach	
Los Angeles	
Maritime Academy	
Monterey Bay	571,700
Northridge	496,200
Pomona	129,600
Sacramento	51,900
San Bernardino	359,800
San Diego	85,400
San Francisco	832,900
San Jose	2,338,100
San Luis Obispo	375,200
San Marcos	
Sonoma	5,500
Stanislaus	
Campus Total	\$6,323,200

eliminated funding that has supported the College Readiness Program (\$290,808), Educational Opportunity Program Outreach (\$2,000,000), the Collaborative Academic Preparation Initiative (\$9 million), and the Precollegiate Academic Preparation Program (\$5.3 million). These program reductions total \$16,590,808. Since this amount exceeds the Governor's Budget program reductions by \$3,994,808, CSU will use this net amount to fund the maintenance costs for the Diagnostic Writing Service and to fund a new program called the Early Assessment Academic Preparation Program.

The \$2 million campus reductions for EOP outreach is at the level provided in coded memorandum B 99-03. The reduction in campus College Readiness Program funding is based on reallocation of the program to campuses in 1991/92 (see coded memorandum BP 91-50).

The proposed budget reduction in student services for CSU campuses, coupled with a reduction and an elimination of several existing outreach efforts, compel the CSU to seek alternative methods of meeting the needs of those students who are not on track to be eligible for the CSU and those students who are not fully prepared to demonstrate proficiency in English and mathematics prior to enrollment at CSU. While the College Readiness Program (CRP), Educational Opportunity Program Outreach (EOP Outreach), Collaborative Academic Preparation Initiative (CAPI) and Precollegiate Academic Preparation Program (PAD) programs will no longer exist as they have been administered, the services they offer will continue to be provided but in an even more comprehensive, focused, and targeted manner.

The experiences learned from these four programs have been sharpened into a new level of services that retain their key elements: (1) outreach to identify students who would benefit from college preparatory courses and activities currently provided in the EOP Outreach program, (2) activities to increase the enrollment of high school students in mathematics provided in the CRP program, (3) teacher professional development activities in teaching critical reading and reading comprehension skills, and (4) tutorial services to high school students. The Early Assessment Academic Preparation Program will continue to provide the valuable support for high school students to gain the appropriate academic preparation, including proficiency in English and mathematics prior to entry to CSU. Additional information about the Early Assessment Academic Preparation Program will be provided to campuses shortly.

Questions regarding the reductions for outreach should be directed to Allison Jones, (562) 951-4744

Attachment D: 2003/04 State University Fee Revenue Adjustments

Attachment D displays the fiscal year distribution of revenue projected from enrollment growth and State University Fee rate increases. Revenue from Summer 2004 has not been included in the calculations or allocations made in B 03-04; however, it is assumed that this revenue will be available to campuses to mitigate the impact of the 2003/04 Final Budget allocations. Campus 2004/05 budgets will be developed with the expectation that this revenue will remain available for campus use and to increase CSU financial aid.

The Chancellor has notified campus presidents that enrollment targets for 2003/04 will be strictly enforced. The penalty for over-enrollment will be an assessment based on increased fee revenue. Implementation of this policy may impact revenue assumptions used for 2004/05 budget development.

Attachment E: 2003/04 Enrollment Funding and FTES Targets

Attachment E shows the distribution of enrollment funding campuses have been allocated for 13,782 FTES growth in 2003/04. Enrollment growth is funded at the gross marginal cost rate of \$7,813 per FTES for all campuses less \$406 per FTES that has been set aside to increase the State University Grant pool. Attachment E shows the distribution of the fee revenue and General Fund portions of the remaining \$7,407 per FTES for enrollment related costs. These allocations have been made consistent with allocation methodologies used in prior enrollment funding allocations to campuses.

Attachment E also identifies enrollment funding that will be used to support new space scheduled to open in 2003/04 that could not be achieved from increased student fee revenue and one time funding that may be used to increase General Fund support for enrollment growth at campuses that are expected to receive a disproportionate share of marginal cost enrollment funding from fee revenue. This one time supplement is provided subject to analysis of the impact of budget cuts and fee rate increases on CSU enrollment patterns. Campuses may plan on the use of these funds for one time expenses in 2003/04 only. The return of these funds will be made as base budget adjustments in the budget allocation process for fiscal year 2004/05.

This memorandum and the accompanying attachments will be available at the Budget Office web site <http://www.calstate.edu/budget/>. Questions regarding the allocations made in this memorandum should be directed to me or to Budget Office analysts at (562) 951-4560.

ATTACHMENTS