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Memorandum

B 05-04

Response Due: August 16, 2005

To: Chief Fiscal Officers

From: Patrick Lenz, Assistant Vice Chancellor for Budget Development *Patrick J. Lenz*
Rodney Rideau, Budget Director *Rodney Rideau*

cc: Financial Officers, Budget Officers, Enrollment Managers,
Financial Aid Directors

Date: July 19, 2005

Subject: 2005/06 Final Budget Allocations

Attachments: A, B, C, D, and E

The following allocations are made for fiscal year 2005/06. The allocations in this memorandum are based on funding appropriated in the 2005 Budget Act, Chapter 38, enacted on July 11, 2005 and the budget plan adopted by the CSU Board of Trustees at their October 2004 meeting. Any questions concerning this allocation memorandum should be directed to Rodney Rideau, Budget Director, at (562) 951-4560.

The budget proposed by the Governor in January included a \$36.7 million adjustment in base budget appropriations the university received in 2004/05, a \$122.5 million increase in CSU General Fund support from the State, and a \$101.3 million increase in student fee revenue from enrollment growth, as well as State University Fee rate increases for undergraduate and teacher credential students (8%) and graduate students (10%). The budget signed by the Governor on July 11, 2005 increases the January budget proposal by \$7 million to restore base funding previously cut from CSU Outreach and Academic Preparation programs, and it increases CSU funding support by \$810 thousand to expand CSU match/science teacher preparation and nursing programs to address the shortfall of math/science teachers and skilled nurses in California.

The budget plan adopted by the Board of Trustees funds \$41.8 million in Mandatory Cost increases, \$63.7 million for 2.5% enrollment growth (8,103 FTES), \$23.3 million for financial aid



grants, \$88.1 million for employee compensation increases, and \$7.9 million for structural budget deficiencies in libraries, technology and deferred maintenance. The Board's budget plan also recognized a \$44.4 million increase for 2004/05 retirement cost increases and reduced funding for dental annuitants benefits (over \$600,000) to reflect lower cost projections for 2005-06.

Budget allocations for 2005/06 are presented as adjustments to campus FIRMS final budget submissions for 2004/05. Only two areas of budgeted revenues are affected by these allocations: General Fund allocations and State University Fee revenue. All other revenue and reimbursements remain the same as transmitted in the FIRMS budget submittal for 2004/05. Campuses have the discretion to adjust these revenue sources as well as the State University Fee revenue projection included in this memorandum. However, any change made by the campus in fee revenue and/or reimbursements for 2005/06 planning purposes will not change the General Fund allocation provided in this memorandum.

Attachment A provides a summary of changes made in the 2005/06 Final Budget allocations. The General Fund budget appropriated by the State for 2004/05 is increased to reflect \$44.4 million CSU received in Spring 2005 to cover increases in employer paid retirement contributions that went into effect July 1, 2004. It has also been adjusted to permanently allocate a \$3.455 million adjustment made in campus State University Grant budgets in coded memorandum B 04-06. The General Fund appropriation received in 2004/05 was reduced by \$608,000 to reflect the lower projected cost of annuitant dental premium payments in 2005/06 and adjusted to reflect General Fund need for lease revenue bond debt service payments for capital projects.

The Final Budget provides one-time funding in the amount of \$7 million for CSU academic preparation outreach activity. To reflect the one-time nature of the \$7 million, the final budget allocation memo reflects an unallocated reduction by campus (reference Attachment B) without reducing academic preparation and outreach programs and directs the one-time \$7 million into systemwide provisions to hold funds centrally. Allocations by campus that correlate with unallocated reduction amounts will be made on a one-time basis from systemwide provisions after final budget allocations. Note that CSU has committed to provide the same level of academic preparation and outreach support, including Educational Opportunity Program grant and operational support, as provided in the 2004/05 fiscal year. The 2005 Budget Act assumes campuses budgeted and expended a minimum of \$52 million for these activities in 2004/05 and will continue to do so in fiscal year 2005/06.

The total of these base budget changes equal \$43.8 million and are detailed on Attachment B.

Columns 7, 8 and 9 on Attachment A reflect General Fund and State University Fee revenue adjustments based on the Compact for Higher Education funding commitment and the 2005/06 budget plan approved by the Board of Trustees at their October 2004 meeting. General Fund budgets were increased to reflect a \$23.3 million increase in State University Grant funding for students with need, a \$99.2 million increase in State support for total CSU costs increases for enrollment growth, compensation, mandatory obligations, and long-term structural need identified in the CSU budget plan. Estimated revenue from enrollment growth and State University Fee rate increases (\$101.3 million) has been used to support the total cost identified in the \$224.8 million



CSU budget plan. CSU used \$1 million from existing systemwide resources to fully fund 2005/06 budget plan requirements. The detail of these budget plan increases are reflected on Attachment C and represent the budget plan identified on page 9 of the CSU 2005/06 Support Budget Documentation book.

Attachment C shows allocations based on the following calculations. Mandatory cost increases for health are based on a 9.7% increase in premium rates effective January 2005. CSU will absorb the one-time cost associated with these rate increases in the 2004/05 fiscal year (approximately \$9.75 million). Increases for dental premium rate increases are based on a 5% increase in Delta Dental monthly premium rates and a 4% increase in PMI DeltaCare premium rates effective January 2005. Campus allocations are based on their actual percentage share of health and dental premium costs expended in 2003/04. New Space mandatory cost increases are funded at a rate of \$8.42 per square foot for new space or space renovations completed or coming on-line in the 2005/06 fiscal year. The budget plan also funds the cost increase in premium rates for workers' compensation, property, liability, disability and unemployment insurance between 2003/04 and 2004/05. Changes in rates for the 2005/06 fiscal year will not be known until October 2005, but CSU expects rates will grow less than previous years as a result of recently enacted workers' compensation legislation and improved risk management procedures at campuses. The allocation to subsidize campus insurance premium costs is based on actual property insurance costs for 2004/05 and pro-rated workers' compensation costs that reflect campuses' ability to reduce risk. CSU allocated \$4 million for energy cost increases based on campuses' pro-rated share of total custodial square footage.

Enrollment Growth is based on a 2.5% increase over 2004/05 funded targets, except for the campuses participating in the growth allocation methodology established for CSU San Diego. The increase in FTES enrollment for 2005/06 is shown in column 6 of Attachment C. Enrollment is funded at \$7,868 per full-time equivalent student (FTES), which represents the \$8,401 per FTES gross marginal cost calculation for growth less a one-fourth set-aside of marginal cost student fee revenue (\$533 per FTES) for the State University Grant (SUG) program. Campuses' base General Fund budgets are reduced to redirect the fee-related SUG set-aside to the systemwide SUG pool and an equivalent amount from the projected increase in State University Fee revenue is used to restore the campuses' expenditure base. A similar adjustment to campuses' base General Fund budgets is made to direct one-fourth of the revenue increase from State University Fee rate increases to the systemwide SUG pool. In total, the systemwide SUG pool has been increased by \$23.3 million in the CSU budget plan and those funds are allocated to campuses based on changes in enrollment and their proportional share of total SUG need. Campuses should make financial aid decisions based on their total SUG budget allocation shown on Attachment E. Questions concerning SUG allocations may be directed to Ms. Mary Robinson at (562) 951-4737.

Compensation allocations to campuses are based on their proportional share of total General Fund salary and wage expenditures in 2003/04. The allocation will support the cost of negotiated compensation increases based on a 3.5% increase in the compensation pool for represented and non-represented employees. The actual increase in compensation and benefits for represented employees will be negotiated through systemwide collective bargaining.



An allocation has also been made to help campuses address deferred maintenance backlogs. The allocation of \$1.4 million is based on campuses' proportional share of total custodial square footage (not including off-campus centers) with the expectation that the maintenance backlog or costs associated with instructionally related space would receive the highest campus priority. Campus presidents will determine the best use of this allocation in combination with all other campus budget priorities.

Attachment D shows the calculation of the 2005/06 State University Fee revenue increase used to fund the increase in the board approved budget plan. Revenue from fee rate increases for existing enrollment is based on an 8% increase in the State University Fee rate for undergraduates and students seeking teaching credentials, and a 10% increase in the state University Fee rate for graduate and other postbaccalaureate students. The calculation is based on the 2003/04 actual distribution of enrollment by student classification for each campus. The revenue projection for enrollment growth is based on the same distribution of students at the increased fee rates approved by the CSU Board of Trustees at their October 2004 meeting and included in the Governor's Budget proposal to the legislature. The calculation also reflects changes in actual waivers funded for the State-mandated Cal Veteran, Alan Pattee, and Dependents of 9/11 fee waiver programs. Campuses may adjust the CSU revenue estimates to reflect other changes occurring at the campuses for planning purposes, but such changes will not change the General Fund allocation for 2005/06 shown on Attachment A.