

## Office of the Chancellor, Budget Office

401 Golden Shore, 5th Floor, Long Beach, CA 90802-4210  
 (562) 951-4560 / FAX (562) 951-4971



# Memorandum

# B 06-02

**To:** Chief Fiscal Officers

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

**cc:** Presidents, Chief Administrative Business Officers, Financial Officers, Budget Officers, Enrollment Managers, Financial Aid Directors

**Date:** July 24, 2006

**Subject:** 2006/07 Final Budget Allocations

**Attachments:** Visit <http://www.calstate.edu/budget/> Fiscal Year 2006/07 to view this allocation memorandum and related spreadsheets

The following allocations are made for the 2006/07 fiscal year. The allocations in this memorandum are based on funding appropriations enacted in AB 1801 and AB 1811, Chapters 47 and 48 respectively, which together comprise the Budget Act of 2006 signed by the Governor on June 30, 2006. Any questions concerning this allocation memorandum should be directed to Rodney Rideau, Budget Director, at (562) 951-4560.

A summary of major new budget funding support is listed below:

- Compact General Fund Support (3% increase) \$75,815,000
- Fee Rate Increase Buy-out \$54,386,000  
*(based on 8% undergraduate and 10% graduate rate increase)*
- Enrollment Growth Funding at \$7,225 per FTES \$61,340,000  
*(based on graduate FTES = 12 units per term)*
- Math/Science and Nursing Initiatives \$3,486,000  
*(includes one-time and permanent budget appropriations)*
- Permanent Funding for CSU Outreach/Center for CA Studies \$7,100,000
- Revenue From Enrollment Growth \$23,183,000



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Appropriations received in the 2006 Budget Act have been allocated in accordance with CSU budget policies. Expenditure allocations have been made in accordance with the budget plan for 2006/07 approved by the Board of Trustees in October 2005. A summary of budget plan allocations based on General Fund appropriations and projected student fee revenue increase follows.

<b>Base Budget General Fund Adjustments</b>	(\$28,337,000)
<i>(Retirement, Enrollment, Bond and Fee Interest Payments, Annuitant's Dental, and Campus Programs)</i>	
<b>CSU State University Grant Program</b>	\$6,402,000
<b>Mandatory Costs</b>	\$33,629,000
<i>(Health Benefits, Insurance, New Space, Energy)</i>	
<b>Resident Student Enrollment Growth (8,490 FTES)</b>	\$70,008,000
<b>MSN Nursing Enrollment Growth (443 FTES)</b>	\$2,830,000
<b>Employee Compensation</b>	\$93,954,000
<b>State-supported Math-Science and Nursing Initiatives</b>	\$3,486,000
<b>Long-Term Need</b>	\$10,000,000
<i>(Libraries, Technology, Deferred Maintenance)</i>	
<b>CSU Academic Preparation and Outreach</b>	\$7,000,000
<b>Center for California Studies Fellows Program</b>	\$184,000

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## Description of 2006/07 Support Budget Adjustments

### Base Budget Adjustments

Base budget adjustments are changes required to address modifications to the Final Budget allocation campuses received for the 2005/06 fiscal year. Please reference B 05-04 to view the 2005/06 Final Budget General Fund allocation.

**Retirement Adjustment.** The Final Budget allocation to CSU totaled \$2,615,120,000 in the 2005/06 Final Budget. That allocation was adjusted in February 2006 to reduce the General Fund allocation by \$22,490,000 to reflect the reduced cost of employer-paid contributions to CALPERS for employee retirement. The adjustment by campus is based on budgeted General Fund salaries in the 2005/06 campus FIRMS Final Budget submissions received in August 2005.

**Base Enrollment Adjustment, MSN Nursing, and Lease Bond Payments.** Campuses requesting a permanent change in their base enrollment targets for the 2006/07 academic year reduced their base General Fund budgets by an amount equivalent to the per student budget allocation received in the 2005/06 fiscal year. These adjustments were made at the request of campus presidents and approval of the Chancellor.

CSU received permanent appropriation of \$1,720,000 provided in 2005/06 as one-time start-up funding to increase MSN graduate nursing enrollments. These funds were added to a \$560,000 permanent appropriation received in the 2005/06 Final Budget. Total nursing support funding of \$2,280,000 has been used, in part, to increase MSN nursing enrollment by 280 FTES within the 8,490 FTES growth target budgeted for 2006/07 at \$2,000 per FTES above marginal cost. The remainder of the funds has been used to add 163 FTES above the 8,490 FTES growth target at the full graduate nursing State marginal cost rate of \$13,321 per FTES. It has been projected campuses will receive an additional \$550,000 in fee revenue associated with the 163 FTES. The graduate MSN nursing budget allocation is shown on Attachment D.

CSU received a \$2,929,000 General Fund increase to support debt service cost of its capital outlay lease-purchase bond program. The State funds debt-service for all state-approved CSU lease-purchase capital construction projects.

**Auxiliary Auditor and Whistleblower Investigator Services.** Campus General Fund budgets have been reduced to fund permanent charge-backs for Auxiliary Auditor and Whistleblower Investigator services provided by the Chancellor's Office. The charge-backs were prorated for each campus based on its percentage share of total the \$2,615,120,000 General Fund allocation made in the 2005/06 Final Budget. The Trustee Auditor and the Vice Chancellor for Human Resources calculated the total cost requirement for these services.

**Managing Student Fee Income in Local Trusts.** The Final Budget includes an accounting adjustment that will authorize CSU to deposit and manage student fee revenue in local trust accounts. This adjustment was approved by the State to improve budget and accounting processes at the university. In accepting the fee revenue trust authority, CSU agreed to keep the fund shift revenue neutral to the State – which requires an annual payment to the state for lost interest

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income. CSU will calculate the interest cost annually, and incremental changes to fund the interest payment to the state will be made as campus base budget adjustments. The interest payment calculated for the 2006/07 fiscal year is \$5 million and it has been prorated by campus based on the percentage share of student fee revenue budgeted in campus-reported FIRMS 2005/06 Final Budget submissions.

***Other Base Budget Adjustments.*** In addition to these campus adjustments, the 2005/06 Final Budget appropriation to CSU was reduced by \$7 million to remove one-time funds provided for CSU outreach programs. CSU requested and received restoration of these funds on a permanent basis. The \$7 million has been allocated to campuses based on the reductions identified in coded memorandum B 05-06, the 2005/06 Final Budget Allocations, Attachment B. The CSU base budget has also been increased to reflect funding received for increases in annuitants' dental benefit payments. Additionally, base budget adjustments have been made to transfer administration of the California Articulation Number program from the Sacramento campus to the Chancellor's Office and to increase budget support for the Center for California Studies. Funds have also been permanently transferred to the Chancellor's Office to support costs for central Academic Affairs support services.

### **2006/07 Budget Plan Expenditure Increases**

Expenditure increases for the 2006/07 fiscal year reflect an increase of \$225,310,000 in new revenue appropriated by the state and collected in State University Fee income. The General Fund increase, \$202,127,000, includes \$54.4 million to buy down fee rate increases for all students, \$61.3 million to fund 2.5% enrollment growth at the rate of \$7,225 per FTES, \$75.8 million to support a 3% increase in general operations costs, \$2.4 million to expand CSU nursing programs, \$1.1 million to expand the CSU Math/Science Teacher Recruitment Initiative, \$100,000 for the Center for California Studies, and \$7 million to permanently restore State outreach funding for CSU academic preparation deleted in fiscal year 2004/05.

Additionally, State University Fee income is projected to increase by \$23.2 million as a result of the 2.5% enrollment growth and MSN nursing enrollment funded for the fiscal year. The student fee revenue projection is lower than the Governor's Budget estimate of \$26 million due to changes in campus enrollment patterns base enrollment adjustments at several campuses. In calculating revenue increases for the 2006/07 fiscal year, CSU did not to adjust campus headcount numbers in the revenue calculation process based on the change in graduate unit load FTES. Budget allocation decisions for the campus allocation process in 2006/07 are in transition and will be reviewed following an analysis of data reported for fiscal year 2006/07.

### ***Mandatory Costs***

Mandatory costs are expenditure obligations the university must pay whether or not funding is received from the State or student fee income. Mandatory cost obligations identified in the CSU budget plan for 2006/07 include increases in employer-paid health benefits premium costs, service-based salary increases negotiated through collective bargaining, energy cost increases, and funding required to open and maintain new and/or renovated facility space.

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**Health Benefits.** The CSU Support Budget Documentation book (available for viewing on-line at [http://www.calstate.edu/budget/2006\\_07BudIndex/supportbdgt\\_book2/index.shtml](http://www.calstate.edu/budget/2006_07BudIndex/supportbdgt_book2/index.shtml)) discusses changes in Government Code health care contribution rates that have increased CSU costs. Campus expenditure increases to cover incremental costs have been prorated on the basis of their percentage share of reported 2004/05 General Fund health benefits expenditures.

**Service-based Salary Increases.** Most of the \$4 million cost increase allocated for 2006/07 employee service-based salary increases (SSIs) results from SSIs included in the CSU Employee Union (CSUEU) 2005/06 bargaining agreement (\$3.9 million). SSI allocations have been made on the basis of campus employees in the affected bargaining units.

**Energy Costs.** The current estimate of utilities (electricity, natural gas, water/sewer) cost increases for 2006/07 is \$8.5 million. The CSU budget plan currently provides \$4.3 million to assist campuses with half of the projected increase. The budget plan increase has been allocated to campuses on their proportional share of custodial square footage (SQF4) included in the 2005/06 Capital Planning Design and Construction facility database for main campus and off-campus sites.

**New Space.** The new marginal cost of instruction funding rate approved in the Final Budget includes a component for operations and maintenance of the physical plant. This component was added to address previously unrecognized cost associated with the opening of new facility space designed to maintain existing enrollment levels and accommodate growth. Before this marginal cost change, CSU dedicated a portion of budget year revenue associated with the cost of general operations to this mandatory cost obligation. With the recognition of this cost in the marginal cost methodology, the budget allocation for new space identifies the distribution of marginal cost revenue and the supplemental need for general operating support from Compact resources to fund the budget plan cost increase of \$6,548,000. The marginal cost rate used to fund New Space is \$489 per FTES (\$404 in General Fund support and \$85 in fee revenue support), which has been combined with Compact resources to fund new space at campuses with budget year need at \$8.42 per square foot. Campuses facilities with New Space need are identified on pages 15 and 16 of the CSU 2006/07 Support Budget Documentation book.

### **Enrollment Funding**

The Board of Trustees budget request was based on 2.5 percent FTES enrollment growth above the 2005/06 budgeted target of 332,223 FTES. This was an 8,306 FTES increase for the budget year that assumed a full-time equivalent graduate student unit load of 15 units per term (for initial campus enrollment planning, the increase was assumed to be 8,337 FTES). The budget request was also based on the current marginal cost methodology approved in 1996/97 (which CSU modified to include the actual new hire salary rate for faculty) that assumes a student fee share of cost based on the percentage share of State University Fee revenue to total General Fund-supported operations.

The Final Budget includes several changes in the original Board-approved budget assumptions.

1. The graduate unit load for a full-time equivalent student was changed, as requested by CSU, to 12 units per term. This resulted in a revised enrollment growth expectation of
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8,490 FTES once the graduate unit loads for base enrollments and planned growth were rebenchmarked from 15 units.

2. The Final Budget marginal cost rate is based on a legislative-approved methodology that incorporates the average new hire faculty cost of CSU instruction-related programs and recognizes resident student fee income used for CSU support budget expenditures. The Governor vetoed this methodology in signing the budget, but sustained the State marginal cost rate enacted by the legislature.
3. A Plant Operations component was specifically included in the enrollment funding methodology to recognize the cost of opening new space to maintain existing enrollment levels and accommodate enrollment growth.

The Final Budget provides a State General Fund rate of \$7,225 per FTES for enrollment growth in 2006/07. The Final Budget also assumes \$2,264 in student fee income per FTES, which is based on student State University Fee income.

For the 2006/07 transitional year, the budget allocation process adapts the Final Budget funding rate to resemble the CSU enrollment funding methodology that has been used for the past ten years. As shown on the following table, actual funding for enrollment growth will continue to be based on one-rate FTES funding that combines both graduate and undergraduate student classifications, the most recently-reported new hire faculty salary cost, an 18.9 Student Faculty Ratio, and instruction-related program areas including plant maintenance. The methodology also uses only State University Fee income in the gross funding allocation.

<b>2006/07 Marginal Cost Funding</b>	<b>Rate</b>
Faculty Salary	\$3,232
Faculty Benefits	1,188
Teaching Assistants	17
Instructional Support	765
<b>Gross Average Cost Funding For Instruction Program</b>	<b>\$5,202</b>
Instructional Equipment	129
Academic Support	1,264
Student Services	1,009
Institutional Support	965
Plant Operations and Maintenance	920
<b>Total Enrollment Funding</b>	<b>\$9,489</b>
Less: Fee Revenue	(2,264)
<b>2006/07 State General Fund Support</b>	<b>\$7,225</b>



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Enrollment funding has been provided on Attachment D for 2006/07 FTES growth of 2.5 percent over 2005/06 funded targets, supplemental appropriations CSU received to expand enrollment in Master's of Nursing Science graduate programs, and the recruitment and training of new Math/Science teacher credential candidates.

**Compact Enrollment Growth.** Campus 2006/07 enrollment targets were established in consultation with campus presidents. Campus enrollment growth of 8,319 FTES is funded at a General Fund cost of \$6,821 per FTES for all enrollment growth, undergraduate, graduate and postbaccalaureate (\$7,225 - \$404 used for New Space funding).

The Compact enrollment allocation also assumes \$2,264 per FTES will be collected in student fee revenue, which reflects the average State University Fee revenue per FTES budgeted for 2005/06. CSU fee policy calls for one-third of the marginal cost revenue, \$754 per FTES, to be set-aside for the CSU State University Grant financial aid program.

The remaining \$1,510 of marginal cost fee revenue ( $\$2,264 - \$754 = \$1,510$ ) has been allocated for instructional-related enrollment growth costs and new space. The program areas of Instruction, Academic Support, Student Services, Institutional Support, and Operations and Maintenance of Plant as well as programmatic cost related to instructional equipment and teaching assistants are all considered components of CSU enrollment growth funding.

**2007/08 FTES Advance.** The 2,000 FTES that have been advanced against 2007/08 planned resident student growth to address demand at eight campuses is detailed in column 13 of Attachment E. This enrollment advance above budgeted targets will be funded on a one-time basis at the General Fund rate of \$6,340 per FTES. Campuses will receive this funding in a separate allocation order in 2006/07 and will have **one-time** discretionary use in 2006/07 of all State University Fee revenue associated with the enrollment advance. In 2007/08, if achieved, the 2,000 FTES enrollment advance will be permanently funded at the marginal cost rate established for the 2007/08 fiscal year. State University Fee revenue associated with permanent enrollment allocation of the 2,000 FTES advance in 2007/08 will be used in the budget allocation process in accordance with CSU enrollment funding policies (which means a portion of the revenue will be used for State University Grants and New Space funding requirements).

**MSN Graduate Nursing Program.** The 2005/06 Final Budget included \$2.3 million to grow CSU entry-level Master's nursing programs by 410 resident FTES. Of this total increase, 280 FTES were to be included in the 2.5 percent Compact enrollment growth target for 2006/07. CSU received a marginal cost funding supplement of \$2,000 over the 2005/06 State share of marginal cost funding for each of these 280 FTES to recognize the higher cost differential of the graduate nursing program. To expand enrollments in these programs above planned growth targets by 130 FTES (which was rebenchmarked in the 2006/07 budget process to 163 FTES), the state provided \$13,231 per FTES in accordance with the provisions of SB 73, that advanced graduate nursing program support at CSU to levels of support provided at the University of California. Master's level program instruction and training are identical in the two systems.

Nine campuses that presented proposals to expand graduate nursing instruction received funding for one-time program costs in 2005/06. This funding has been permanently allocated in the

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2006/07 budget process as General Fund increases based on the FTES funding rates identified above. Additionally, \$550,000 in fee revenue associated with the 130 FTES (rebenched to 163 FTES) enrollment growth above the 2.5 percent targets has been allocated for MSN program expenditures at those nine campuses.

***Budget and College Year Reporting.*** For budget and college year enrollment reporting purposes, campuses should be principally concerned with meeting their 2006/07 resident FTES target, as shown in column 20 of Attachment E. The resident student target was determined by subtracting nonresident tuition paying students (columns 16 and 17 of Attachment E) from the total FTES allocation shown in column 15 of Attachment E. Questions concerning 2006/07 enrollment rebenching and resident student targets should be directed to Marsha Hirano-Nakanishi at (562) 951-4767.

### **State University Grant Allocations**

State University Grant (SUG) allocations for 2006/07 are shown on Attachment F. Allocations are based on the actual distribution of the most financially needy students (those with Expected Family Contributions (EFCs) of \$4,000 and lower) and the funds required to cover payment of their State University Fee after allowances for fee waivers and Cal Grant fee awards. While the allocation methodology concentrates on the most needy students and coverage of only the State University Fee, systemwide policy and campus awarding practices recognize a broader population of SUG-eligible students and the potential for awarding individual students amounts up to \$3,600 per academic year for full-time enrollment. The distributions have been adjusted to reflect the student fee levels provided in the Final Budget for 2006/07 and adjustments have been made for 2006/07 enrollment targets.

Questions concerning SUG allocations should be directed to Mary Robinson at (562) 951-4737.

***Math/Science Teacher Initiative.*** CSU received \$1,115,000 to augment \$250,000 received in 2005/06 for program development and administration of CSU mathematics and science credential programs to recruit and train between 150 and 200 added credential candidates in 2006/07. Of the amount allocated for 2006/07 Compact enrollment growth, \$1.28 million will be used to support the mathematics and science program expansion effort. The new funds allocated will be held in the central office until campus participants have been identified.

***Nursing Initiative.*** CSU received \$2,000,000 in one-time funds for start-up costs associated with expansion of nursing programs with the specific intent that CSU grow undergraduate nursing enrollments by 340 FTES above 2006/07 enrollments in fiscal year 2007/08. CSU also received \$371,000 to support an additional 35 FTES in baccalaureate degree nursing programs in 2006/07. This funding provides \$10,588 per FTES in State support to reflect the higher costs of instruction for undergraduate nursing students.

### **Other Expenditures**

The budget plan for 2006/07 includes expenditure increases for employee compensation, deferred maintenance, outreach, libraries and technology.

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**Compensation.** The budget plan provides \$77,403,000 to fund a 3 percent compensation pool to increase employee base salaries and salary-related benefits. Represented employees negotiate compensation increases through collective bargaining, and a compensation pool for each of CSU's eleven represented employee groups has been established from the available pool of budget plan funds. Compensation increase dollars are allocated to campuses on the basis of their percentage share of the most recent past year total General Fund salary costs. Campuses fund all salary – related increases that are negotiated in the collective bargaining process. For non-represented employees, a general compensation pool of 3 percent is provided for budget year base salary and salary-related increases.

In addition to the 3 percent general base compensation increase of \$77,403,000, the 2006/07 Final Budget allocation includes a 0.64 percent supplemental compensation increase of \$16,551,000 to fund the first year of a five-year CSU strategic budget plan to address faculty and staff salary lags. The supplemental compensation increase has been allocated by campus by Collective Bargaining ID (CBID) based on first-year salary lag funding allocated in 2006/07 and the campus percentage share of past year General Fund CBID salary expenditures. Because actual compensation increases are determined by individual collective bargaining agreements negotiated with represented employees and Chancellor or Board of Trustees approval for non-represented employees, additional incremental compensation costs resulting from CBID agreements that exceed the final budget salary lag year-one allocations must be funded from campus resources.

Campuses are advised that the collective bargaining agreement with Unit R08, Public Safety, requires retroactive pay for 2005/06 that exceeds the 2005/06 Final Budget compensation allocation and additional costs in 2006/07 that increase the salary lag funding supplement by 3 percent. Campuses are required to cover these differences, approved by the Board of Trustees in July, that increase the funded unit R08 compensation increase for 2005/06 by 2.4 percent (an additional \$403,200 systemwide) and for 2006/07 by \$549,000 systemwide. Similar negotiations for Unit R01, Physicians, would increase 2006/07 salary lag costs by \$111,000 systemwide; however, campuses would be expected to recover this cost in subsequent fiscal year allocations.

**Outreach.** In fiscal year 2004/05, the State reduced CSU permanent General Fund support by \$7 million to reduce State funding for CSU academic preparation outreach activities. CSU suspended implementation of the reduction while it sought to have the outreach funding permanently restored in its base budget. To maintain current levels of academic preparation outreach funding, campus budgets were reduced in an amount equivalent to the \$7 million reduction based on their pro-rata share of General Fund appropriations (*see Budget Office coded memorandum B 05-04, Attachment B*). The Final Budget allocation restores the campus reductions in the amounts taken in the 2005/06 budget allocation process.

**Deferred Maintenance.** The backlog of deferred maintenance within CSU far exceeds funds available in the budget plan to address campuses' need. The allocation of \$2.5 million in funds provided by the budget plan has been made on the basis of campuses' percentage share of total custodial square footage (SQF4), the same allocation methodology used for energy cost funding.

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***Libraries and Technology.*** In 2005/06, CSU began the process of acquiring system electronic resources that faculty and students need to stay current with research in scientific and technology fields. The allocation of \$7.5 million in 2006/07 will expand this process to acquire additional system electronic information resources. Of this amount \$2.5 million will be used to expand the CSU electronic core library collection. Additionally, \$5 million will be used to complete the \$22 million CSU Infrastructure Terminal Resources Project, which focuses on building out the technology infrastructure (including media, pathways, spaces, and equipment) on campuses to bring all campuses up to a minimum baseline of technology infrastructure.

### **Fee Revenue**

The 2006/07 Final Budget allocation utilizes \$23.2 million in revenue associated with enrollment growth to address expenditure need. This amount is \$4.3 million less than the \$27.5 million included in the budget plan approved by the Board of Trustees at their October 2005 meeting. \$1.5 million of this reduction in revenue is associated with the buy-out of the student fee increases included in the Board-approved budget plan. The remaining \$2.8 million revenue loss is associated with adjustments that were made to address the revenue loss associated with missing the 2004/05 college year enrollment target, reduce 2006/07 base enrollment targets, and prorate aggregate CSU FTES growth by campus using the most recent past year enrollment FTES and Headcount distribution patterns.

The Final Budget allocation does not cover the revenue loss for campuses that missed their 2004/05 FTES targets or for campuses that suspended state-support Summer 2004 operations. Campuses were advised that revenue loss associated with these actions could not be recovered from system resources. It is expected campuses made decisions in the 2004/05 and 2005/06 fiscal years to address these losses, and the revenue base for each campus was adjusted prior to making revenue growth projections based on 2006/07 enrollment targets. Because several campuses suspended Summer 2004 state-supported instructional programs, the enrollment patterns for the Summer 2005 term were used to project 2006/07 summer enrollment levels. The academic year distribution of students is based on the most recent past year distribution pattern for 2004/05. However, even with these modifications, the general principle of using the most recently available enrollment distribution patterns to project headcount and revenue has been preserved and revenue growth for 2006/07 is consistent with revenue expectations for similar levels of growth in previous years. Questions concerning campus revenue projections should be directed to Rodney Rideau at (562) 951-4560.