

To: CSU Chief Fiscal Officers **B 07-01**

From: Patrick Lenz, Assistant Vice Chancellor of the Budget *Patrick J. Lenz*
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Copy: CSU Financial Officers, Budget Officers, Enrollment Managers, Financial Aid Directors

Date: March 13, 2007

Subject: 2007/08 Governor's Budget Allocations

Attachments: B 07-01 Governor's Budget Allocation Attachments A through F

The preliminary 2007/08 CSU budget allocations are provided in this memorandum and attachments for planning purposes. These allocations are based on funding proposed in the Governor's January 2007 budget to the Legislature and the budget plan adopted by the CSU Board of Trustees at their November 2006 meeting. Any questions concerning this allocation memorandum should be directed to the system Budget Office at (562) 951-4560.

The major new budget funding support proposed by the Governor in January includes:

❖ Compact General Fund Support (4% increase)	\$108.7 million
❖ Enrollment Growth Funding at \$7,837 per FTES	\$65.5 million
❖ Revenue from Fee Rate Increase	\$95.9 million
❖ Revenue from Enrollment Growth Funding	\$25.2 million
❖ Science and Math Teacher Initiative	\$2.0 million

The budget plan approved by the Board of Trustees funds the following expenditure increases:

❖ Mandatory Costs (<i>health benefits, new space-compact funded, energy, SSI</i>)	\$44.9 million
❖ Resident Student Enrollment Growth (8,355 FTES)	\$74.4 million
❖ CSU State University Grant Program	\$37.6 million
❖ Employee Compensation	\$129.1 million
❖ Long-Term Need / Math-Science Initiative	\$11.7 million

Following are summary explanations of 2007/08 budget plan funding and expenditures included in Attachments A through F.

Attachment A – 2007/08 Allocation Gross Budget Summary

Governor’s budget allocations for 2007/08 are presented as adjustments to campus final budget FIRMS budget submissions for 2006/07. Only two areas of budgeted revenues are affected by these allocations: General Fund and State University Fee revenue. All other revenues remain the same as transmitted in the campus FIRMS budget submittal for 2006/07. 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 for 2007/08 planning purposes will not change the General Fund allocation provided in this memorandum.

Attachment B – 2007/08 Allocation Base Budget Adjustments

Base budget adjustments are changes required to address modifications to the allocation campuses received in the 2006/07 final budget (reference Coded Memo B 06-02). The CSU 2006/07 final budget General Fund allocation totaled \$2,788,910,000. After General Fund base budget adjustments, the 2007/08 General Fund base is \$2,799,828,000. Base budget adjustments are comprised of the following:

- ❖ Retirement Adjustment \$23.2 million
This increase will be received as a supplemental State appropriation during the 2006/07 fiscal year resulting from the July 2006 adjustment in the CalPERS employer-paid retirement rates. The amount funded by campus is based on the change in retirement rates applied to 2006/07 campus FIRMS final budget general fund salaries submitted in August 2006.

- ❖ Budget-Year Adjustments -\$2.7 million
Budget-year adjustments have been made to permanently fund approved New Space, CSUPERB, and Desert Studies cost increases and to reflect a reduction in systemwide lease purchase payments.

- ❖ Outreach Programs Reduction -\$7 million
The 2007/08 Governor’s Budget eliminates the \$7 million CSU 2006/07 budget legislative augmentation for outreach programs. The distribution of the reduction correlates with 2006/07 final budget amounts allocated.

- ❖ Auxiliary Audit Chargeback \$0 offset
Campus General Fund budgets are reduced to fund a \$155,900 permanent chargeback for auxiliary auditor cost increases. The chargeback is prorated for each campus based on a percentage share of the total 2006/07 final budget general fund allocation. Campuses are expected to apply an equivalent permanent charge to the campus auxiliaries.

❖ Math-Science and Nursing Initiatives - \$2.7 million
This is to remove the 2006/07 final budget one-time funding for Math/Science Teacher recruitment and Nursing initiatives.

❖ Enrollment Base Adjustment \$0 offset
Enrollment adjustments reflect permanent changes in 2006/07 base FTES support to achieve the CSU 334,198 FTES resident student target funded in 2006/07.

Attachment C – 2007/08 Budget Plan Expenditure Increases

The 2007/08 budget plan expenditure increases summarized below are funded from a \$260 million gross budget adjustment comprised of additional state budget appropriation (\$176.5 million) and State University Fee budget plan revenue (\$83.5 million) net of the \$37.6 million increase for financial aid. For greater detail regarding budget plan expenditure increases, please reference the 2007/08 CSU Support Budget Documentation book (available for viewing on-line at http://www.calstate.edu/budget/2007_08BudIndex/SupportBdgt_Book2/budget_proposal.shtml).

❖ Mandatory Costs \$44.9 million
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 2007/08 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.

➤ Health Benefits (\$28 million)

The 2007/08 CSU budget plan includes \$28 million to fund the base increase in employer-paid health care costs resulting from January 2007 premium increases. Health care cost increases are determined by the number of CSU employee participants and the difference between the old and new employer-paid contribution rates. Campus expenditure increases to cover incremental costs have been prorated on the basis of percentage share of reported 2005/06 General Fund health benefits expenditures.

➤ Full-Year Service Based Salary Increases (\$3.9 million)

Service-based Salary Increases are implemented on eligible employee anniversary dates that occur throughout the fiscal year. Therefore, the Service-based Salary Increases (SSI) compensation costs incurred in the first year are less than full-year costs. The remaining full-year costs are mandatory obligations in the subsequent year. At this time, \$2.5 million is distributed by campus for the full-year costs of CSU Employee Union (CSUEU) 2006/07 Service-based Salary Increases and the remainder is held pending completion of 2006/07 collective bargaining.

➤ Energy Costs (\$4 million)

The 2007/08 budget plan currently includes \$4 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses, which would cover almost half of the projected need. The budget plan increase has been allocated to campuses on their proportional share of custodial square footage included in the 2006/07 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ New Space (\$5.5 million-Compact / \$3.5 million-Marginal Cost Funding)

Funding of regular maintenance for new space is included at the rate of \$8.84 per square foot. The total permanent base budget support funded from Compact and Marginal Cost of Instruction revenue is \$9 million. The marginal cost rate used to fund new space is \$425 per FTES (General Fund support only). Campus facilities with new space need are identified in the CSU 2007/08 Support Budget Documentation book.

❖ Enrollment Funding

\$74.4 million

The 2007/08 Governor's Budget includes 2.5 percent enrollment growth of full-time equivalent resident students (FTES) equal to an additional 8,355 FTES funded at a General Fund marginal cost rate of \$7,837 per FTES. The CSU 2007/08 marginal cost of instruction fee revenue applied is \$2,236 for a total marginal cost rate of \$10,073. The 2007/08 resident student marginal cost of instruction rate is further detailed in the following table:

2007/08 Resident Student Marginal Cost of Instruction Rate Per FTES

Faculty Salary	\$3,415
Faculty Benefits	1,290
Teaching Associates	18
Instructional Equipment	119
Instructional Support	818
Academic Support	1,332
Student Services	1,025
Institutional Support	1,103
Operation and Maintenance of Plant	953
Total Enrollment Funding	\$10,073
Less: Fee Revenue	(2,236)
2007/08 State General Fund Support	\$7,837

Of the total \$10,073, \$745 of the fee revenue component funds financial aid and \$425 of the General Fund component is designated for the marginal cost component of New Space. After applying these designations, the remaining marginal cost funding fee revenue component is \$1,491 per FTES and the General Fund component is \$7,412 per FTES.

Marginal Cost of Instruction Funding Breakouts:

Fee Revenue Total	\$2,236
<i>Less: one-third set-aside for financial aid</i>	<u>(745)</u>
Remaining Fee Revenue Per FTES	\$1,491
State General Fund Support Total	\$7,837
<i>Less: \$425/FTES set-aside for new space</i>	<u>(425)</u>
Remaining General Fund Support Per FTES	\$7,412

❖ **Financial Aid -- State University Grant Allocations** \$37.6 million

The 2007/08 Governor's Budget plan sets aside one-third of marginal cost fee revenue (\$6.2 million) from enrollment growth for student financial aid equal to \$745 per FTES. In addition, one-third of the total projected revenue (\$31.4 million) from a 10 percent increase in State University Fee rates is set aside to address the needs of CSU students with financial need. Additional description on State University Grants allocations is provided below in reference to Attachment E.

❖ **Compensation** \$129.1 million

The 2007/08 Governor's Budget funds a total of \$129.1 million (4.7 percent) increase for faculty and staff compensation. The \$129.1 million will fund a 3 percent (\$82.8 million) compensation increase for all employee groups and an estimated 1.7 percent increase (\$46.3 million) for employee groups with identified salary lags. The Governor's Budget allocations distributes the 3 percent compensation increase by campus based on the percentage share of the most recent past year total General Fund salaries reported. The salary lag funding is distributed based on campus percentage share of past-year General Fund collective bargaining identification salary expenditures. Actual compensation increases for represented employee groups are determined by negotiations between collective bargaining units and CSU Systemwide Human Resources.

Further, 2007/08 is the second year of a five-year strategic plan to reduce faculty and staff employee group salary lags through fiscal year 2010/11. The 2007/08 projection of total salary lag reduction costs is 2.22 percent (\$62.26 million), which exceeds the amount funded for salary lags in the 2007/08 Governor's Budget (\$46.28 million) by an estimated \$15.98 million. Campuses will cover all compensation obligations as directed in collective bargaining agreements for represented employee groups or by the Chancellor for non-represented employee groups.

❖ **Long-Term Need**

\$9.5 million

➤ **Deferred Maintenance (\$2.15 million)**

CSU deferred maintenance remains an area of significant budgetary deficiency. Deferred maintenance occurs when scheduled repairs are delayed to subsequent years due to project cost, timing, and/or lack of available resources. The 2007/08 Governor's Budget funds \$2.15 million for deferred maintenance distributed by campus based on the campus percentage share of total custodial square footage (SQF4), the same allocation methodology used for energy cost funding.

➤ **Libraries (\$2.3 million)**

The 2007/08 Governor's Budget allocations include \$2.3 million in permanent support to expand systemwide programs for the Electronic Core Collection of bibliographic and full-text resources that are available to all CSU students and faculty. Additionally, these funds will support continued enhancement of online information searching and access tools as well as other systemwide projects designed to increase effective use of information resources. The Libraries funding increase will be administered centrally.

➤ **Technology (\$5 million)**

The 2007/08 Governor's Budget includes \$5 million to increase funding to support systemwide academic technology initiatives. Academic technology initiatives will focus on improving student success by providing online information, testing tools, and learning modules; leverage pooled systemwide resources to reduce the cost of electronic content and digital instructional media; strengthen investments in Learning Management Systems and other information technology applications such as the Common Management System and library systems, and develop and sustain an appropriate level of faculty development in academic technology

Attachment D – 2007/08 Allocation Fee Revenue Adjustments

A total of \$121.1 million in State University Fee revenue increases result from the combination of 2.5 percent enrollment growth and a 10 percent increase in State University Fee (SUF) rates. From the total fee revenue increase, \$37.6 million is set aside for financial aid. The financial aid increase is derived from 33 percent of marginal cost fee revenue associated with enrollment growth (\$745 per FTES) and 33 percent of fee revenue generated from SUF rate increases for resident students. The remaining \$83.5 million of the State University Fee revenue increase will be combined with State General Fund support to fund budget plan cost increases.

The CSU requested a General Fund augmentation to avoid the 10 percent increase in SUF rates; however, it was not funded in the 2007/08 Governor's Budget. Therefore, the CSU will proceed with the 10 percent SUF rate increase required to support the 2007/08 CSU Support Budget plan

approved by the Board of Trustees last November. On March 14, 2007, it will be recommended that the Board of Trustees vote to increase SUF rates as summarized below and provided in more detail on the following system Budget Office, fee schedules web page:

http://www.calstate.edu/budget/FeeEnrll_Info/FeeInfo/Campus_Mand_Fees/07-08mandfees_unifeesched_fall07.shtml

<u>Units Per Term</u>	<u>Undergraduate</u>	<u>Credential Program Participants</u>	<u>Graduate and Other Post-Bacc Students</u>
6.1 or more	\$2,772	\$3,216	\$3,414
0 to 6.0	\$1,608	\$1,866	\$1,980

Attachment E – Preliminary 2007/08 State University Grant Allocations

State University Grant (SUG) allocations for 2007/08 are shown on Attachment E. Allocations are based on the actual distribution to 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 reflect the student fee levels provided in the 2007/08 Governors Budget and 2007/08 enrollment targets.

For preliminary awarding decisions, campuses should base awards at 90 percent of the projected 2007/08 SUG allocation.

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

Attachment F – 2007/08 Enrollment Projection Allocation Summary

Campus 2007/08 enrollment targets were established in consultation with campus presidents. Campus enrollment growth of 8,355 full-time equivalent students (FTES) is funded at a General Fund cost of \$7,412 per FTES for all enrollment growth, undergraduate, graduate, and post baccalaureate (\$7,837 - \$425 used for New Space funding).

This total includes permanent allocation of 2006/07 unallocated FTES (1,115 FTES) and the allocation of the 2007/08 2.5 percent enrollment growth increase of 8,355. The 2007/08 budgeted resident FTES target is 342,553. With the nonresident FTES, the CSU total 2007/08 FTES target is 355,956.