



B 07-02 Final

Response Due: August 22, 2007

To: CSU Chief Fiscal Officers

From: Patrick Lenz, Assistant Vice Chancellor of the Budget

Rodney Rideau, Director of the Budget
Copy: CSU Financial Officers, Budget Officers, Enrollment Managers, Financial Aid Directors
Date: August 24, 2007 budget enactment date (preliminary memo date 8/8/07, revised 8/13/07)
Subject: 2007/08 Final Budget Allocations
Attachments: B 07-02 Final Budget Allocation Attachments A through G

The following 2007/08 final budget allocations are based on the budget plan adopted by the CSU Board of Trustees at their November 2006 meeting and the Budget Act of 2007, Senate Bill 77, Chapter 171 signed by the Governor on August 24, 2007. Any questions concerning this allocation memorandum should be directed to the system Budget Office at (562) 951-4560.

The major new budget funding included in the 2007/08 budget appropriation includes:

| | |
|---|-----------------|
| ❖ Compact General Fund Support (4% increase) | \$108.9 million |
| ❖ 2.5% Resident Student Enrollment Growth at \$7,710 per FTES | \$64.4 million |
| ❖ Bachelor of Science in Nursing (BSN) Enrollment (340 FTES) | \$3.6 million |
| ❖ SUF Revenue from Rate Increase | \$95.9 million |
| ❖ SUF Revenue from Enrollment Growth / Change in Student Mix | \$25.2 million |
| ❖ SUF Revenue from additional BSN Enrollment (340 FTES) | \$1.0 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>) | \$41.3 million |
| ❖ 2.5 % Resident Student Enrollment Growth (8,355 FTES) | \$77.0 million |
| ❖ BSN Enrollment Growth (340 FTES) | \$4.6 million |
| ❖ CSU State University Grant Program | \$37.6 million |
| ❖ Employee Compensation | \$128.9 million |
| ❖ Long-Term Need / Science and Math Teacher Initiative | \$11.6 million |

Following are summary explanations of 2007/08 budget plan funding and expenditures included in Attachments A through G. These allocations are a reflection of the budget plan approved by the Board of Trustees that has been distributed in accordance with CSU-approved budget methodology.

Attachment A – 2007/08 Allocation Gross Budget Summary

The final 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 \$2,806,991,000. Base budget adjustments are comprised of the following:

❖ Retirement Adjustment \$23.2 million

This additional state funding related to the increase in CalPERS employer-paid retirement rates effective July 2006 was received as a supplemental state appropriation in April 2007. The amount funded by campus is based on the change in retirement rates applied to 2006/07 campus FIRMS final budget CSU State Support salaries submitted in August 2006.

❖ Budget-Year Adjustments -\$2.7 million net

Campus budget-year adjustments from systemwide provisions include permanent base funding increases at CSUCI and CMA, Entry-Level Masters base enrollment funding from CSUB to SFSU, cost increase for the Desert Studies Program with CSUF, approved new space costs and increased CSUPERB funding at SDSU, and support for the CO Academic Affairs Research Initiatives and Partnership Programs. The -\$2.714 million balance reflects a reduction in systemwide lease purchase payments.

❖ Interest-Earnings Chargeback; Fee Interest Adjustment \$163,000 net

The campus 2006/07 final budget chargeback required to keep the state revenue neutral as a result of the CSU authority to deposit student fee revenue in local trust accounts has been restored to the campus base budget and moved to systemwide provisions. An annual quarterly campus payment schedule will replace the campus 2006/07 base budget adjustments. The campus 2007/08 quarterly payment schedule is provided in Attachment G for informational purposes. The \$163,000 net change reflects the 2007/08 adjustment in State interest payment costs.

❖ Auxiliary Audit and H.R. Manager Chargebacks \$0 offset

The permanent base-budget adjustments to General Fund budgets are chargebacks for the costs to fund

an Auxiliary Auditor position (\$155,900) and a legally mandated HR Manager position for student dispute resolutions systemwide in the Conflict Resolution and Campus Relations unit (\$118,300). Each chargeback is prorated by campus based on a percentage share of the total 2006/07 final budget CSU State Support allocation. Campuses are expected to apply an equivalent permanent charge to the campus auxiliaries for auxiliary audit positions.

❖ Math/Science Teacher Recruitment 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 334,198 FTES resident student target funded in 2006/07.

Note: The \$7 million Outreach Programs reduction included in the Governor's Budget was restored by the legislature.

Attachment C – 2007/08 Budget Plan Expenditure Increases

The 2007/08 budget plan expenditure increases summarized below are funded from a \$263.4 million gross budget adjustment comprised of additional state budget appropriation (\$178.9 million) and State University Fee budget plan revenue (\$84.5 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 \$44.8 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 (\$3.8 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. The projected full-year service-based salary increases correlate

with the 2006/07 Service-based Salary Increases for the CSU Employee Union (CSUEU) (\$2.5 million) and the California Faculty Association (CFA) (\$1.3 million).

➤ 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 based 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 identified in the State’s enrollment funding methodology for operations and maintenance will partially fund new space need with \$425 per new FTES. Campus facilities with new space need are identified in the CSU 2007/08 Support Budget Documentation book.

❖ 2.5% Enrollment Growth Funding

\$73.5 million

The 2007/08 Final 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 \$7,710 per FTES. The 2007/08 Marginal Cost of Instruction fee revenue applied is \$2,257 for a total marginal cost rate of \$9,967. 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 | 17 |
| Instructional Equipment | 119 |
| Instructional Support | 836 |
| Academic Support | 1,345 |
| Student Services | 1,039 |
| Institutional Support | 973 |
| Operation and Maintenance of Plant | 933 |
| Total Enrollment Funding | \$9,967 |
| Less: Fee Revenue | (2,257) |
| 2007/08 State General Fund Support | \$7,710 |

Of the total \$9,967, \$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 \$1,512 per FTES and the General Fund component is \$7,285 per FTES.

Marginal Cost of Instruction Funding Breakouts:

| | |
|--|--------------|
| Fee Revenue Total | \$2,257 |
| <i>Less: one-third set-aside for financial aid</i> | <u>(745)</u> |
| Remaining Fee Revenue Per FTES | \$1,512 |

| | |
|---|--------------|
| State General Fund Support Total | \$7,710 |
| <i>Less: \$425/FTES set-aside for new space</i> | <u>(425)</u> |
| Remaining General Fund Support Per FTES | \$7,285 |

❖ **BSN Enrollment – 340 FTES** \$4.6 million

The 2007/08 Final Budget allocations include a General Fund augmentation of \$3.6 million to support 340 additional undergraduate nursing students (\$10,588 state funding per FTES). This enrollment will generate approximately \$1 million in State University Fee revenue bringing total funding to \$4.6 million. In response to California’s increasing demand for nurses, the CSU 2007/08 support budget request approved by the Board of Trustees in November 2006 identified the above-the-compact funding needed to annually enroll an additional 340 full-time equivalent students in nursing programs with a General Fund cost of approximately \$12,647 per FTES (approximately \$2,000 greater than the GF amount funded). Nursing programs are significantly more costly than “average” instructional programs due to higher faculty salaries, small class sections, and specialized equipment needs.

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

The 2007/08 Final Budget 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 Grant allocations is provided below in reference to Attachment E.

❖ **Compensation** \$128.9 million

The 2007/08 final budget allocations include a \$128.9 million (4.62 percent compensation pool) increase for faculty and staff compensation. The \$128.9 million will fund a 3 percent (\$83.7 million) compensation pool increase for all employee groups and an estimated 1.62 percent pool increase (\$45.2 million) for employee groups with identified salary lags. The Final 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 (CBID) 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 requires a 2.6 percent (\$75.5 million) compensation pool increase, which exceeds the pool

amount funded for salary lags in the 2007/08 Final Budget (\$45.2 million) by an estimated \$30.3 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** \$9.425 million

➤ **Deferred Maintenance (\$2.275 million)**

Deferred maintenance remains an area of significant budgetary deficiency in the CSU. 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 Final 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 (\$2.15 million)**

The 2007/08 Final Budget allocations include \$2.15 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 Final 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 from 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 \$122.2 million in State University Fee revenue increases result from the combination of 2.5 percent and BSN enrollment growth, a 10 percent increase in State University Fee (SUF) rates, and change in student mix. 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 Final 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, the Board of Trustees approved 2007/08 SUF rates as summarized below:

| <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 |

The SUF rates are provided in more detail on the following system Budget Office web page:
http://www.calstate.edu/budget/FeeEnrll_Info/FeeInfo/Campus_Mand_Fees/07-08mandfees_unifeesched_fall07.shtml.

Attachment E – 2007/08 State University Grant Allocations

State University Grant (SUG) allocations for 2007/08 are shown on Attachment E. Allocations are based on 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 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 2007/08 student fee levels and enrollment targets. 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 \$7,285 per FTES for all enrollment growth, undergraduate, graduate, and post baccalaureate (\$7,710 - \$425 used for New Space funding).

The total 2007/08 FTES includes permanent allocation of 2006/07 unallocated enrollment (1,115 FTES), allocation of the 2007/08 2.5 percent enrollment growth increase of 8,355 FTES, and undergraduate nursing enrollment of 340 FTES. The 2007/08 budgeted resident FTES target is 342,893. With the nonresident FTES, the CSU total 2007/08 FTES target is 356,296.

Attachment G – Higher Education Fees, 2007/08 Interest Payment Schedule

The campus 2007/08 higher education fee revenue interest payment schedule is included with the 2007/08 final budget allocation memo for information purposes. The total annual assessment by campus is based upon distribution of CSU operating revenue in 2006/07 FIRMS final budgets. The campus quarterly assessments will be processed by Cash Posting Order (CPO) to credit systemwide provisions where the state interest earnings debit is held. The interest payment requirement is the result of the CSU obligation to keep the state revenue neutral as a result of the CSU authority to deposit student fee revenue in local trust accounts effective 2006/07.

Questions concerning processing of quarterly interest payments should be directed to Colleen Coyne, CSU Finance and Treasury, Cash Management Office, 562-951-4521.