

**FINAL-Budget Act of 2008 was chaptered on 9/23/08, AB 1781, Chapter 268**

**B 08-03**

**Campus Budget Submissions Due: August 19, 2008**

**To:** CSU Chief Fiscal Officers

**From:** Robert Turnage, Assistant Vice Chancellor for Budget   
Rodney Rideau, Director of the Budget 

**Copy:** CSU Financial Officers, Budget Officers, Financial Aid Directors, Enrollment Planning and Resource Officers, and Enrollment Managers

**Date:** July 22, 2008

**Subject:** 2008/09 Preliminary Final Budget Allocations Memo

**Attachments:** B 08-03 Preliminary Final Budget Allocation Attachments A through F

The CSU 2008/09 preliminary final budget allocations are provided in this memorandum with attachments. The allocations are based on the budget plan adopted by the CSU Board of Trustees (BOT) at its November 2007 meeting as modified by the Governor's May Revision. Since the legislature's budget conference committee endorsed the May Revision amount for CSU, we believe this is the best basis for proceeding with the preliminary final budget allocations. However, the final outcome of the state's 2008/09 budget will not be known until the legislature passes and the Governor signs the 2008/09 Budget Act. If changes to the CSU General Fund appropriation occur upon enactment of the state 2008/09 Budget Act, we will distribute an updated final budget coded memo. Also, the chapter number of the 2008/09 Budget Act will be forwarded to CSU Budget Officers when available.

The following table compares the BOT 2008/09 budget plan approved at its November 2007 meeting with the Governor's January proposal and May Revision of CSU General Fund budget appropriation:

	BOT Budget Plan	January Budget	May Revise
<b>2007/08 CSU General Fund Appropriation</b>	<b>\$2,985,874,000</b>	<b>\$2,985,874,000</b>	<b>\$2,985,874,000</b>
General Fund Base Adjustments	(8,578,000)	(16,113,000)	(16,113,000)
2008/09 Workload Adjustments	288,212,000	216,227,000	216,227,000
Unallocated Budget Reduction	0	(312,900,000)	(215,300,000)
<b>2008/09 CSU General Fund Appropriation</b>	<b>\$3,265,508,000</b>	<b>\$2,873,088,000</b>	<b>\$2,970,688,000</b>

**Note: CSU Final Budget appropriation adjusted on 9/23/08 to \$2,970,706,000.**

Following are summary explanations of the Attachments A through F included with this memorandum. Please direct any questions concerning the preliminary final budget allocations to Rodney Rideau, Chris

Canfield, or other System Budget Office staff member as indicated on the staff directory at [http://www.calstate.edu/budget/staff/staff\\_directory\\_assignments.shtml](http://www.calstate.edu/budget/staff/staff_directory_assignments.shtml) and available at (562) 951-4560.

### **Attachment A – 2008/09 Allocation Gross Budget Summary**

The preliminary final budget allocations for 2008/09 are presented as adjustments to campus final budget FIRMS budget submissions for 2007/08. 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 2007/08. Campuses have the discretion to adjust the State University Fee revenue projection and other revenue amounts included in this memorandum in the campus 2008/09 budget submission. However, any change made by the campus in fee revenue for 2008/09 planning purposes will not change the General Fund allocation provided in this memorandum.

### **Attachment B – 2008/09 Allocation Base Budget Adjustments**

Base budget adjustments are changes required to address modifications to the General Fund allocation campuses received in the 2007/08 final budget (reference Coded Memo B 07-02). The 2007/08 final budget General Fund appropriation to CSU totaled \$2,985,874,000. After General Fund base budget adjustments, the preliminary 2008/09 General Fund appropriation to CSU is \$2,970,688,000. Base budget adjustments to campuses' allocations tied to these appropriations are comprised of the following:

#### **❖ Retirement Adjustment**

Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. There was a slight decrease in the 2007/08 CalPERS employer-paid retirement rate in the State Miscellaneous Tier 1 category resulting in an overall decrease (-\$8.6 million) in CSU employer-paid retirement costs. The State Department of Finance processed the retirement adjustment in March 2008. The retirement adjustment amount by campus is based on the change in retirement rates applied to 2007/08 campus FIRMS final budget CSU State Support salaries submitted in August 2007.

#### **❖ General Fund Base Adjustments**

The General Fund base adjustments include a 2007/08 reduction (-\$6.584M) and a 2008/09 increase (\$1.7M) in systemwide lease bond payments in systemwide provisions, and permanent base funding from systemwide provisions to increase funding for CSUPERB at San Diego State University (\$20,000) and Student Academic Support at the Chancellor's Office (\$62,326). The Chancellor's Office budget has been adjusted to breakout 2007/08 compensation funding that supports CalStateTeach (\$31,743) and International Programs (\$71,041).

#### **❖ Operating Fee Revenue Interest Assessment**

The total campus operating revenue interest chargeback for 2008/09 is \$7.9 million, which represents a \$3.1 million increase over the 2007/08 \$4.8 million assessment level. The 2008/09 interest assessment is based on the campus operating revenue equivalent to the 2007/08 State University Fee and other fee revenue reported in 2007/08 FIRMS final budget submissions. The total \$7.9 million assessment is distributed by campus on a quarterly payment schedule as identified on Attachment F.

#### **❖ Other Budget Year Adjustments**

Other budget year systemwide provision adjustments include a \$425,000 increase for annuitant dental and a \$927,000 increase resulting from the Governor's May Revision budget restoration to keep the CSU General Fund support equivalent to the net 2007/08 operating fund level. There also are correcting

adjustments for 2007/08 final budget allocations for Summer Arts, CalStateTeach, and systemwide provisions.

❖ **2005/06 Baseline of Auxiliary Audit Assessments**

A permanent \$872,500 budget adjustment for the 2005/06 baseline of auxiliary audit internal reviews is assessed to the campuses (\$865,830) and Chancellor's Office (\$6,670). By making this base budget adjustment, the baseline auxiliary audit assessments will no longer be invoiced separately. Further adjustments may be realized in the future to cover increases in operating costs. The 2006/07 (\$206,000) and 2007/08 (\$155,900) permanent base-budget adjustments for new auxiliary audit positions included in each of those respective year final budget allocations are not affected by this \$872,500 base budget adjustment.

It is expected that campuses will apply chargebacks to the campus auxiliaries equivalent to these assessments.

❖ **Financial Aid -- State University Grant (SUG) Set-Aside / Distribution**

The 2008/09 preliminary final budget allocations include a \$37.2 million augmentation for State University Grants resulting from the one-third of revenue set-aside for financial aid from the 2008/09 State University Fee (SUF) revenue increase. The \$37.2 million SUG augmentation is distributed based on financial need as described on Attachment E. The difference between how the SUG increase is funded (based on the one-third set-aside of estimated campus SUF revenue growth) and how SUG is distributed (based on estimate of need) results in adjustments to campus General Fund allocations.

**Attachment C – Uses of 2008/09 State University Fee Revenue Increase**

Uses of the remaining 2008/09 State University Fee revenue increase net of financial aid should address the following:

❖ **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 2008/09 included 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. Following are the mandatory costs identified in the budget plan adopted by the CSU Board of Trustees at its November 2007 meeting:

➤ **Health Benefits**

The projected annualized cost to cover the increase in employer-paid health care benefits resulting from January 2008 premium increases is \$21.8 million. 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. The employer-paid health care benefit cost increase is distributed by campus on the basis of percentage share of campus actual 2006/07 state support health benefits expenditures reported.

➤ **Full-Year Service-based Salary Increases**

Service-based salary increases (SSI) are implemented on eligible employee anniversary dates that occur throughout the fiscal year. Therefore, the 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 2008/09 \$4.2 million mandatory obligation represents the remaining full-year costs of SSI compensation implemented in 2007/08 for CSUEU (\$2.6 million) and CFA (\$1.6 million).

➤ **New Space**

The cost to fund regular maintenance for new space as identified in CSU 2008/09 support budget plan is at the rate of \$9.10 per square foot. The CSU is scheduled to open an estimated 639,055 square feet of new space at a cost of \$5.8 million. Campus facilities with new space need are identified in the CSU 2008/09 Support Budget documentation book. (The 2008/09 budget plan identified systemwide totals were 668,142 square feet and \$6.1 million cost. CSU Los Angeles subsequently made a change to remove 2008/09 new space).

➤ **Energy Costs**

The 2008/09 CSU budget plan included \$4 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses. This represents approximately one-third of the projected increase in utility costs. The \$4 million has been distributed by campus based on the campus proportional share of custodial square footage included in the 2007/08 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ **Other Uses of the Revenue Increase for Unfunded Need**

Remaining revenue will be available to address other areas of unfunded need during 2008/09 including 2008/09 enrollment above funded full-time equivalent student (FTES) targets. While there is no growth in 2008/09 funded student enrollment FTES targets, following is the CSU 2008/09 resident student marginal cost of instruction rate per FTES based on the state Department of Finance (DOF) methodology:

**2008/09 Resident Student Marginal Cost of Instruction Rate Per FTES<sup>1</sup>  
DOF Methodolgy**

	<u>Student Fees</u>	<u>General Fund</u>	<u>Total</u>
Instruction	\$684	\$4,881	\$5,565
Instructional Equipment Replacement	0	131	131
Academic Support	433	976	1,409
Student Services	194	873	1,067
Institutional Support	348	758	1,106
Operation and Maintenance of Plant	<u>493</u>	<u>554</u>	<u>1,047</u>
<b>2008/09 DOF-Marginal Cost Calculation (MCC) Totals<sup>2</sup></b>	<b>\$2,152</b>	<b>\$8,173</b>	<b>\$10,325</b>

<sup>1</sup>In 2008/09, there is no growth in funded student enrollment FTES targets

<sup>2</sup>CSU 2008/09 budget plan MCC estimates of fees, GF, and total were respectively \$2,399/\$8,029/\$10,428

Further breakouts of the 2008/09 marginal cost of instruction show the net available revenue and state General Fund designations for student enrollment support:

***Marginal Cost of Instruction Funding Breakouts for Enrollment Growth<sup>1</sup> :***

Fee Revenue Total	\$2,152
<i>Less: one-third set-aside for financial aid</i>	<u>(717)</u>
Remaining Fee Revenue Per FTES	\$1,435
State General Fund Support Total	\$8,173
<i>Less: \$442/FTES set-aside for new space</i>	<u>(442)</u>
Remaining General Fund Support Per FTES	\$7,731

<sup>1</sup>In 2008/09, there is no growth in funded student enrollment FTES targets

**Attachment D – 2008/09 SUF Revenue Adjustment, Financial Aid Set-Aside, and FTES Target**

The preliminary final budget allocations include a total increase of \$111.7 million in State University Fee (SUF) revenue. Of the total fee revenue increase, \$37.2 million is set aside for financial aid. The remaining \$74.4 million of the SUF revenue increase will assist with support of mandatory cost increases and other unfunded need as previously described in reference to Attachment C. The 2008/09 “resident” full-time equivalent student (FTES) target (342,893) has not changed from the 2007/08 resident FTES target levels. The 2008/09 “non-resident” FTES (13,157) indicated correlates with the most recent past year actual non-resident FTES by campus (2006/07).

**Attachment E – 2008/09 State University Grant Allocations**

State University Grant (SUG) allocations are based on actual distribution of the most financially needy students (those with Expected Family Contributions [EFCs] of \$8,800 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 undergraduate students amounts up to \$4,266 per academic year for full-time enrollment (reference coded memo AA-2008-18 for more information, <http://www.calstate.edu/acadaff/codedmemos/index.shtml>). The SUG distributions on Attachment E reflect 2008/09 student fee levels and enrollment targets. Questions concerning SUG allocations should be directed to Dean Kulju, Student Academic Support, at (562) 951-4737.

**Attachment F – CSU Operating Revenue - 2008/09 Interest Payment Schedule**

The campus 2008/09 CSU operating revenue interest payment schedule is included with the 2008/09 final budget allocation memo for informational purposes. The annual interest chargeback requirement was agreed upon to maintain fiscal neutrality for the State General Fund in recognition of the 2006/07 transition of the deposit of fee revenue from the State General Fund to the CSU local trust funds. Further, the CSU annual interest chargeback obligation is included each year in the State of California, Budget Act. The 2008/09 chargeback by campus is based upon campus operating revenue equivalent to the 2007/08 SUF and other fee revenue included in 2007/08 FIRMS final budget submissions. The campus quarterly assessments will be processed by Cash Posting Order (CPO) to credit systemwide provisions where the state interest earnings debit is held. Questions concerning processing of quarterly interest payments should be directed to Kelly Cox, CSU Systemwide Financial Operations, at (562) 951-4611.