

B 09-02

Campus Budget Submissions Due: August 19, 2009

To: CSU Chief Fiscal Officers

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

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

Date: July 31, 2009

Subject: 2009/10 July Revise Final Budget Allocation Memo, ABX4_1,
Chapter 1, Statutes of 2009/10 Fourth Extraordinary Session

Attachments: B 09-02 July Revise Final Budget Allocation Memo, Attachments A through G

The 2009/10 final budget allocations are provided in this memorandum with attachments. These allocations are an update to Coded Memo B 09-01, March 5, 2009 allocations that were based on the Budget Act of 2009 (SBX3_1) signed on February, 20, 2009, several months before the constitutional deadline, as part of a budget package from the Legislature's Third Extraordinary Session. The Budget Act of 2009 included spending cuts and revenue increases to eliminate the \$41.6 billion state budget gap identified at that time.

Subsequent to the February enactment of the Budget Act of 2009, the State recognized further decline in revenues that caused the budget to again be out of balance. Also, the 2009/10 Budget Act assumed passage of propositions included in the May 19, 2009 Special Election that failed and furthered the state budget deficit. In total, there was an additional \$26.3 billion state budget shortfall to be addressed.

On July 28, 2009, the Governor signed budget bill ABX4_1 from the Legislature's Fourth Extraordinary Session that amends and supplements the Budget Act of 2009 to close the additional state budget shortfall. As a result, CSU incurs a \$571 million General Fund (GF) budget reduction in 2009/10. Also, ABX4_1 includes a \$715.5 million *retroactive one-time* reduction to the CSU 2008/09 budget that is expected to be largely offset by federal Education Stabilization Fund monies from the American Recovery and Reinvestment Act (ARRA) (currently estimated at \$640 million of one-time funds).

The following table compares the CSU Board of Trustees (BOT) 2009/10 budget plan approved at its November 2008 meeting with the Budget Act of 2009 enacted in February and the July amended CSU General Fund budget appropriation:

	BOT 2009/10 Budget Plan	Budget Act of 2009 (SBX3_1) February 2009	Amended Budget Act of 2009 (ABX4_1) July 2009
2008/09 CSU General Fund Appropriation (Sept. 2008)	\$2,970,706,000	\$2,970,706,000	\$2,970,706,000
Adjustments to 2008/09 CSU General Fund Appropriation:			
2008/09 Retirement Adjustment	(1,350,351)	(1,350,351)	(1,350,351)
CSU Share of Statewide One-Time Savings in Budget Act of 2008	(31,314,000)	(31,314,000)	(31,314,000)
2008/09 Special Session Unallocated Base Reduction (Feb. 2009)	0	(66,303,000)	(66,303,000)
2009/10 Restoration of Past-Year One-Time Statewide Savings	31,314,000	31,314,000	31,314,000
	<u>2,969,355,649</u>	<u>2,903,052,649</u>	<u>2,903,052,649</u>
Lease Bond Revenue, Dental Annuitant, and Fee Interest Adjust.	5,999,000	5,999,000	5,999,000
Revised 2009/10 General Fund Base Before Expenditure Adjustments	<u>2,975,354,649</u>	<u>2,909,051,649</u>	<u>2,909,051,649</u>
2009/10 CSU General Fund Expenditure Adjustments			
2009/10 CSU Compact Augmentation (General Fund)	302,520,000	0	0
\$50M Unallocated GF Reduction (finalized in April 2009)	0	(50,000,000)	(50,000,000)
\$255M Governor's Line Item Veto	0	0	(255,000,000)
\$266.1M Unallocated GF Reduction	0	0	(266,100,000)
2009/10 CSU General Fund Appropriation	<u>3,277,874,649</u>	<u>2,859,051,649</u>	<u>2,337,951,649</u>

As indicated, the amended Budget Act of 2009 further impacts the CSU GF appropriation as follows:

- Moves forward with the \$50 million GF reduction that is no longer subject to restoration contingent on federal stimulus funds.
- No longer replaces \$255 million of state GF with federal funds as indicated in the Governor's veto message in the February 2009/10 Budget Act SBX3_1.
- Reduces CSU GF appropriation by an additional \$266.1 million to assist with balancing the state budget and to reduce state higher education expenditures to the minimum maintenance of effort level permitted as a condition of receiving restoration funding from the Education Stabilization Fund of the ARRA.

Also, the CSU July revise final budget allocations include an additional increase in 2009/10 State University Fee (SUF) rates (e.g. \$672 for undergraduate students, \$780 for teacher credential students and \$828 for graduate students), and a \$990 academic year increase in 2009/10 Nonresident Tuition that were approved by the Board of Trustees on July 21, 2009. Reference CSU 2009/10 SUF rates and Nonresident Tuition rates respectively from: <http://www.calstate.edu/budget/student-fees/mandatory-fees/0910-feeschedules.shtml> and <http://www.calstate.edu/budget/student-fees/mandatory-fees/>

Following are references to the July amended Budget Act of 2009:

1. Amendment to the Budget Act of 2009, ABX4_1
(reference: http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0001-0050/abx4_1_bill_20090729_status.html)
2. State of California, Department of Finance Summary of Amended Budget Act of 2009
(reference: <http://www.dof.ca.gov/budget/historical/2009-10/governors/summary/documents/enacted/FullBudgetSummary.pdf>)

Please direct any questions concerning the revised July 2009/10 budget allocations to Rodney Rideau, Chris Canfield, or a system Budget Analyst at (562) 951-4560 or reference the staff directory at http://www.calstate.edu/budget/staff/staff_directory_assignments.shtml for further contact information.

RT/RR/CC

Attachments A through G

The CSU 2009/10 July revise final budget allocations detailed in Attachments A through G summarized below reflect the state Budget Act of 2009 enacted in February and amended in July and CSU State University Fee and Nonresident Tuition revenue adjustments.

Attachment A – 2009/10 July Revise Final Budget Allocations, Gross Budget Summary

The 2009/10 July revise final budget allocations are presented as adjustments to campus 2008/09 FIRMS final budget submissions. Three areas of budgeted revenues are affected by these allocations: General Fund, State University Fee (SUF), and Nonresident Tuition revenues. All other revenues remain the same as transmitted in the campus FIRMS budget submittal for 2008/09. Campuses will have discretion to adjust the SUF and Nonresident Tuition revenue projections, as well as other revenue amounts in the campus 2009/10 final budget submission. However, any fee revenue change made by the campus for 2009/10 planning purposes will not change the General Fund allocation provided in the final budget allocation memorandum.

Attachment B – 2009/10 February 2009, SBX3 1, Base Budget Adjustments (Revised)

Base budget adjustments are changes required to address modifications to the General Fund (GF) allocation that campuses received in the 2008/09 final budget (reference Coded Memo B 08-03). The CSU 2008/09 GF appropriation based on the 2008/09 Budget Act enacted last September totaled \$2,970,706,000. The revised February 2009 GF base budget is \$2,909,051,649. Revisions to the February base budget adjustments since the preliminary budget allocations released in March include campus changes related to new space need and financial aid set-aside and distribution, movement of funds from Systemwide Provisions (SWP) to the Chancellor's Office (C.O.), and removal of the Governor's proposal to replace \$49.5 million in lottery revenue with GF (held in SWP in preliminary allocations) after Proposition 1-C failed in the May 19, 2009 special election. Additional base budget adjustments resulting from the July amendment to the Budget Act of 2009 are included in Attachment C. Attachment B, February 2009, SBX3_1, base budget adjustments to campus allocations are comprised of the following:

❖ Retirement Adjustment

Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. Adjustments in 2008/09 CalPERS employer-paid retirement rates of .059 percent decrease in the State Miscellaneous Tier 1 category and .51 percent increase in the State Peace Officer/Firefighter category resulted in an overall decrease of \$1.35 million in CSU employer-paid retirement costs. The State Department of Finance processed the 2008/09 GF appropriation retirement adjustment in January 2009. The retirement adjustment amounts are based on the change in retirement rates applied to the campus 2008/09 FIRMS final budget CSU State Support salaries submitted in August 2008.

❖ 2008/09 Third Special Session Unallocated General Fund Reduction

The 2009/10 Budget Act SBX3_1 1 permanently incorporates the 2008/09 Third Special Session unallocated base reduction of \$66.3 million to the CSU General Fund support budget. The components of the unallocated base budget reduction are (\$71,000) for Center for California Studies (Fellows Program) at CSU Sacramento with the remaining (\$66.232 million) distributed to campuses, Chancellor's Office and SWP based on a pro-rata share of the revised 2008/09 General Fund base (after retirement

adjustment) excluding lease bond payments, deferred maintenance bond payments, other statutory programs, and International Programs, Summer Arts, and CalStateTeach.

The \$66.3 million Special Session reduction together with the CSU's \$31.3 million share of the \$190 million statewide savings requirement for state operations assumed in the 2008/09 enacted State budget results in a total CSU General Fund reduction during 2008/09 of \$97.6 million. The 2009/10 Governor's budget restored the \$31.3 million to CSU (treating it as a one-time budget action in 2008/09), whereas the Special Session \$66.3 million reduction is permanent.

❖ **General Fund Base Adjustments to Cover and Fund New Space Need**

Without state General Fund increases to cover new space need, the CSU 2009/10 preliminary budget allocations adjust campus General Fund base budgets to cover \$7.49 million of the total \$9.27 million cost. The \$7.49 million represents the remaining need after utilizing available campus revenue balances from the initial 10 percent SUF rate increase as shown in the preliminary budget allocations in March. The cost distribution of the \$7.49 million adjustments is based on the campus pro-rata share of the revised 2008/09 General Fund base (after retirement adjustment and Special Session reduction).

❖ **General Fund Base Adjustments**

Other General Fund base budget adjustments in SWPs consist of an increase of \$5.5 million (\$16,000 in 2008/09 and \$5,495,000 in 2009/10) for lease bond payments, an increase of \$730,000 for dental annuitant premiums, and movement of \$2.2 million from SWPs to the C.O.

❖ **Operating Fee Revenue Interest Assessment**

The total 2009/10 campus operating revenue interest chargeback is \$8.15 million, which represents a \$242,000 adjustment to the \$7.9 million assessed in 2008/09. The 2009/10 interest assessment is based on the campus operating revenue equivalent to the 2008/09 State University Fee and other fee revenue reported in 2008/09 FIRMS final budget submissions. The total \$8.15 million assessment is distributed by campus on a quarterly payment schedule as identified on Attachment G.

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

The financial aid set-aside from the initial 2009/10 10 percent SUF rate increase approved by the BOT in May results in a \$42.4 million augmentation for State University Grants (SUG). The \$42.4 million SUG augmentation is distributed based on financial need. 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. The further \$78.6 million financial aid set-aside from additional 20 percent SUF rate increase is shown in Attachment C and the total 2009/10 SUG increase of \$121 million is shown in Attachment F.

Attachment C – 2009/10 July Revise, Final Budget, Base Budget Adjustments

Base budget adjustments resulting from the July amendment to the Budget Act of 2009 are included in Attachment C and build upon the adjustments in Attachment B. The revised February 2009 GF base budget is \$2,909,051,649. After the July revise base adjustments, the 2009/10 GF base budget is \$2,337,951,649. The July revise base budget adjustments to campuses' allocations consist of the following:

❖ Financial Aid -- State University Grant Set-Aside / Distribution

The financial aid set-aside from the further 2009/10 20 percent SUF rate increase approved by the BOT in July results in an additional \$78.6 million augmentation for State University Grants (SUG) bringing the total 2009/10 SUG increase to \$121 million as shown in Attachment F. Again, SUG augmentations are distributed based on financial need. 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 the estimate of need) results in adjustments to campus General Fund allocations.

❖ 2009/10 Unallocated GF Base Expenditure Reductions

The amended Budget Act of 2009 further reduces the CSU GF budget appropriation by a total of \$571.1 million that is comprised of (1) \$50 million unallocated GF reduction no longer subject to restoration contingent on federal stimulus funds, (2) \$255 million unallocated GF reduction that is no longer replaced with federal funds as indicated in the Governor's veto message in the February 2009/10 Budget Act SBX3_1, and (3) \$266.1 million reduction to assist with balancing the state budget and to reduce state higher education expenditures to the minimum maintenance of effort level permitted as a condition of receiving restoration funding from the Education Stabilization Fund of the ARRA.

In the March preliminary budget allocations, the \$50 million reduction was segregated in a separate attachment pending its possible restoration, which did not occur. Of the \$50 million reduction, \$48.7 million was distributed to campuses based on campus pro-rata share of the 2008/09 General Fund base (after retirement adjustment and Special Session reduction) with the remaining \$1.3 million distributed to the C.O. The distribution of the \$255 million and \$266.1 million unallocated reductions are based on the campuses' share of the February 2009 SBX3_1, 2009/10 GF base with respectively \$6.9 million and \$5.4 million distributed to the C.O. and SWP. The \$266.1 million distribution also reflects use of nonresident tuition revenue from a 10 percent rate increase and a \$20 million budget restoration to assist smaller campuses who are less able to achieve significant budget savings through enrollment reductions.

Attachment D – 2009/10 Mandatory Costs

❖ **Mandatory Costs**

Mandatory costs are expenditure obligations the university must pay whether or not funding is received from the state or from student fee revenue. Mandatory cost obligations were identified in the CSU 2009/10 budget plan that was adopted by the CSU Board of Trustees in November 2008 and include increases in employer-paid health benefits, dental benefits, and energy costs. Also, the required cost of the 2009/10 faculty Post-Promotion Increase (PPI) program has been included in Attachment D. Following is a summary of CSU 2009/10 mandatory cost increases:

➤ **Health Benefits**

The projected annualized cost to cover the increase in employer-paid health care benefits resulting from January 2009 premium increases is \$8.48 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 on the basis of the campus percentage share of the most recently reported past-year actual (2007/08) state support health benefits expenditures.

➤ Dental Benefits

The projected annualized cost to cover the increase in employer-paid dental benefits resulting from January 2009 premium increases is \$2.7 million. Dental cost increases are also determined by the number of CSU employee participants and the difference between the old and new employer-paid contribution rates. The employer-paid dental benefit cost increase is distributed on the basis of the campus percentage share of most recent past-year actual (2007/08) state support dental benefit expenditures reported.

For additional information regarding January 2009 health and dental benefit premium increases, please reference the 2009/10 Support Budget documentation book

<http://www.calstate.edu/budget/2009-2010/supportbook2/index.shtml>.

➤ Energy Costs

The 2009/10 CSU budget plan included \$12.2 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses, which would conservatively cover the projected 2009/10 increase. The \$12.2 million has been distributed by campus based on the campus proportional share of custodial square footage included in the 2008/09 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ 2009/10 New Space Need

The CSU 2009/10 support budget plan identified a total cost of \$10.15 million to fund regular maintenance of 2008/09 and 2009/10 new space. This has been reduced to \$9.28 million due to withdrawal of new space need at a campus. As indicated in the preliminary March budget allocations, the total costs for new space are covered by a combination of campus fee revenue and GF redistribution. As shown in Attachment B, \$7.49 million of the total new space need continues to be funded from campus General Fund base budget adjustments.

CSU opened 636,895 square feet of new space in 2008/09 and will open 455,808 square feet (less 93,176) of new space in 2009/10. Campus facilities with new space need are identified in the 2009/10 Support Budget documentation book <http://www.calstate.edu/budget/2009-2010/supportbook2/index.shtml>. The 2008/09 new space need is funded at \$9.10/square foot and the 2009/10 new space need is funded at \$9.41/square foot.

➤ Faculty Post Promotion Increase (PPI)

The second installment of the faculty PPI program occurs in 2009/10. Since the 2009/10 PPI is not subject to budget contingency language in the California Faculty Association collective bargaining agreement, it must be implemented. The \$7 million systemwide cost is distributed on the basis of campus percentage share of the most recently reported past-year actual (2007/08) faculty state-support salary expenditures. PPI eligibility criteria will be provided by Systemwide Human Resources and actual campus costs incurred will vary. For additional information on the PPI program, reference Systemwide Human Resources 2009-01 Technical Memo regarding year one (2008/09) of the PPI program at: <http://www.calstate.edu/HRAdm/pdf2009/TL-SA2009-01.pdf>.

Attachment E – 2009/10 State University Fee Revenue and Nonresident Tuition Adjustments

The March 2009/10 preliminary budget allocations included a proposed 10 percent increase in SUF rates that was approved at the May BOT meeting. Due to the further \$571 million reduction in CSU GF appropriation, the BOT approved an additional 20 percent increase in 2009/10 State University Fee (SUF) rates in July equivalent to \$672 for undergraduate students, \$780 for teacher credential students and \$828 for graduate students, as well as a \$990 academic year increase in 2009/10 Nonresident Tuition, which are included in these 2009/10 July revise final budget allocations.

The SUF revenue increase from the initial 10 percent SUF rate increase and changes in student enrollment patterns is \$131 million of which \$42.4 million is set aside for financial aid leaving \$88.6 million net revenue. The SUF revenue increase from the additional 20 percent SUF rate increases is \$235.9 million of which \$78.6 million is set aside for financial aid leaving \$157.3 million net revenue. The estimated increase in 2009/10 nonresident tuition revenue as shown in Attachment E is \$11.5 million. Net revenue increases will assist to offset 2009/10 mandatory cost increases and GF budget reductions.

Attachment F – 2009/10 Final Budget, State University Grant Adjustments Distributed

Total SUG allocations and the campus distribution of the 2009/10 SUG increase of \$121 million are shown on Attachment F. The SUG distribution by campus is based on 2009/10 SUF rate increases, campus funded enrollment targets, and a recognition of the highest need students, defined as those with a family contribution less than or equal to \$4,000. The campus SUG allocations are calculated after allowances for SUF Waivers and Cal Grant fee awards.

Campus SUG allocations recognize the distribution of financial need for both the highest need students and those with student family contributions between \$4,001 through \$9,000. While the SUG allocation methodology ensures that the SUF is covered for students with the highest level of need, systemwide financial aid policy enables campuses to make awards to SUG-eligible students with family contributions up through 50 percent of the cost of attendance for a student living off campus (approximately \$9,000) and/or to increase SUG awards to cover the cost of additional education expenses. Questions about the SUG distribution process or campus' SUG allocations may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or dkulju@calstate.edu.

Attachment G – CSU Operating Revenue - 2009/10 Interest Payment Schedule

The campus 2009/10 CSU operating revenue interest payment schedule is again included with the budget allocations for informational purposes. There are no changes from the schedule as shown in the preliminary 2009/10 budget allocations distributed in March. 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 2009/10 chargeback by campus is based upon campus operating revenue equivalent to the 2008/09 SUF and other fee revenue included in 2008/09 FIRMS final budget submissions. The campus quarterly assessments will be processed by Cash Posting Order 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.