

B 10-01

To: CSU Chief Fiscal Officers

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

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

Date: February 19, 2010

Subject: Abbreviated 2010/11 Governor's Budget Allocation Memo

Attachments: B 10-01 Governor's Budget Allocation Memo, Attachments A through E

This abbreviated 2010/11 Governor's Budget allocation memorandum with attachments are provided for provisional planning purposes. Included in this allocation memo are campus base budget adjustments that will occur and other informational items. Due to continuing uncertainty as the Legislature considers the Governor's proposals to close California's projected \$20 billion budget shortfall, no new budget allocations will be made at this time. Campuses should continue to make provisional plans for 2010/11 at currently assigned resident full-time equivalent students (FTES) enrollment targets for the fiscal year. Fee-revenue assumptions should continue to follow projections included in the campuses' mid-year reduction plan, which assume a systemwide enrollment level of 310,317 resident FTES and the possibility of a 10 percent increase in student fee rates. The CSU Budget Office projections of student fee revenue based on these assumptions are included on Attachment E of this document only for provisional planning purposes.

The Board of Trustees has not taken action on fee rates for the 2010/11 academic year, although the Governor's Budget assumes a 10 percent rate increase. Pending board action on fee rates and until final 2010/11 student enrollment targets by campus are known, no adjustments in campus operating fee revenue is included in this memorandum.

The following table compares the CSU Board of Trustees (BOT) 2010/11 budget plan approved at its November 2009 meeting with the January 8, 2010 Governor's Budget:

	BOT Budget Plan	Governor's Budget
2009/10 General Fund Appropriation	\$2,337,952,000	\$2,337,952,000
2009/10 Retirement Adjustment	7,446,000	7,446,000
Revised General Fund Base	<u>\$2,345,398,000</u>	<u>\$2,345,398,000</u>
Restoration of 2009/10 One-time Unallocated Reductions	305,000,000	305,000,000
General Operations	103,216,000	0
Core Academic Support Needs	25,804,000	0
Access to Student Services and Instruction / 2.5% Enrollment Growth	56,036,000	60,552,000
General Fund Augmentation in Lieu of 10% Fee Increase	111,136,000	0
Other Base Adjustments (e.g. lease bonds, dental annuitants, debt service, fee revenue interest)	565,000	12,485,000
2010/11 General Fund Appropriation	<u>2,947,155,000</u>	<u>2,723,435,000</u>

The Governor's Budget restores \$305 million of one-time reductions made in 2009/10 and provides a 2.5 percent increase for enrollment growth. The \$305 million restoration is related to the following two reductions made in 2009/10:

- \$255 million line-item veto
The Governor's veto message described this as a one-time reduction to be replaced with state General Fund in 2010/11.
- \$50 million reduction by the Legislature as part of the original 2009/10 budget act adopted last February
The Legislature included language in the budget act that indicated its intent to restore these funds when possible.

Restoring these two reductions was the initial foundation of the 2010/11 budget request that the board approved last November. The other items in the board-approved CSU support budget request, a total of \$579 million of General Fund request, were not included in the 2010/11 Governor's Budget.

The Governor's Budget also proposes a 2.5 percent enrollment growth (\$60.6 million) augmentation that is contingent on \$6.9 billion of federal funds for various programs outside higher education. The restoration of the \$305 million is not contingent on federal funds or any other assumptions. This distinction between the contingent nature of the enrollment growth funds and the non-contingent nature of the \$305 million is significant.

At this time, the \$305 million restoration and \$60.6 million for enrollment growth are held in systemwide provisions.

Please direct questions concerning this memorandum to Rodney Rideau, Chris Canfield, or a system Budget Analyst at (562) 951-4560. Reference the staff directory for further contact information, <http://www.calstate.edu/budget/about/staff-directory.shtml>

References to 2010/11 Governor's budget:

1. Assembly Bill 1609

(reference: http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_1601-1650/ab_1609_bill_20100108_introduced.html)

2. State of California, Department of Finance, 2010-11 Governor's Proposed Budget

(reference: <http://www.ebudget.ca.gov/>)

3. Legislative Analysts' Office, Overview of the Governor's Budget

(reference: http://www.lao.ca.gov/reports/2010/bud/budget_overview/bud_overview_011210.pdf)

The following summarizes Attachments A through E displays.

Attachment A – 2010/11 Governor’s Budget Allocations, Gross Budget Summary

At this point in time, changes to the campus gross budgets have been limited to General Fund base adjustments only. Due to continuing budget uncertainty, meaningful campus budget plan expenditure increases or changes to State University Fee (SUF) revenue cannot be projected. As with past practice, other revenues are the same as those submitted in the campus current year (e.g. 2009/10) FIRMS final budgets.

Attachment B – 2010/11 Base Budget Adjustments

Base budget adjustments are changes required to address modifications to the General Fund (GF) allocation that campuses received in the 2009/10 final budget (reference Coded Memo B 09-02). The CSU 2009/10 GF appropriation based on the 2009/10 Budget Act enacted last July totaled \$2,337,952,000, which after base budget adjustments becomes \$2,345,397,656 for 2009/10 and \$2,357,882,000 for 2010/11. The 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 2009/10 CalPERS employer-paid retirement rates of .343 percent increase in the State Miscellaneous Tier 1 category and .216 percent decrease in the State Peace Officer/Firefighter category resulted in an overall increase of \$7.4 million in CSU employer-paid retirement costs. The state Department of Finance will process the 2009/10 GF appropriation retirement adjustment before fiscal year end. The retirement adjustment amounts are based on the change in retirement rates applied to the campus 2009/10 FIRMS final budget CSU State Support salaries submitted in August 2009. For additional information on employer-paid and employee retirement, please reference the 2010/11 Support Budget supplemental documentation at <http://www.calstate.edu/budget/fybudget/2010-2011/documentation/index.shtml>.

❖ Adjustment in Distribution of 2009/10 versus 2010/11 Unallocated GF Base Expenditure Reductions

The campus distribution of the \$571.1 million reduction included in 2009/10 final budget allocations has been revised for 2010/11 in accordance with Dr. Quillian’s November 6, 2009 memorandum to campus Chief Administrators / Business Officers regarding mid-year budget reduction reports due in February 2010. The difference of the two distributions results in a GF base budget adjustment for 2010/11.

A primary difference in the distribution of the \$571.1 million base budget reduction in 2009/10 versus 2010/11 is related to the 2009/10 base reduction in salary expenditures (e.g. employee furloughs) that is replaced in 2010/11 with a systemwide 9.5 percent reduction (32,576) in FTES enrollment targets at the projected 2009/10 marginal cost GF savings of \$7,964 per FTES.

❖ General Fund Base Adjustments

Other General Fund base budget adjustments include an operating fee revenue interest assessment adjustment (\$.9 million) in Systemwide Provisions (SWP); transfers from SWP to C.O. for Assist Program (\$.2 million) headquarters rent and insurance (\$2.3 million), and Council on Science and Technology dues (\$77,625); SWP lease revenue bonds increase (\$12.7 million), dental annuitants funding

adjustment (\$.7 million), and retired 1997 deferred maintenance debt decrease (\$1.9 million).

Attachment C – 2010/11 Mandatory Cost Increases / 2010/11 Governor’s Budget GF Restoration and Enrollment Growth

❖ 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 2010/11 budget plan that was adopted by the CSU Board of Trustees in November 2009 and include increases in employer-paid health benefits, energy, and new space costs. For reference purposes, Attachment C includes the campus distribution of CSU 2010/11 mandatory cost increases as further described below:

➤ Health Benefits

The projected annualized cost to cover the increase in employer-paid health care benefits resulting from January 2010 premium increases is \$9.7 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 (2008/09) state support health benefits expenditures.

For additional information regarding January 2010 health and dental benefit premium increases, please reference the 2010/11 Support Budget supplemental documentation at <http://www.calstate.edu/budget/fybudget/2010-2011/documentation/7-health-care-premium-table.shtml>.

➤ Energy Costs

The 2010/11 CSU budget plan included \$7.2 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses, which would conservatively cover the projected 2010/11 increase. The total has been distributed by campus based on the campus proportional share of custodial square footage included in the 2009/10 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ 2010/11 New Space Need

The CSU 2010/11 support budget plan identified a total cost of \$5.4 million to fund regular maintenance of 552,409 square feet of new space at \$9.73 per square foot. Further information on campus facilities with new space need are identified in the 2010/11 Support Budget supplemental documentation at: <http://www.calstate.edu/budget/fybudget/2010%2D2011/documentation/3-new-space-table.shtml>.

❖ GF Restoration and Enrollment Growth

The \$305 million restoration and the \$60.6 million for 2.5 percent enrollment growth (8,290 FTES) included in the 2010/11 Governor’s Budget are held in systemwide provisions pending further decisions related to enrollment targets and use of funds. The funding for enrollment growth is linked on a contingent basis to an optimistic Governor’s Budget assumption of \$6.9 billion of federal funds for various programs outside higher education, whereas the restoration of the \$305 million is not contingent

on federal funds or any other stated assumptions in the Governor’s Budget.

Attachment D – CSU Operating Revenue - 2010/11 Interest Payment Schedule

The campus 2010/11 CSU operating revenue interest payment schedule is included with the budget allocations for informational purposes. The total 2010/11 campus operating revenue interest chargeback is \$7.2 million, which represents a \$.9 million reduction from \$8.15 million assessed in 2009/10. The 2010/11 interest assessment is based on the campus operating revenue equivalent to the 2009/10 State University Fee and other fee revenue reported in 2009/10 FIRMS final budget submissions.

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 campus quarterly assessments will be processed by Cash Posting Order to credit systemwide provisions. Questions concerning processing of quarterly interest payments should be directed to Kelly Cox, CSU Systemwide Financial Operations, at (562) 951-4611.

Attachment E – 2010/11 SUF Revenue – Based on CSU Mid-Year Reduction Plan Resident Student Enrollment Targets

As stated in the memorandum introduction, fee-revenue assumptions shown on Attachment E are provided for provisional planning purposes only. The fee revenue projections included in the attachment follow campus mid-year reduction plans based on 310,317 resident FTES and a potential 10 percent SUF rate increase. There are also revenue adjustments related to changes in enrollment patterns and the lagging implementation of 2009/10 SUF rates on the summer term.

As stated in the introduction, the Board of Trustees has not taken action on fee rates for the 2010/11 academic year, although the Governor’s Budget assumes a 10 percent rate increase. Following is a summary of the academic year SUF rates with a 10 percent rate increase:

SUF Rates -- Academic Year	2009/10	10% Increase*	2010/11*
Undergraduate Programs			
6.1 or more	\$4,026	\$402	\$4,428
0 to 6.0	\$2,334	\$234	\$2,568
Credential Programs			
6.1 or more	\$4,674	\$468	\$5,142
0 to 6.0	\$2,712	\$270	\$2,982
Graduate and Other Post-Baccalaureate Programs			
6.1 or more	\$4,962	\$498	\$5,460
0 to 6.0	\$2,880	\$288	\$3,168

*subject to BOT approval