



Coded Memo B 2012-01

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: February 10, 2012

Subject: 2012/13 Governor's Budget Allocations

Attachments: Coded Memo 2012-01, Attachments A-E

The CSU 2012/13 Governor's Budget allocation memorandum and attachments are provided for provisional planning purposes. The CSU funding adjustments in these allocations are based on the Governor's January budget proposals and include a ballot trigger reduction.

The 2012/13 Governor's Budget provides no new operating budget support above the adjusted 2011/12 appropriations of \$2.003 billion. The 2012/13 Governor's Budget has funding adjustments to General Fund appropriations for lease revenue bond debt service, annuitant's dental premiums, employer-paid retirement costs, and CSU interest payments to the State. In addition, the 2012/13 Governor's Budget proposes to add the debt service costs for general obligation capital outlay projects as a permanent component of the CSU support budget base with no adjustments as a direct obligation of the state to these capital outlay debt service costs going forward. Base budget adjustments related to financial aid are also included in these budget allocations.

Moreover, the Governor's Budget is premised on the passage of a November 2012 ballot initiative that would increase taxes on high income earners and boost the state sales tax by a half-cent to raise an estimated \$6.8 billion per year in new revenue for the next five years. If the ballot measure is approved by voters, the 2012/13 Governor's Budget calls for no change in the CSU \$2.003 billion level of operating support budget. However, if the ballot measure is not approved by voters, the Governor's budget proposes a \$200 million General Fund reduction to the CSU to help address the revenue shortfall. If this happens, not only will annual General Fund state support for the CSU have fallen by a total of \$950 million in less than 18 months, but this sharply reduced level of state support would likely continue into subsequent fiscal years as a permanent cut. This reality, combined with the long lead times necessary to implement permanent spending reductions, requires that campuses begin to immediately plan for this 2012/13 potential budget.

Of significant importance to the CSU are the fiscal incentives identified in the Governor's Budget. It is a long standing practice for the state to separately budget and annually adjust general obligation and lease revenue

debt service for CSU capital projects. It is also a longstanding practice for the state to budget and annually adjust the CSU support appropriation for employer contributions to the California Public Employees' Retirement System (CalPERS) and retired employees' annuitant dental premium costs. These annual budget adjustments are typically made in the Governor's January budget. However, the Governor's Budget proposes to fold the appropriations for lease revenue bond debt service, annuitants' dental premium costs, and employer-paid retirement costs, as well as capital outlay GO bond debt service, into the CSU budget and no longer annually budget or provide annual General Fund adjustments as a direct cost obligation of the state after the 2012/13 fiscal year. This would require CSU to factor these heretofore state obligations into the overall call on new resources in the CSU support budget decision making process. If the legislature were to adopt these proposed changes it would, over time, create new cost pressures competing for support budget resources. Because debt service also would be competing for future support budget resources, CSU's ability to plan and fund capital projects would be constrained.

The following table summarizes the CSU 2012/13 budget planning assumptions, which are premised on the potential "trigger" reduction and the 2012/13 State General Fund (GF) CSU appropriations in the Governor's Budget summary.

| | |
|---|------------------------|
| 2011/12 Budget Act General Fund Appropriation | \$2,141,273,000 |
| 2011/12 \$100M Mid-Year Reduction | (100,000,000) |
| 2011/12 Retirement Adjustment | (38,521,063) |
| 2011/12 Revised General Fund | \$2,002,751,937 |
| 2012/13 General Fund Trigger Reduction | (200,000,000) |
| | \$1,802,751,937 |
| 2011/12 Revised General Fund | \$2,002,751,937 |
| Lease Revenue Bond Payments Adjustments | 5,495,000 |
| Annuitants' Dental Insurance Adjustment | 1,096,000 |
| State Interest Payment Adjustment | 1,310,000 |
| Provision to Shift General Obligation Bond Debt Service | 189,775,000 |
| 2012/13 General Fund After Base Adjustments | \$2,200,427,937 |

The budget adjustments in this coded memorandum also include a \$181.5 million increase in gross 2012/13 tuition fee revenue above 2011/12 tuition fee revenue. The 2012/13 tuition adjustments are related to change in enrollment patterns, 2011/12 tuition fee rates applied to the summer term, and 2012/13 tuition fee rates applied to the academic year. This memorandum allocates a \$65.9 million increase in State University Grants (SUG), which is funded from tuition fee revenue projected from rate increases. After setting aside financial aid, the 2012/13 net revenue increase projected is \$115.6 million.

Campus resident full-time equivalent student (FTES) enrollment targets for 2012/13 remain unchanged from 2011/12 at 331,716 FTES for purposes of these budget allocations. As further indicated in the January 26 memorandum to campus presidents from the Chancellor's Office, campuses should manage within the enrollment tolerance indicated when developing provisional plans based on the 2012/13 Governor's Budget.

Following are references to the 2012/13 Governor's Budget:

1. 2012/13 Budget Bill AB 1463: http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_1451-1500/ab_1463_bill_20120110_introduced.html
2. State of California, Department of Finance, 2012/13 Governor's Budget Summary: <http://www.ebudget.ca.gov/pdf/BudgetSummary/FullBudgetSummary.pdf>

3. 2012/13 Governor's Budget for CSU:
<http://www.ebudget.ca.gov/pdf/GovernorsBudget/6000/6610.pdf>

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

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Attachments

Following are summaries of the allocations detailed in Attachments A through E.

Attachment A – 2012/13 Governor’s Budget Allocations, Gross Budget Summary

The 2012/13 Governor’s Budget allocations are presented as preliminary adjustments to the 2011/12 Final Budget allocation base. The adjustments include estimated budget actions specified on Attachments B, C, and D. The 2012/13 allocations on Attachment A may be further revised by campuses to reflect fee revenue adjustments for campus planning estimates.

Attachment B – 2012/13 Governor’s Budget Allocation Base Adjustments and Mandatory Cost Projections

Base budget adjustments address modifications to the GF allocation that campuses received in the 2011/12 final budget (reference Coded Memo B 2011-02). The CSU GF appropriation in the 2011/12 Final Budget enacted last June totaled \$2,141,273,000. After the additional 2011/12 mid-year trigger reduction (that becomes permanent in 2012/13), 2011/12 retirement adjustment, proposed 2012/13 shift of general obligation bond debt services into CSU’s budget, and 2012/13 lease revenue bond, dental annuitant, and revenue interest assessment adjustments, the revised GF base for 2012/13 is \$2,200,478,000 as further described below.

❖ 2011/12 \$100 Million Mid-Year GF Trigger Reduction

The 2012/13 Governor’s Budget permanently incorporates the \$100 million GF trigger reduction that occurred mid-year of 2011/12. The distribution is based upon the campus percentage share of the 2011/12 final budget allocation (Coded Memo B 2011-02) share of gross budget after reduction for SUG.

❖ Retirement Adjustment

Each year the California Public Employees’ Retirement System (CalPERS) adjusts employer-paid contribution rates in order to maintain the actuarial soundness of the system and meet defined benefit pension obligations. The campus 2011/12 CalPERS employer-paid retirement rate adjustments reflect the difference between the 2010/11 rates funded by the state during 2010/11 (composite of CalPERS July-December 2010 and January-June 2011 rates) and the new 2011/12 rates. The year to year change in funded rates was applied to the campus 2011/12 FIRMS final budget CSU State Support salaries submitted in August 2011. The additional amount held in systemwide provisions is to reconcile with the Budget Act of 2011, which included a retirement adjustment level as if the higher July 2010 CalPERS rates had been in effect for all 12 months of 2010/11 fiscal year.

The state Department of Finance will process the 2011/12 GF appropriation retirement adjustment before the end of the 2011/12 fiscal year. For additional information on employer contributions and employee retirement, please reference the 2012/13 Support Budget supplemental documentation at <https://www.calstate.edu/budget/fybudget/2012-2013/documentation/index.shtml>.

The Governor’s 2012/13 budget plan proposes to no longer annually budget or adjust CSU employer-paid retirement contributions going forward.

❖ Other Base Adjustments

Other base budget adjustments in systemwide provisions include lease revenue bonds (-\$50,000 in 2011/12 and \$5,545,000 in 2012/13), annuitants’ dental (\$1,096,000) adjustments, and offset of funding restorations (-\$2,372,800).

Also, the Governor's budget plan includes a provision to shift general obligation bond debt into CSU's budget (\$189,775,000). This would represent a historical change from the past practice for the state to separately budget and annually adjust general obligation debt service for CSU capital projects.

❖ **Campus Operating Revenue Interest Assessment**

The total CSU 2012/13 operating revenue interest assessed (\$2,217,000) is \$1.310 million less than the 2011/12 \$3.527 million assessment. The interest assessment has occurred since 2006/07 when CSU higher education fee revenue moved from a state fund to a Trust Fund. The CSU obligation is in budget statute and is meant to keep the state whole for interest earned on student fee revenue held in trust. The distribution by campus is based on the campus operating revenue equivalent to the 2011/12 tuition and other fee revenue reported in 2011/12 FIRMS final budget submissions. The interest cost is calculated using the most recent Surplus Money Investment Fund (SMIF) interest rates.

The campus base budget adjustments will replace the quarterly assessments processed by Cash Posting Order beginning in 2012/13. Annual adjustments will be indicated in annual allocations.

❖ **Mandatory Costs Projections**

Mandatory costs are provided in these allocations for information only. Attachment B identifies CSU projections for mandatory cost increases related to changes in health premiums, energy rates, and new space operations.

➤ **Health Benefits**

Projected annualized cost of funding employer-paid health care benefit premium rate increases effective in January 2012 is \$15.1 million. Health care benefit rate 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 percentage share of campus FIRMS 2010/11 actual state support health benefits expenditures. For additional information regarding January 2012 health adjustments, please reference the 2012/13 Support Budget supplemental documentation at <https://www.calstate.edu/budget/fybudget/2012-2013/documentation/index.shtml> and HR technical memorandum at <https://www.calstate.edu/HRAdm/pdf2011/TL-BEN2011-11.pdf>.

➤ **Energy**

The 2012/13 support budget request included \$4.6 million for campus cost increases in electricity, natural gas, and water/sewer rates. The \$4.6 million is distributed by campus based on the campuses' proportional share of custodial square footage included in the 2011/12 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ **New Space**

The 2012/13 support budget request included \$2.8 million to fund regular maintenance of 274,881 square feet of new space at \$10.02 per square foot. More information on campus facilities with new space need is provided in the 2012/13 Support Budget supplemental documentation, which had also included unfunded 2011/12 new space: <https://www.calstate.edu/budget/fybudget/2012-2013/documentation/index.shtml>.

Attachment C – 2012/13 Governor's Budget Allocation, General Fund Expenditure Adjustments

The Governor's Budget allocation expenditure adjustment included in Attachment C of this memorandum include financial aid (SUG) adjustments and the 2012/13 \$200 million trigger reduction proposed if the

Governor’s tax measure slated for the November ballot is not passed by voters.

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

The SUG set-aside from current 2012/13 revenue adjustments is \$65.9 million. This SUG augmentation is distributed based on financial need and budgeted enrollment targets. The difference between how the SUG increase is funded (based on one-third set-aside of estimated campus tuition revenue adjustments) and how SUG is distributed (based on estimate of need and enrollment targets) results in the adjustments to campus GF allocations as shown on Attachment C.

❖ \$200 Million Trigger Reduction

The estimated distribution of the cut is based upon the campus percentage share of the 2012/13 gross budget after base budget adjustments in Attachment B and reduction for total 2012/13 SUG.

Attachment D –2012/13 Governor’s Budget Allocations, Tuition Fee Revenue Adjustments

This coded memo includes tuition fee revenue adjustments related to changes in student enrollment patterns, 2011/12 tuition fee rate change applied to the summer term, and 2012/13 tuition fee rate change (BOT RFIN 11-11-14) for the academic year. Adjustments in financial aid related to the revenue from rate changes are also displayed in Attachment D. For purposes of tuition fee revenue projections, the budgeted resident enrollment target remains at the same level as in 2011/12 of 331,716 FTES.

The following table summarizes the projected 2012/13 tuition fee revenue adjustments as shown in Attachment D:

| | Gross Tuition Fee Revenue Adjustments | Financial Aid Set-Aside | 2012/13 Net Tuition Fee Revenue Adjustment |
|--|---|----------------------------|---|
| 2012/13 Tuition Fee Revenue Adjustments | | | |
| Change in Student Enrollment Patterns | (\$16,162,000) | | (\$16,162,000) |
| 2011/12 Tuition Fee Rate Change Applied to Summer Term | 3,617,000 | (1,205,000) | 2,412,000 |
| 2012/13 Tuition Fee Revenue from Rate Increase | 194,090,000 | (64,695,000) | 129,395,000 |
| Total 2012/13 Tuition Fee Revenue Adjustments | \$181,545,000 | (\$65,900,000) | \$115,645,000 |

Following is a summary of the 2012/13 academic year tuition fee rates with the BOT RFIN 11-11-14 tuition rate increase:

| Tuition Academic Year Rates | 2012/13 |
|---|----------------|
| Undergraduate Programs | |
| 6.1 or more | \$5,970 |
| 0 to 6.0 | \$3,462 |
| Credential Programs | |
| 6.1 or more | \$6,930 |
| 0 to 6.0 | \$4,020 |
| Graduate and Other Post-Baccalaureate Programs | |
| 6.1 or more | \$7,356 |
| 0 to 6.0 | \$4,266 |

The total 2012/13 enrollment target with 331,716 resident FTES and 13,573 nonresident FTES is 345,289. The nonresident FTES is based on the most recent past-year actual (2010/11). While enrollment growth is not funded in the 2012/13 Governor’s Budget, the following estimated 2012/13 resident student marginal cost of instruction (MCC) rate per FTES by program area is provided for reference:

**2012/13 Resident Student Marginal Cost of Instruction Rate Per FTES
(DOF Methodology)**

| | Student Fees | General Fund | Total |
|--|----------------|----------------|-----------------|
| Instruction | \$1,744 | \$4,076 | \$5,820 |
| Instructional Equipment Replacement | 0 | 95 | 95 |
| Academic Support | 557 | 813 | 1,370 |
| Student Services | 432 | 734 | 1,166 |
| Institutional Support | 547 | 612 | 1,159 |
| Operation and Maintenance (O&M) of Plant | 514 | 481 | 995 |
| 2012/13 Marginal Cost Calculation Totals ¹ | \$3,794 | \$6,811 | \$10,605 |

¹ The 2012/13 MCC net of financial aid would be \$9,340 if enrollment growth was funded (\$3,794 student fees portion of marginal cost would be reduced to \$2,529 with remaining \$1,265 one-third for financial aid).

Attachment E – 2012/13 Governor’s Budget Allocations, State University Grant (SUG) Adjustment

Attachment E provides the total 2012/13 SUG allocations by campus with the \$65.9 million increase from 2012/13 tuition revenue adjustments added to the 2011/12 SUG allocated. The preliminary SUG distribution by campus is based on 2012/13 tuition revenue adjustments, 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 tuition 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 \$12,000. While the SUG allocation methodology ensures that tuition 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 to 50 percent of the cost of attendance for a student living off campus (approximately \$12,000) 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 by email at dkulju@calstate.edu.