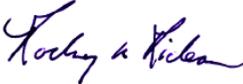


Coded Memo B 2012-02

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 19, 2012

Subject: 2012/13 Enacted State Budget Allocations

Attachments: Coded Memo 2012-02, Attachments A-F

The CSU 2012/13 enacted state budget allocations are provided in this memorandum with attachments and update the 2012/13 Governor's budget allocations, Coded Memo B 2012-01. The state budget was chaptered on June 27, 2012 and includes AB 1464, Chapter 21 as the main budget bill and AB 1497, Chapter 29 that includes final language related to the trigger reduction (Control Section 3.62) and the main support item 6610-001-0001 as well as the Governor's vetoes on provisions 5, 6, 9, and 10 of that item. The effect of the vetoes is to remove legislative funding restrictions on the CSU science and math teacher initiative, nursing programs, retirement annuitant dental benefits, and resident enrollment targets.

The 2012/13 enacted state budget is premised on the passage of a November 2012 ballot initiative that would increase taxes on higher income tax payers for seven years starting with the 2012 tax year, and would increase the state sales tax by 0.25 percentage points for four years beginning January 1, 2013. These increases are estimated to provide a net benefit to the state General Fund of \$5.6 billion.

If the ballot measure is approved by voters, the enacted state budget calls for no reduction in CSU \$2.010 billion General Fund support for 2012/13. However, if the ballot measure is not approved by voters, a \$250 million General Fund reduction to the CSU will occur to help address the state's revenue shortfall. This represents a \$50 million increase in the CSU trigger reduction included in the Governor's January budget proposal. If the trigger occurs, not only will annual General Fund state support for the CSU have fallen by a total of \$1 billion in less than 18 months, but this sharply reduced level of state support would likely continue into subsequent fiscal years as a permanent cut. Due to the long lead times necessary to implement permanent spending reductions, CSU must plan for this 2012/13 potential budget.

The most notable new development in the enacted state budget for the CSU is the proposal to "buy out" the already-implemented tuition fee increase for the 2012/13 academic year with an appropriation that would not be operative until the 2013/14 fiscal year. The buyout proposal is effective only if the November tax initiative is enacted. One of the budget trailer bills (AB 1502) includes separate appropriations of \$125 million each to the CSU and UC systems in the "2013/14" fiscal year. Two conditions must be met for the CSU to access this appropriation in 2013/14: (1) the governor's tax initiative must be enacted and (2) the Board of Trustees must choose to reset CSU tuition fee rates for the 2012/13 academic year back to the levels in

effect for the 2011/12 academic year. It is expected that the Board of Trustees will consider the buyout proposal at its September meeting and that any action would be made contingent on the election outcome.

A welcome change in the enacted state budget was the elimination of the Governor’s January budget proposal to fold appropriations for capital outlay general obligation bond debt service into the CSU budget and to discontinue annual adjustments for CSU lease revenue bond debt service, annuitants’ dental premium costs, and employer-paid retirement costs. This would have required CSU to factor these state obligations into the overall call on new resources in the CSU support budget decision making process and constrain the CSU’s ability to plan and fund capital projects.

The enacted budget allocations include adjustments to General Fund (GF) appropriations for lease revenue bond debt service, annuitant’s dental premiums, employer-paid retirement costs, and CSU interest payments to the state. A General Fund adjustment related to tuition fee discounts is also included in these budget allocations. The following table summarizes the CSU 2012/13 GF appropriation in the 2012/13 enacted state budget, and reflects the impact of the potential “trigger” reduction.

2011/12 Budget Act General Fund Appropriation	\$2,141,273,000
2011/12 \$100M Mid-Year Reduction	(100,000,000)
2011/12 Retirement Adjustment	(38,521,000)
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2011/12 Revised General Fund	\$2,002,752,000
Lease Revenue Bond Payments Adjustments	5,495,000
Annuitants' Dental Insurance Adjustment	1,096,000
State Interest Payment Adjustment	1,309,000
2012/13 General Fund After Base Adjustments	\$2,010,652,000
2012/13 General Fund Trigger Reduction	(250,000,000)
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	\$1,760,652,000

The budget adjustments in this coded memorandum also include a \$176.5 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 tuition fee discounts. After the tuition fee discounts, the 2012/13 revenue increase estimate is \$110.6 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.

- ❖ References for the 2012/13 enacted state budget include:
 - 2012/13 Budget Bills [AB 1464 \(2012-13 Budget: main bill\)](#);
 - [AB 1497 \(Budget Act of 2012\)](#): reference for final 6610-001-0001 language and Control Section 3.62)
 - [AB 1502 \(Budget Act of 2012: augmentation\)](#): conditional 2013/14 appropriation)
 - State of California, [Department of Finance, 2012/13 California Budget](#)

The 2012/13 enacted state budget allocation Attachments A through F details are summarized on the following pages. Please direct questions concerning the budget allocations to Rodney Rideau, Director of the Budget; Chris Canfield, Associate Budget Director, or a Systemwide Budget Analyst at (562) 951-4560. Reference the [staff directory](#) for additional contact information.

Attachment A –2012/13 Enacted State Budget Allocations, Gross Budget Summary

The 2012/13 enacted state budget allocations are presented as adjustments to the 2011/12 final budget allocation base with adjustments by campus, programs, and systemwide provisions that are further specified on Attachments B, C, D, and E. The 2012/13 allocations on Attachment A may be further revised by campuses to reflect fee revenue adjustments for campus planning estimates. Also added in these updated allocations for information on Attachment A are the 2012/13 allocations available after tuition fee discounts (column 16).

The support budget documentation change in terminology from State University Grants to tuition fee discounts is presented in these allocations to be more descriptive of what actually occurs with this foregone revenue. This change in terminology will be further vetted across CSU groups and campuses during 2012/13.

Systemwide Provisions include CSU administrative obligations or programs that are managed through the Chancellor's Office for purposes of administrative or financial efficiency. It includes debt payments on lease-payment bonds to the State Public Works Board; payments to CalPERS for annuitant dental premiums; management of CSU academic preparation activities; financial audits; student testing contracts; CSU implementation of state initiatives such as Affordable Student Housing, the Math and Science Initiative, and the CSU Nursing Initiative; and inter-segmental programs coordinated with the community colleges and UC such as Project ASSIST. To a very limited extent, Systemwide Provisions are also drawn upon when one-time funds are needed to meet emergencies or other compelling situations at specific campuses.

Attachment B – 2012/13 Enacted State Budget Allocation Base Adjustments

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 became permanent in 2012/13), 2011/12 retirement adjustment, and 2012/13 lease revenue bond, dental annuitant, and revenue interest assessment adjustments, the revised GF base for 2012/13 is \$2,010,652,000 as further described below.

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

The 2012/13 enacted state 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 tuition fee discounts.

❖ Retirement Adjustment

Each fiscal 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 (DOF) processed the 2011/12 GF appropriation retirement adjustment at the end of the 2011/12 fiscal year. For additional information on 2011/12 employer contributions and

employee retirement, please reference the [2012/13 Support Budget supplemental documentation](#).

The Governor's January budget had proposed to no longer annually budget or adjust CSU employer-paid retirement contributions going forward. However, as a consequence of discussions during legislative budget hearings, the enacted state budget, [Assembly Bill 1464 \(2012-13 Budget\), Section 3.60](#) includes coverage and retirement rates to be covered for the CSU in 2012/13. These rates are also shown in [CSU HR/Benefits technical letter, HR 2012-06](#)

As provided in campus FIRMS final budget submission instructions, campus (2012/13) retirement expenditures reported must be based on the most recent past year (2011/12) CalPERS retirement rates. This is due to the timing of retirement rate budget adjustments that occur subsequent to the enacted state budget and pursuant to Section 3.60. The year to year change (2011/12 to 2012/13) in CalPERS rates will be applied to campus 2012/13 FIRMS final budget CSU state support salaries submitted in August 2012 and reported to the state DOF for purposes of calculating the level of funding required. It is estimated that the rate increase from 2011/12 to 2012/13 will increase CSU systemwide retirement costs (and state funding) over \$50 million.

❖ 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 campus reduction offsets and public safety supplement (-\$3,229,505).

❖ Campus Operating Revenue Interest Assessment

The total CSU 2012/13 operating revenue interest assessed (\$2,217,000) is \$1.309 million less than the 2011/12 \$3.526 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. Future interest adjustments will be based on annual incremental changes to the prior year assessment.

Attachment C – 2012/13 Enacted State Budget Allocation, -\$250M Trigger GF Expenditure Adjustment and 2012/13 Mandatory Cost Increases

The enacted state budget allocation expenditure adjustment included in Attachment C of this memorandum reflects the 2012/13 \$250 million trigger reduction that is mandated by Control Section 3.62 of the Budget Act (AB 1497) if the Governor's tax measure on the November ballot fails.

❖ -\$250 Million Trigger GF Expenditure Adjustment

As provided in a May 25, 2012 memorandum from the Executive Vice Chancellor/Chief Financial Officer to campus Chief Administrators / Business Officers (CABO), the \$250 million trigger reduction has been allocated on the same gross budget General Fund and tuition fee revenue projection less tuition fee discounts as in the Governor's Budget allocations \$200 million reduction with an additional adjustment to campus percentage share of the reduction to reflect \$20 million fixed cost gross budget discount at each of 23 campuses and a reallocation of approximately \$2 million of reductions from the C.O. to the CSUs smallest campuses.

❖ Mandatory Costs Increases

Mandatory costs are provided in these allocations for information only because the state denied the CSU's request to fund these items. 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](#) and [HR technical memorandum](#).

Regarding the January 2013 health benefits rate changes, please reference [CalPERS, Pension and Health Benefits Committee, June 12, 2012 agenda items 6 and 8](#). CSU Human Resources technical memorandum regarding January 2013 health adjustments will be released in the annual timeframe by the end of August and CSU System Budget Office will include the annualized cost increase in the CSU 2013/14 support budget plan based on current employee health plan enrollments. The 2013 Government Code rates (CalPERS agenda item 8) when compared with 2012 Government Code rates represent a 9.82 percent and estimated \$36 million annualized increase in employer-paid health care costs.

➤ 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 section on unfunded 2011/12 new space](#).

Attachment D -2012/13 Enacted State Budget Allocations, Tuition Fee Revenue Adjustments

The 2012/13 Governor's Budget attachment D has been bifurcated into two attachments (D and E) in the enacted budget allocations. Attachment D reflects the tuition fee revenue adjustments and Attachment E reflects the tuition fee discounts associated with tuition fee revenue increases from rate changes. Attachment E also reflects the associated General Fund tuition fee discount adjustment based on campus relative student need.

The tuition fee revenue from adjustments as shown on Attachment D reflect 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. Also, summarized is the total tuition fee discount required for 2012/13 fiscal year tuition fee rate changes. For purposes of tuition fee revenue projections, the budgeted resident enrollment target remains at the same level as in 2011/12 (331,716 FTES).

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

2012/13 Tuition Fee Revenue Adjustments	
Change in Student Enrollment Patterns	(\$21,275,000)
2011/12 Tuition Fee Rate Change Applied to Summer Term	3,639,000
2012/13 Tuition Fee Revenue from Rate Increase	<u>194,082,000</u>
2012/13 Gross Tuition Fee Revenue Adjustments	\$176,446,000
Tuition Fee Discounts Required for Rate Increases	<u>(65,900,000)</u>
2012/13 Final Budget, Net Tuition Fee Revenue after Discounting	\$110,546,000

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). Reference the [2012/13 Governor's budget allocations, Coded Memo B 2012-01](#) for the estimated 2012/13 resident student marginal cost of instruction (MCC) rate per FTES by program area if enrollment growth targets had been changed and funded.

Attachment E – 2012/13 Enacted State Budget Allocations, Tuition Fee Discounts (Foregone Revenue) and General Fund Adjustment

❖ Tuition Fee Discounts

For 2011/12 Final Budget, tuition fee discounts which reflect CSU foregone revenue and General Fund grant appropriations (\$38 million) totaled \$625.8 million. After the increase of \$65.9 million in tuition fee discounts required for 2012/13 fiscal year tuition fee rate increases, total tuition fee discounts rise to \$691.7 million. The distribution of tuition fee discount requirements in 2012/13 is based on campus relative student need and budgeted enrollment targets.

❖ General Fund Adjustment

The difference between how the tuition fees are discounted (based on foregoing one-third of the revenue from tuition fee rate increases) and how tuition fee discounts are distributed (based on campus relative student financial need) results in the adjustments to campus GF allocations shown on Attachment E.

Attachment F – 2012/13 Enacted State Budget Allocations, Tuition Fee Discount Adjustments

Attachment F identifies 2012/13 tuition fee discounts by campus, which reflects the \$65.9 million increase from 2012/13 tuition fiscal year fee rate revenue adjustments added to the 2011/12 final budget amount. The distribution by campus combines foregone revenue, campus funded enrollment targets, and recognition of the highest need students, defined as those with a family contribution less than or equal to \$4,000. The campus tuition fee discounts are allocated after allowances for tuition fee waivers and Cal Grant fee awards.

The distribution of the tuition discount requirements by campus reflects the financial need for both the highest need students and those with student family contributions between \$4,001 through \$12,000. While the methodology ensures that tuition fees are discounted for students with the highest level of need, systemwide financial aid policy enables campuses to recognize eligible students with family contributions up to 50 percent of the cost of attendance for a student living off campus (approximately \$12,000). Questions about the distribution process or campus tuition fee discount amounts may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at dkulju@calstate.edu.

RT/RC/CC

Attachments