

Memorandum

CODE: B 98-02

Date: March 16, 1998

To: Chief Financial Officers

From: John R. Richards
Budget Director
Business and Finance

Subject: 1998/99 Governor's Budget Allocations

The 1998/99 Governor's Budget campus allocations are attached. The attachments include campus and system office budget allocations based on the Governor's 1998/99 budget proposal, CSU 1998/99 revenue projections and 1997/98 base budget adjustments.

Attachment A summarizes total 1998/99 Gross Budget allocations. Attachment B details adjustments made to 1997/98 Final Budget allocations to establish the Base Budget for 1998/99. Attachment C identifies Budget Plan expenditure increases for 1998/99. These increases reflect the priorities set forth by the Board of Trustees in its Support Budget request adopted in November 1997 and all adjustments to the trustees' request made by the Governor in his budget submission to the Legislature in January 1998. Attachment D details the calculation for 1998/99 State University Grant allocations to campuses.

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Attachment E details gross expenditure changes for 1998/99 and identifies campus General Fund, State University Fee revenue and Other Receipts allocations for the budget year. Attachment F details the CSU State University Fee revenue calculation. Attachment G details full-time equivalent, headcount enrollments and waivers used for 1998/99 budget allocations.

This code memo is posted to the CSU Budget Office website at the following address: <http://www.co.calstate.edu/bo>. Explanations of these allocations are contained on the following pages. The allocations provided in the memorandum should be used for campus planning purposes only. These initial allocations may change as a result of the level of appropriations contained in the 1998/99 Budget Act or additional system budget requirements.

Attachment A: 1998/99 Gross Budget Summary

Attachment A summarizes Base Budget and Budget Plan expenditure adjustments that result in a gross expenditure budget for 1998/99 totaling \$2.8 billion. In total, 1997/98 Final Budgets, as reported by campuses in August 1997, have been reduced by \$5.2 million, principally for the change in CSU retirement rate contributions. Planned expenditure increases for 1998/99 total \$179.4 million which primarily supports the two priority concerns identified in the trustees' Support Budget – enrollment and compensation. Campus gross budget projections do not reflect any adjustments that may be made by campuses to State University Fee revenue and other CSU estimated Receipts prior to Final Budget submissions currently scheduled for August 1998.

Attachment B: 1998/99 Base Budget Adjustments

Several adjustments have been made to 1997/98 Final Budget allocations which result in a 1998/99 Base Budget of \$2.6 billion, a little over \$5 million less than the reported 1997/98 Final Budget allocation.

1. The first adjustment provides permanent funding for campus technology allocations made in 1997/98 from Lottery and General Fund resources. As specified in the September 25, 1997 letter from Senior Vice Chancellor for Business and Finance Richard P. West, campuses will receive \$5 million to replace one-time lottery funds and nearly \$400,000 as permanent allocation of General Fund appropriations received for technology in 1997/98. In addition, \$3.1 million has been permanently allocated to Information Resources and

Technology for systemwide technology projects initiated in 1997/98.

2. The second adjustment reflects a reduction in CSU 1997/98 budgeted PERS retirement contributions. The State has reduced CSU 1997/98 appropriations by Governor's Executive Order to recover the \$5.1 million in savings from the decrease in retirement rates. The reductions made to campuses budgets are based on its pro-rata share of actual 1996/97 retirement expenditures. Questions concerning the PERS retirement rate adjustment should be directed to Beth Ryan at (562) 985-2724.
3. The next two adjustments, Fee Rate Reductions and Fee Rate Reduction Backfill are associated with the five percent reduction in undergraduate fee rates. The reduction and General Fund backfill shown in columns (3) and (4) reflect campus revenue loss and General Fund subsidy requirement that has been projected for 1997/98 budgeted enrollments and the one percent enrollment growth covered by the higher education funding compact based on the provisions and legislative intent established by AB 1318 enacted in 1997. The 1998/99 Governor's Budget provides \$19.4 million for the lost fee revenue. However, based on revised campus calculations, the actual projected loss amounts to almost \$19.6 million. Campuses will be provided full funding for the revised calculated loss of \$19.6 million.
4. The final adjustment involves three campus assessments for services provided centrally. The third and final installment of the three-year Trustees' Audit assessment will be completed in 1998/99. The assessment supports the audit reorganization detailed in the final report of the CSU Taskforce on Auditing dated January 23, 1996. The taskforce recommendations were presented and approved by the Board of Trustees at their March, 1996 meeting. Questions concerning the phase-in should be directed to Larry Mandel at (562) 985-2627.

Two additional assessments have been allocated for 1998/99. Costs associated with annual GAAP audits will be assessed to campuses beginning in the 1998/99 fiscal year. In addition, increased costs associated with the English Placement Test program administered centrally for the campuses will be assessed in 1998/99. Both assessments are based on campuses prorata share of 1996/97 gross expenditures. The final determination of the GAAP audit and English Placement Test assessments will be made following further discussion by the Chief Administrative and Business Officers prior to Final Budget allocations.

5. The Special Initiatives adjustment at CSU, Stanislaus reflects a modification in the budgetary administration of funds provided in 1997/98 for the Stockton Developmental

Center. Although the \$1.7 million appropriation – which is authorized through the year 2001/02 – will be held centrally, the campus will receive an annual allocation for the center until the appropriation expires.

Attachment C: 1998/99 Budget Plan Adjustments

Attachment C of the 1998/99 Governor's Budget Allocations reflects the current budget plan for CSU. It identifies specific funding for increases in Mandatory Costs, four percent Enrollment growth, a four percent pool for negotiating employee Compensation increases, increased funding for Plant Maintenance, and Special Initiatives authorized by the trustees or provided by the Governor.

Mandatory Costs represent contractual or otherwise required obligations that sustain current program service levels at CSU. These obligations include: Benefits Maintenance, Workers' Compensation, New Space and Lease Bond payments.

1. Benefits Maintenance - Health and dental rates increased approximately 9% and 3% beginning January 1998, respectively. A one-time only allocation for the part year costs of both rate increases was provided to the campuses in fiscal year 1997/98. For fiscal year 1998/99, permanent funding has been provided for full-year costs totaling \$7.6 million.
2. Workers' Compensation - Campus premium payments to the risk pool will increase in fiscal year 1998/98 approximately 20% over 1997/98 premium levels, principally to fund increased costs in the workers' compensation program. To help mitigate the increase in premium levels, \$4.8 million increase will be allocated to campuses in 1998/99.

Please contact Beth Ryan at (562) 985-2712 if you have any questions regarding workers' compensation or benefit maintenance allocations.

3. New Space and Lease Bonds - Costs associated with maintaining new buildings during 1998/99 are included in column (3). Campus allocations in this column are solely for new space included in the trustees' Budget. New space modifications made subsequent to adoption of the trustees' budget and which have not been identified in this allocation letter will receive one-time funding for 1998/99. This one-time funding will be made permanent in 1999/2000 New Space budget allocations. New space costs are funded at the approved rate of \$6.45 per square foot.

Lease Bond payments are contractual obligations to repay funds borrowed for building construction and maintenance projects that improve CSU facilities and infrastructure. The

state estimates that lease bond costs will require an additional \$5.1 million in General Fund appropriations in 1998/99. Lease bond costs are paid centrally. Questions regarding new space or lease bonds should be referred to Mark Lopez at (562) 985-2712.

State University Grants - The systemwide pool of funds available for State University Grants (SUGs) will be increased by approximately \$6.1 million, based on the projected State University Fee revenue increase for 10,320 full-time equivalent students (FTES) in 1998/99 using the reduced 1998/99 fee rates. In total, State University Fee revenue is expected to grow by nearly \$18.2 million. The SUG pool will be increased by an amount equivalent to one-third of the projected revenue increase, in accordance with CSU fee and financial aid policy. Questions regarding the SUG increase may be directed to Rodney Rideau at (562) 985-2712.

Campus allocations reflect the estimated change in the level of grant funding received in 1997/98. Campus grant allocations are made on the basis of procedures determined by the Chancellor's Office unit for Access and Retention in accordance with policies endorsed by the Financial Aid Advisory Council. The estimated 1998/99 SUG allocations to campuses may change, therefore campuses should initially budget only their share of 90% of the system's grant base for financial aid purposes (see Attachment D, Prelim. Alloc. 3/98). Permanent grant adjustments will be made in 1998/99 Final Budget allocations.

Enrollment Growth - The 1998/99 Governor's Budget funds a four percent systemwide enrollment increase which translates into 10,320 full-time equivalent students (FTES). The increase is based on 1997/98 budgeted enrollment of 258,000 FTES. The enrollment targets shown on Attachment G were announced in a letter to Presidents from Interim Senior Vice Chancellor for Academic Affairs Charles W. Lindahl and Senior Vice Chancellor for Business and Finance Richard P. West on December 12, 1997. Based on this enrollment growth, campuses are funded at the marginal cost of instruction rate of \$5,963 (\$6,389 less the financial aid set-aside of \$426). Of this amount, \$5,832 is funded as direct enrollment related costs in column (6) and \$131 funds the Instructional Equipment allocation shown in column (8). Enrollment allocations are rounded, as are all budget plan allocations, to match Governor's Budget appropriations.

Compensation - Funding for new compensation increases in 1998/99 equals \$71.3 million. This allocation provides a funding pool equivalent to a 4.0% compensation increase, calculated on the basis of budgeted 1997/98 Salaries and Wages and associated benefit costs (retirement, OASDI, and Medicare). The 4.0% funding pool will be used to negotiate employee compensation increases through the collective bargaining process.

Campus allocations for compensation are based on their pro-rata share of actual 1996/97 Salary and Wages expenditures in accordance with the allocation guidelines approved as part of the CSU budget redesign process.

Also included in the compensation amount is the \$2.4 million available for the full-year cost of negotiated Service-based Salary Increases (SSI) not funded in fiscal year 1997/98. This funding is allocated in the same manner as new compensation – on a pro-rata basis determined by reported 1996/97 Salary and Wages expenditures in accordance with the allocation guidelines approved as part of the CSU budget redesign process.

Please contact Beth Ryan at (562) 985-2712 if you have any questions regarding the compensation allocation.

Instructional Equipment - The instructional equipment allocation represents that portion of the 1998/99 marginal cost of instruction calculation that is provided for instructional equipment for enrollment growth. It is based on CSU annual depreciation calculations for instructional equipment. As with past allocations, campuses should use these funds in association with technology initiatives planned or currently underway.

Plant Maintenance - The CSU budget plan allocation for plant maintenance has been increased to \$4.1 million, primarily due to an adjustment in the revenue calculation for the three percent additional enrollment growth over the one percent compact requirement. With the \$4.1 million, the total increased amount of support available for campus on-going maintenance since 1996/97 will be \$20.7 million. This includes base budget increases of \$9.6 million in 1996/97, \$7.0 million in 1997/98, and the proposed \$4.1 million in 1998/99. The allocation method for these funds is currently under study and the final allocations may reflect adjustments based on the study's conclusions. Governor's Budget allocations for maintenance are based on campuses share of 1998/99 custodial square footage.

As with previous plant maintenance allocations, emphasis should continue to be placed in the area of scheduled repair or Priority One special repair projects. Priority One projects are "those projects which are currently critical and must be repaired." Campuses will be asked for a pre-audit project listing of how they anticipate spending their 1998/99 maintenance funds.

Consistent with Legislative intent, the CSU is required to prepare a post audit report on the actual expenditure of maintenance funds by project. The report will provide confirmation that ongoing budgets for facility maintenance and repairs are incrementally increasing to diminish growth in the CSU deferred maintenance backlog. Questions concerning this report should be directed to campus program managers at the Chancellor's Office division of Physical Planning and Development.

Special Initiatives - a special funding allocation for Monterey Bay continues as part of the new campus start-up costs recognized in the 1998/99 Governor's Budget. Also included is the final installment of special earthquake-related funding at Northridge and transition-related administrative costs at CSU, San Bernardino. Additionally, \$500 thousand in federal Goals 2000 funding has been allocated to System Offices for teacher recruitment initiatives administered through the Education Reform Institute in Sacramento. The Summer Arts program budget has been reduced by \$44,352 to reflect a change in anticipated revenue. The Summer Arts program is currently hosted at CSU, Long Beach.

Special initiatives allocations also include the \$5.2 million trustees' budget request for the relocation and operation of an expanded Ventura County off-campus center at the former Camarillo State Hospital, a \$5 million Governor's augmentation for teacher preparation and \$1 million of a \$3 million intersegmental request for CSU's costs associated with establishing the California Virtual University. These funds will be administered centrally and campuses should receive specific information on the allocation of teacher preparation and virtual university funding through their academic vice presidents.

Attachment D: 1998/99 Preliminary State University Grant Calculation

Campuses are advised to budget initial financial aid awards on the basis of the dollars allocated in the column titled "Prelim. Alloc. 3/98" on Attachment D. This funding represents ninety percent of the system grant base for 1997/98. Final allocations will be made after the final budget is enacted. For informational purposes, campus share of the total \$6.06 million increase in the grant pool (based on currently available data) is shown in the column titled "Estimated Change from 97/98 Alloc."

Attachment E: 1998/99 Gross Expenditures and Fund Detail

Attachment E identifies the 1998/99 Gross Base Budget by fund source, 1998/99 budget plan adjustments, and the 1998/99 Governor's Budget allocation by fund source. Column (4) reflects the base budget adjustments to campus 1997/98 General Fund and State University Fee allocations specified on Attachment B. Campus reported State University Fee revenue was reduced by approximately \$19.6 million to reflect the five percent reduction in undergraduate

fee rates. Campus General Fund budgets were increased by \$24.9 million to replace the revenue loss and permanently allocate technology funding received in 1997/98, and they were reduced by \$6.5 million to reflect the reduction in PERS retirement contributions and the three assessments currently planned for service costs provided centrally. In addition, a \$1.7 million technical, administrative budget adjustment at CSU, Stanislaus is reflected in the base budget allocations.

Column (6) reflects the addition of \$179.4 million to the 1998/99 base budget for planned expenditure increases. The 1998/99 Governor's Budget gross budget allocation will be funded with approximately \$18 million in new State University Fee revenue from 10,230 FTES growth as reflected in column (7), \$500,000 in federal funds which is reflected as a reimbursement in column (8), and \$160.7 million in new General Fund support as reflected in column (9). Roughly 87 percent of new General Fund support, \$139.1 million, has been allocated to campuses in the 1998/99 Governor's Budget allocation.

Attachment F: 1998/99 State University Fee Revenue Calculations

All campus State University Fee revenue calculations begin with final budget revenue as detailed in B 97-03. Attachment F details the calculations used to determine revenue loss from the five percent reduction in undergraduate fees and revenue increase associated with the 10,320 FTES growth in enrollment for 1998/99. Enrollment details associated with these calculations have been posted to the CSU Budget Office website at the following address: <http://www.co.calstate.edu/bo>.

The revenue loss displayed in column (8) is subtracted from campus reported Final Budget revenue shown in column (2) of Attachment A. The result of these adjustments are shown in column (2) on Attachment E. The revenue gain from four percent enrollment growth displayed in column (10) is added to the adjusted State University Fee revenue displayed in column (2) on Attachment E and results in the 1998/99 Governor's Budget revenue displayed in column (7) on Attachment E.

Campuses may further modify their receipts allocations to reflect unique changes in nonresident tuition, application fee and other revenues that are not adjusted during the budget development process. Also, campuses may change their State University Fee revenue to reflect waivers and other collection experiences not included in the system revenue calculation process. Although receipts (and thus, expenditures) may be modified by the campuses, the total net General Fund allocation shown on this summary table will not change as a result of campus modifications.

Attachment G: 1998/99 Enrollment

1998/99 enrollment is based on FTES targets established in the December 12, 1997 letter to presidents and headcount calculations and fee waiver distributions are based on 1996/97 actual reported enrollments as specified in the July 28, 1997 memo to campus Enrollment Planning and Reporting Officers.

Page one of Attachment G identifies FTES and headcount used for revenue calculations. A detailed display of enrollment used for the 1998/99 budget process has been posted to the CSU Budget Office website at the following address: <http://www.co.calstate.edu/bo>. The FTES target displayed in column (1) reflects the enrollment increase shown in column (5) of Attachment C added to 1997/98 campus enrollment targets.

Page two identifies fee waivers incorporated in the 1998/99 CSU revenue estimate. The 1998/99 budgeted waivers are based on 1994/95 actual reported waivers. Discussions are still underway relative to budget recognition of waivers since 1994/95. Any changes that result from these discussions will be reflected in campus Final Budget allocations.

Please call Mark Lopez or Rodney Rideau with questions about the State University Fee revenue calculations. If you or your staff have general or specific questions related to the 1998/99 Governor's Budget allocations, you may contact me or anyone on the Budget staff to go through the processes and calculations used.

Attachments