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CODED MEMO B 2017-05

To: CSU Chief Financial Officers

From: Ryan Storm, Assistant Vice Chancellor for Budget 
Kara Perkins, Executive Budget Director 

CC: Timothy P. White, Chancellor,
Steven Relyea, Executive Vice Chancellor and Chief Financial Officer,
Loren J. Blanchard, Executive Vice Chancellor for Academic and Student Affairs
Melissa Bard, Vice Chancellor of Human Resources,
CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors,
Enrollment Planning and Resource Officers, and Enrollment Managers

Date: July 14, 2017

Re: 2017-18 Final Budget Allocations

Attachments: Coded Memo B 2017-05, Attachments A-D

The Governor signed the Budget Act of 2017 on June 27, 2017 (Assembly Bill 97, Chapter 14). The budget act includes a \$179.2 million base appropriation increase for CSU operations and includes an additional \$5.1 million increase for lease revenue bond annual debt service costs. The final budget allocations also include \$118.9 million gross tuition revenue as a result of the 2017-18 tuition rate increase approved by the Board of Trustees at the March 2017 meeting ([RFIN 03-17-03](#)), and an \$11.0 million increase in tuition revenue from enrollment growth. The combined General Fund and tuition revenue are used to fund increases in the Graduation Initiative 2025, State University Grants, employee compensation and benefits, enrollment growth, and mandatory costs.

The attachments to the memo display the following final budget adjustments by campus:

- Attachment A: Support Budget Total (CSU Fund 485)
- Attachment B: Revisions to 2016-17 General Fund Allocations
- Attachment C: 2017-18 Expenditure and Revenue Adjustments
- Attachment D: 2017-18 Enrollment, Tuition & Fee Revenue, and State University Grant Adjustments

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

2017-18 Final Budget Summary

2016-17 Final Budget, General Fund (Coded Memo B 2016-02)	\$3,169,425,000
Revisions to 2016-17 General Fund (2016-17 State-Funded Employer-Paid Retirement Adjustment)	\$36,833,000
2016-17 Revised General Fund Base	\$3,206,258,000
2016-17 Final Budget Gross Tuition and Fees (Campus Reported)	\$2,876,083,300
2017-18 Expenditure Adjustments	
Mandatory Costs	
Employer-paid Health Care and Dental Premiums	\$3,341,000
Operations and Maintenance of New Facilities	776,000
Other Mandatory Costs	20,680,000
2017-18 Lease Revenue Bond General Fund Adjustment	5,070,000
Employee Compensation Increases (Current Contracts)	141,098,000
Graduation Initiative 2025	75,000,000
Enrollment Growth	26,483,000
State University Grants	39,561,000
Transportation Research	2,000,000
Total 2017-18 Expenditure Adjustments	\$314,009,000
2017-18 General Fund Increase (\$177.2M and \$5.1M)	\$182,306,000
State Transportation Fund Increase (Transportation Research)	\$2,000,000
Gross Revenue from Fall 2017 In-State Tuition Rate Increase	\$118,682,000
Enrollment Growth Revenue (2,487 FTES)	\$11,021,000
Total 2017-18 Revenue Adjustments	\$314,009,000
2017-18 Budget, Total General Fund	\$3,390,564,000
2017-18 Budget, Total Gross Tuition and Fees	\$3,005,786,300
2017-18 Total Gross Budget	\$6,396,350,300
State University Grants	
2016-17 Campus Base	\$661,387,800
2017-18 Increase	39,561,000
2017-18 Total State University Grants	\$700,948,800

The Budget Act of 2017 includes several one-time funding augmentations. A forthcoming separate coded memorandum (B 2017-06) will provide information on one-time allocations. The two coded memorandums together will provide clarity between base (or ongoing) funding sources and those that are one-time in nature.

Detailed explanations of ongoing budget allocations are provided in the following pages. General Fund and gross tuition revenue changes by campus are included in the attachments to this coded memorandum.

Questions concerning this memo or its attachments may be directed to Kara Perkins, Chris Canfield, or other System Budget Office staff at (562) 951-4560. Please reference the [Budget Office staff directory](#) for additional contact information and staff areas of assignment.

Additional References

- Budget Act of 2017, [AB 97](#); Higher Education Trailer Bill, [SB 85](#)
- [CSU 2017-2018 Support Budget](#)
- [State of California, Department of Finance, California Budget 2017-18](#)
- [CSU Detail in the 2017-18 State Budget](#)

RS: KP: CC

Attachments

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Final Support Budget Allocations, Attachment Descriptions

Support Budget Total (CSU Fund 485) - (Attachment A)

Attachment A summarizes the 2017-18 support budget by campus after revisions to 2016-17 General Fund allocations and 2017-18 expenditure and revenue adjustments as detailed in Attachments B, C, and D.

Revisions to 2016-17 General Fund Allocations - (Attachment B)

Revisions to the 2016-17 General Fund allocations reflect changes that occurred since the 2016-17 final budget allocation memo B 2016-02 was published. These adjustments include:

- **State-Funded Retirement Adjustment**

Each year CalPERS adjusts employer-paid contribution rates to meet defined benefit pension obligations.

The state adjusts the CSU General Fund appropriation for employer-paid contribution rate changes based on the actual CSU 2013-14 pensionable salaries reported by the State Controller's Office.

The 2015-16 to 2016-17 State Miscellaneous First Tier rates increased from 25.150 percent to 26.728 percent and the State Peace Officer / Firefighter rate increased from 38.985 percent to 41.923 percent. The total retirement cost increase funded by the state is \$36.8 million. This additional allocation occurred during 2016-17. The distribution by campus is based on the 2013-14 pensionable payroll as provided by the State Controller's Office.

- **Program Funding**

Base budget adjustments of \$4.3 million are included to support ongoing systemwide programs and initiatives managed by the Chancellor's Office.

2017-18 Expenditure and Revenue Adjustments - (Attachment C)

- **Employer-Paid Health Care and Dental Premiums**

Effective January 2017, the estimated annualized cost to fund employer-paid health care and dental benefit premium rate increases is \$3.3 million. The number of CSU employee participants and the difference between the old and new employer-paid contribution rates determine health care and dental benefit rate cost increases. The distribution of employer-paid health care and dental benefit cost increases is based on the percentage share of campus 2015-16 actual state-supported health benefits and dental expenditures. For additional information regarding January 2017 health and dental premiums, please reference Human Resources Technical Letter, [HR/Benefits 2016-07](#).

- **Operations and Maintenance of New Facilities**

This allocation includes an increase of \$776,000 for regular operations and maintenance of new facilities, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support. In 2017-18, the CSU is scheduled to open 70,121 new square feet. Funding of regular operations and maintenance is provided at the rate of \$11.07 per square

foot. More [details on campus facilities included in this allocation](#) are provided online in the 2017-18 Support Budget supplemental documentation.

- **Other Mandatory Costs**

Funds are held centrally for future allocation related to federal and state mandates, compensation (new contracts and non-represented), and retirement above state-funded level. The Budget Act of 2017 included an appropriation for *transportation research, training and education* (\$2,000,000) and is held centrally pending allocation decisions, which are expected before November 2017. It is expected that the transportation research appropriation will continue for ten years.

- **Lease Revenue Bond Debt Service Payments Adjustment**

Related to lease revenue bonds, the state included a \$5.1 million increase to the CSU General Fund appropriation in 2017-18 to recognize and fulfill capital outlay debt service commitments. Beginning in 2014-15, when the state shifted capital outlay responsibilities from the state to the CSU, the state committed to increase funding over a three-year period for the annual debt service for CSU projects that were approved by the governor and legislature but not yet completed. It is anticipated the projects will be completed as planned in 2017-18. This amount represents the last of three planned permanent funding increases for this purpose.

- **Employee Compensation**

These final budget allocations include \$141.1 million to cover employee compensation for faculty and staff as outlined in [current collective bargaining contracts and memorandums of understanding](#):

Faculty

- Base, ongoing funding to replace one-time 2016-17 allocation, \$33.0 million
- July 1, 2017 3.5 percent general salary increase, \$64.9 million
- 2017-18 service salary increases for eligible faculty, \$18.6 million

Staff

- June 30, 2017 two percent general salary increase (CSUEU-CBIDS R02, R05, R07, and R09, and CBIDs R01, R04, R06, R10), \$22.0 million
- 2017-18 Public Safety (CBID R08) salary increase, \$0.8 million
- 2017-18 Academic Student Employees (CBID R11) salary increase, \$1.8 million

The distribution of faculty and staff current contract compensation increases are based on the percentage share of campus 2015-16 actual state-supported salaries. The distribution by campus of base, ongoing funding to replace the 2016-17 one-time allocation of \$33.0 million from the Chancellor's Office is included in the 2016-17 final one-time budget allocations, [Coded Memo, B 16-03](#).

Related to compensation for bargaining units without 2017-18 compensation agreements and for non-represented employees, it is premature to report any cost implications at this time. At the conclusion of the collective bargaining process, the cost and funding sources will be determined and allocated to campuses.

- **Graduation Initiative 2025**

For 2017-18, \$75 million is allocated to campuses for Graduation Initiative 2025. These funds are allocated, as follows: (1) a base budget increase of \$1 million per campus totaling \$23 million acknowledging that all campuses must make progress toward their Graduation Initiative 2025 goals; (2) \$26 million based on each campus’ proportion of students with significant financial need in 2015-16, based on Pell Grant and State University Grant awards; and (3) \$26 million based on the number of first year students enrolled on each campus who need additional college preparation in math and/or English.

The allocation methodology acknowledges that while all campuses have ambitious graduation rate targets, in order to eliminate equity gaps, differing levels of financial investment will be required. The allocation methodology is not intended to serve as a campus expenditure plan. Each campus may use these funds in support of their graduation initiative plan, including systemwide priorities of increased tenure-track faculty hiring, offering additional high-demand course sections to increase average unit load for undergraduate students, and additional academic and student support services. Details on campus reporting requirements will be provided in a separate communication.

- **Funded Student Enrollment Growth**

The 2017-18 final budget includes enrollment growth of 2,487 full-time equivalent students (FTES) for a total enrollment growth cost of \$26.5 million. Funding to support 2017-18 FTES growth is based on the 2017-18 published marginal cost of instruction of \$10,649 per FTES, which is made up of a combination of state general fund and net tuition revenue (reference [2017-18 support budget marginal cost](#) detail).

The methodology used in this year’s allocation for enrollment growth improves upon the methodology used in 2016-17, and acknowledges the different tuition collection per FTES at each campus. This ensures that each FTES is fully funded through a combination of tuition and general fund to reach \$10,649.

The 2017-18 methodology uses each campuses’ net tuition, which varies based on each campuses’ SUG allocations and mandatory fee waivers (see example of new model below). This methodology starts with the same \$10,649 marginal cost per FTES, subtracts each campuses’ tuition revenue, and makes up the difference with state general fund.

Campus X		Campus Y	
\$10,649	Funding per FTES	\$10,649	
<u>(4,207)</u>	<u>Campus Net Tuition per FTES</u>	<u>(4,483)</u>	
\$6,442	General Fund per FTES	\$6,166	

The campus net revenue per FTES calculation is based on campus *actual* 2015-16 FIRMS gross tuition revenue (Object Code 501001) minus State University Grants (Object Code 609002) divided by actual college year FTES.

- **State University Grants**

The \$39.6 million increase in State University Grant (SUG) expenditures is allocated by campus based on the number of 2015-16 awards to students in the highest priority category—those students with an Expected Family Contribution of between \$0 and \$4,000. This allocation

methodology ensures that at least the same number of grants can be made at each campus in an amount that will cover the increase in 2017-18 tuition rates. Further details on total SUG distribution by campus are outlined in Attachment D.

**2017-18 Enrollment, Tuition & Fee Revenue, and State University Grant Adjustments –
(Attachment D)**

- **Tuition Rate Increase Revenue**

The 2017-18 in-state tuition rate increase will generate an estimated \$118.7 million in gross revenue in 2017-18. The increase in revenue by campus is projected based on actual 2015-16 enrollment patterns, fee waiver discounts, and funded full-time equivalent students (FTES) targets for resident students (361,644 FTES) and most-recent past-year nonresident students (24,398 FTES).

- **Enrollment Growth Tuition Revenue**

The 2017-18 funded student enrollment growth of 2,487 FTES allows for increased unit load and new student access to the university. Tuition revenue projections for this anticipated growth are based on campus average 2015-16 actual tuition revenue collected per FTES. It is projected that \$11.0 million of new revenue will be generated from this funded student enrollment growth.

- **State University Grants**

The 2017-18 budget allocations include a \$39.6 million increase in campus State University Grants, which is equal to one-third of the new gross revenue from the tuition rate increase. The distribution of the SUG increase by campus is described above. The 2016-17 campus base for State University Grants totaled \$661.4 million and this \$39.6 million increase will bring the SUG total to \$700.9 million. Each campus' SUG allocation is considered a minimum expectation of dollars allocated for grants in each college year. Questions about the SUG distribution process may be directed to the System Budget Office or to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at dkulju@calstate.edu.