Report to the Legislature on Funding of Enrollment Growth and Compensation Increases in 2008-09

California State University
January 9, 2009

The Supplemental Report of the 2008-09 Budget Act includes the following language directed to the California State University (CSU):

“On or before January 10, 2009, the university shall provide a report to the Legislature that describes any enrollment growth and compensation increases in 2008-09, and accounts for how they were funded.”

Background on the 2008-09 Budget for the CSU

In November 2007, the Board of Trustees of the CSU adopted a 2008-09 support budget request for the CSU that was built upon the terms and principles of the “Higher Education Compact” agreed on in 2004 between the Governor, the CSU and the University of California. The Compact set out mutual expectations regarding the state’s commitment to fund the universities, and the university systems’ commitments to achieve outcomes that are high priorities for the state. The Compact covers the fiscal years 2005-06 through 2010-11. The Governor’s annual budget proposals to the Legislature were consistent with the Compact for its first three fiscal years (2005-06 through 2007-08). The Legislature’s actions on the budget during those years also were consistent with the Compact, despite the lack of a formal legislative endorsement of the document.

Consistent with the Compact, the Trustees requested an increase in state funding for 2008-09 of $288.2 million. Enrollment growth and compensation increases for faculty and staff were two major elements of this request. The request included $82.5 million for 2.5 percent enrollment growth, based on the state share of marginal cost for 8,572 California resident full-time-equivalent students (FTES). The request also included a total of $154.3 million for compensation increases for faculty and staff. This amount consisted of (a) a $91.1 million “pool” for collective bargaining purposes equivalent to a three percent compensation increase and (b) $63.2 million to address lags between current salaries for different employee groups and salaries for comparable groups at comparison institutions.

A deteriorating fiscal outlook for the State, however, led the Governor to propose a 2008-09 Budget containing deep cuts to almost all programs, including the CSU. The Governor’s Budget, released in January 2008, not only lacked the $288.2 million in state funding needed to meet the basic needs of a growing university; it proposed a further reduction of $97.6 million below the prior-year General Fund base. As a partial offset to these reductions, the Governor’s Budget assumed that some additional revenue would be provided to the CSU by a 10 percent student fee increase. The Board of Trustees approved such a fee increase in May 2008. Net of fee revenues used to provide additional
financial aid, the fee increase is expected to generate approximately $73 million of revenue for the university in 2008-09.

The 2008-09 Budget Act enacted in September kept the CSU at its prior-year General Fund base but provided no state funding increase. Soon after enactment of the budget act, however, further deterioration of the state’s economy and fiscal condition prompted a series of actions by the Governor, including a request to both university systems to reduce spending in order to conserve General Fund cash ($31.3 million in CSU’s case) and sequential calls for the Legislature to meet in special session to address the state’s growing fiscal crisis. The Governor’s special session proposals included a reduction of $66.3 million to the CSU’s current-year budget. In the December special session the Legislature adopted this cut. Combined with the separate $31.3 million mid-year spending reduction, this would place General Fund resources for the CSU at a level $97.6 million below the 2007-08 base; exactly at the place the Governor proposed in January 2008.

The course of the 2008-09 fiscal year, thus, has been marked by extended uncertainties for the system and its 23 campuses, and a series of cuts to date that leave the CSU nearly $313 million short of its workload needs (as documented in the Governor’s 2008-09 Budget). This is posing deep operational challenges for the campuses and impacts to students, faculty and staff. The subjects of this report are integral parts of these challenges and impacts: (a) funding those compensation increases that are contractually obligated and (b) addressing enrollment growth.

Compensation Increases in 2008-09

The CSU is incurring increased costs of $41.8 million in 2008-09 for compensation increases that are due pursuant to previously negotiated collective bargaining agreements, adopted with the full urging of the governor and legislature. These increased costs include the full-year effects of (a) two provisions in the collective bargaining agreement with the California Faculty Association ($37.6 million) and (b) service-based salary increases for eligible employees of all groups ($4.2 million). In addition, the CSU must pay $21.8 million for increased health benefit premiums for CSU employees based on premium rates negotiated for the state by CalPERS. Altogether, therefore, the CSU is incurring new costs of $63.6 million for employee compensation in 2008-09.

The CSU’s collective bargaining agreements include clauses that lead to the reopening of negotiations on salary and benefit increases for any fiscal year that the state does not provide the annual increase in funding called for by the Compact. The service-based increases (due on hiring anniversary dates for eligible employees) and the two provisions cited above from the CFA agreement, however, are not subject to renegotiation because the effective date preceded the start of the 2008-09 fiscal year or the contract language requires payment regardless of new funding. One provision in the CFA agreement provides a 2 percent general salary increase effective June 30, 2008 and the other provides for merit-based adjustments for eligible faculty during the 2008-09
fiscal year regardless of new funding. These costs are $30.6 million for the general salary increase and $7 million for the merit adjustments. From a budget perspective, the increases in annual cost of these provisions take place in 2008-09.

The 2008-09 Budget Act enacted last September provided no increase in state funding for the CSU. The only source of new revenue for CSU operations is $73 million from the 10 percent student fee increase (net of fee revenues returned to financial aid). At the time the budget act was enacted we anticipated that these funds would offset the $63.6 million of increased employee compensation cost and nearly offset an additional $9.8 million of mandatory costs for energy and the operation and maintenance of new space. The likelihood that the state will reduce CSU’s current-year funding by an additional $97.6 million, however, means the university will need to absorb these various mandatory costs within remaining resources. This will contribute to the overall fiscal stress that the university faces, including costs imposed by enrollment growth (described below). As is the case for enrollment growth, these unbudgeted costs for compensation increases are largely met through a variety of temporary and unsustainable actions. These include deferring maintenance on facilities, drawing down on one-time reserves, holding open vacant staff positions and deferring equipment and supplies purchases.

On an ongoing basis, beginning with the 2009-10 fiscal year, the CSU would be able to meet the ongoing costs of the $63.6 million compensation increase if, at a minimum, the Governor’s 2009-10 proposed funding level for the CSU were adopted, including its assumption of a 10 percent increase in student fees for 2009-10.

Enrollment Growth in 2008-09

The state provided funding for 2.5 percent annual enrollment growth during the three fiscal years 2005-06 through 2007-08. Nevertheless, enrollment demand during that period outpaced enrollment growth funding. While the state funded 342,893 California resident FTES in 2007-08, CSU campuses served 353,914 California resident FTES. This means that, through various short-term measures, CSU campuses served 11,021 FTES for whom no state funds were provided. This number was equivalent to enrollment growth of 3.2 percent.

The gap between students served and students funded is not sustainable. When it became apparent, with the introduction of the Governor’s 2008-09 budget proposal in January 2008, that there was little likelihood that the state would fund enrollment growth, the Chancellor instructed campuses to close Fall 2008 application deadlines no later than March 1st. This early closure was intended to help manage enrollment levels closer to funded targets. Nevertheless, some enrollment growth would inevitably occur in Fall 2008 due to the momentum of recent enrollment growth. For example, the record-high “class” of new students admitted during 2007-08 effectively ensured that the number of continuing students would rise in 2008-09. In fact, while the number of new students declined from Fall 2007 to Fall 2008 by 5,733 headcount (4.7 percent), the number of continuing students increased by 10,538 headcount (3.6 percent). Moreover, other factors, such as average course loads taken by students, would mitigate the FTES impact
of the reduction in applications resulting from a shortened application “window” for Fall 2008.

The CSU’S California resident enrollment in Fall 2008 exceeded enrollment for Fall 2007 by 4,583 Fall Term FTES. Campuses had some success in reducing enrollments and related expenditures during summer term. Annualized FTES for summer 2008 was 1,190 annual FTES less than summer 2007. Total FTES for 2008-09 will be the sum of summer “annual” FTES and the average of the sum of fall and spring “term” FTES (and, where applicable, winter term FTES). Campuses are taking additional steps to manage spring enrollment (and winter session enrollment at the six quarter-based campuses) but it is too soon to tell what the results will be. If, for example, winter and spring term FTES end up essentially unchanged from the prior year, enrollment growth for 2008-09 would end up well below one percent.

Given the CSU’s budget situation for 2008-09, the only source of new revenue for enrollment growth above state-funded targets are the student fees associated with that enrollment. These revenues represent only about one-third of the marginal cost of instructing and serving the students on an ongoing basis.

The balance of resources required in the short run to serve the additional students comes from a variety of temporary measures that campuses take to provide the necessary course sections. Educational quality and the long-run health of campus operations, however, are unavoidably compromised. In order to provide course sections, for example, a campus may choose to hire additional part-time lecturers. This strategy, however, reduces the ratio of faculty who are tenured or tenure track which, in turn, erodes a campuses’ capacity to address important “out-of-classroom” tasks, including curriculum and program development and faculty advising of students. Some campuses choose an alternative strategy of asking tenure/tenure track faculty to teach more classes at the expense of time for “out-of-classroom” tasks. This strategy, however, has the same deleterious effect on the availability of faculty for these important activities. It is not a sustainable strategy either from the standpoint of educational quality or the standpoint of our collective bargaining agreement with the faculty.

Other ways campuses redirect one-time resources in order to serve “unfunded” students include deferring maintenance on facilities and drawing down on reserves. Neither of these approaches are sustainable.

The resources available from student fee revenues are often exhausted by the costs of additional course sections. Generally, therefore, funds are lacking to add student services staff. As a consequence, the ratio of students to student services staff grows. Waiting times and wait lists for students to access various services inevitably grow, including academic advising, career counseling, financial aid advising and mental health counseling. These and other student support services are vital for assuring the academic success and timely “path to degree” of countless students.
In November 2008 the Chancellor declared that the CSU, as a system, is “impacted” with regard to enrollments. This unprecedented step, intended to preserve the quality of CSU’s educational programs and services to students, gives a full range of enrollment management “tools” to all CSU campuses. (In the past individual campuses or individual programs at a campus have been declared impacted and therefore eligible to use these enrollment management tools.) Under impaction, campuses will be allowed to use supplemental admissions criteria such as grade point average for applicants from outside the campus’ local service area. In addition, several categories of admission will be strictly restricted, including second-bachelor degree candidates and unclassified postbaccalaureate applicants. We anticipate that implementation of systemwide impaction will enable campuses to manage enrollments to their funded targets in the 2009-10 fiscal year.