May 16, 2013

The Honorable Jerry Brown
Governor of the State of California
State Capitol
Sacramento, CA 95814

RE: Fiscal Year 2011-12 Lottery Revenue Fund Receipts and Expenditures Report

Attached is a copy of the CSU 2011-12 Lottery Revenue Fund Receipts and Expenditures Report in accordance with lottery policies adopted by the Board of Trustees and as required by the Budget Act. Per section 24.60 of the 2012-13 Budget Act, “each state entity receiving lottery funds shall annually report to the Governor and the Legislature on or before May 15 the amount of lottery funds that the entity received and the purposes for which those funds were expended in the prior fiscal year, including administrative costs.” This report displays the actual 2011-12 receipts and expenditures and planned 2012-13 receipts and expenditures for the California State University System.

Should you have any questions about this report please contact Robert Turnage, Assistant Vice Chancellor for Budget, at (562) 951-4560 or rturnage@calstate.edu.

Sincerely,

Benjamin F. Quillian
Executive Vice Chancellor and Chief Financial Officer

Enclosure

BFQ: bdo

c: Members, California State Legislature
Ana Matosantos, Director, Department of Finance
Gregory Schmidt, Secretary of the Senate
Diane Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
E. Dotson Wilson, Chief Clerk of the Assembly, California State Assembly
Timothy P. White, CSU Chancellor
Ephraim Smith, Executive Vice Chancellor and Chief Academic Officer
Garrett Ashley, Vice Chancellor, University Relations and Advancement
Karen Y. Zamarripa, Assistant Vice Chancellor, Advocacy and State Relations
Robert Turnage, Assistant Vice Chancellor for Budget

Business and Finance, 401 Golden Shore, 5th Floor, Long Beach, CA 90802-4210 / www.calstate.edu
INTRODUCTION

Each year, pursuant to section 24.60 of the Budget Act, the California State University (CSU) must report on lottery receipts and expenditures to the Governor and the Legislature. This report satisfies the statutory requirement and is divided into two sections. The first section contains information regarding budgeted and actual revenues and program expenditures for fiscal year 2011-12. The second section contains projected revenue and proposed program expenditures for the 2012-13 fiscal year.

SECTION I – 2011-12 REVENUES AND EXPENDITURES

Each year the CSU Board of Trustees adopts a Lottery Revenue Budget. For the 2011-12 fiscal year, the Board of Trustees adopted a budget totaling $44.0 million as shown on Table 1. The 2011-12 lottery budget was based on an estimated beginning balance of $5 million and estimated receipts of $39 million. For FY 2011-12, the board voted to reduce the reserve from $5 million to $3 million, freeing up additional funds to provide one-time supplemental academic support funding. Current CSU policy establishes a systemwide reserve of $3 million leaving the total budget approved for allocation at $41.0 million.

The CSU continues to conservatively budget lottery revenue based upon its history of annual fluctuation and the inconsistent nature of lottery receipts. While CSU’s lottery receipts have trended incrementally upward over the past decade, 2008-09 and 2010-11 have both seen declines. In light of this uncertainty, the CSU will continue to budget conservatively for lottery revenue projections and will monitor the actual receipts received while making necessary mid-year adjustments as needed.

The actual lottery revenue available for fiscal year 2011-12 was $46.6 million, which includes the beginning balance of $5 million and total receipts of $41.6 million in new lottery generated revenue as transferred to the CSU by the State Controller’s Office (SCO). The 2011-12 actual expenditure balance of $43.2 million reflects one-time increases in lottery receipts and reduced program costs in Doctoral Incentive/Forgivable Loan Programs.

<table>
<thead>
<tr>
<th>Table 1. Revenue - Fiscal Year 2011-12</th>
</tr>
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<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Budgeted</td>
</tr>
<tr>
<td>Beginning Reserve Balance</td>
</tr>
<tr>
<td>Receipts</td>
</tr>
<tr>
<td>Total Revenue</td>
</tr>
<tr>
<td>Systemwide Reserve</td>
</tr>
<tr>
<td>Allocations/Expenditures</td>
</tr>
<tr>
<td>Early Start Program Pre-Funding</td>
</tr>
<tr>
<td>Total Allocations/Expenditures/Reserves</td>
</tr>
<tr>
<td>Actual</td>
</tr>
<tr>
<td>Beginning Reserve Balance</td>
</tr>
<tr>
<td>Receipts</td>
</tr>
<tr>
<td>Total Revenue</td>
</tr>
<tr>
<td>Systemwide Reserve</td>
</tr>
<tr>
<td>Allocations/Expenditures</td>
</tr>
<tr>
<td>Early Start Program Pre-Funding</td>
</tr>
<tr>
<td>Total Allocations/Expenditures/Reserves</td>
</tr>
</tbody>
</table>

Table 2. Expenditures - Fiscal Year 2011-12

<table>
<thead>
<tr>
<th>Program</th>
<th>2011-12 Original Budget</th>
<th>2011-12 Expenditure Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Program Support</td>
<td>$2,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Forgivable Loan/Doctoral Incentive Program</td>
<td>2,000,000</td>
<td>15,000</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
<td>714,000</td>
<td>714,000</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
<td>1,200,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Systemwide Administrative Costs</td>
<td>491,000</td>
<td>502,000</td>
</tr>
<tr>
<td>Campus-Based Programs</td>
<td>29,595,000</td>
<td>29,595,000</td>
</tr>
<tr>
<td>Campus Early Start Financial Aid*</td>
<td>5,000,000</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Supplement for System Programs (Libraries, Panetta Congressional Internship Program, Community Service Learning)</td>
<td>-</td>
<td>1,215,000</td>
</tr>
<tr>
<td><strong>Total Program Budget/Expenditure Allocation</strong></td>
<td><strong>$41,000,000</strong></td>
<td><strong>$40,241,000</strong></td>
</tr>
<tr>
<td>Lottery Reserves</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td><strong>Total Program Budget/Expenditure Allocation, and Reserves</strong></td>
<td><strong>$44,000,000</strong></td>
<td><strong>$43,241,000</strong></td>
</tr>
</tbody>
</table>

*Encumbered for Summer Term, 2012.

In 2011-12, the CSU allocated $3.9 million for three system programs: the Forgivable Loan/Doctoral Incentive Program, the California Pre-Doctoral Program, and the CSU Summer Arts Program. CSU also allocated $29.6 million for campus-based programs, with an additional $3.2 million designated for system programs including community service learning, early assessment testing, and library improvements. The funding is consistent with prior years for lottery campus-based programs and reflects an estimate of anticipated lottery receipts. Detailed program cost information is provided on the following pages.

**Academic Program Support**

In 2011-12, $2 million was taken from systemwide lottery reserves and given to the campuses for improvement in campus academic programs. This support funding is a one-time allocation, with future funding contingent on unplanned carryforward balances that might occur at the end of each fiscal year, or funded through a reduction in other designated programs noted above.

**Forgivable Loan/Doctoral Incentive Program**

The Forgivable Loan/Doctoral Incentive Program provides financial assistance to graduate students and is designed to increase the pool of individuals who show promise of becoming strong candidates for CSU instructional faculty positions. It is a highly competitive program directed by the CSU, open to applicants who will be new or continuing full-time students in doctoral programs at accredited universities anywhere in the United States. Individuals in the program, however, must be sponsored by CSU full time tenure-track faculty for a number of reasons: one, to establish early relationships between doctoral students and CSU academic departments; two, to encourage students during their doctoral studies; and three, to
provide experience that will stimulate interest in a teaching career in the CSU. A major incentive for participants in the program is the opportunity to pursue full-time doctoral studies underwritten by loans that can be forgiven at a rate of 20 percent for each year of full-time teaching at the CSU after completing their doctorate studies.

Although this forgivable loan program has been historically funded through Lottery allocations, in recent past years, a number of doctoral students who received loans through the program have not completed their doctoral studies or defaulted on loans, resulting in collection of original loan dollars. Those collected dollars have been held in trust, which has successfully funded the CDIP program in following years. Unless the trust fund is fully exhausted, lottery funding will serve to supplement available funds in trust on an as-needed basis. The Board of Trustees remains committed to maintaining the full $2 million program fund amount available each year, should the trust fund be exhausted.

**California Pre-Doctoral Program**

Beginning in 1989-90, the California Pre-Doctoral Program was developed cooperatively by the CSU and the University of California. It is designed to increase the pool of potential CSU and UC faculty by supporting the doctoral aspirations of CSU students who have experienced economic and educational disadvantages. The plan is to be tailored to the specific goals and career objectives of the student. Students are motivated to enter the profession through mentoring by faculty, involvement in formal and informal scholarly and research opportunities, interaction with doctoral-granting institutions, membership in professional associations, and attendance at professional conferences.

Each of the applicants selected is designated as a “Sally Casanova Pre-Doctoral Scholar” as a tribute to Dr. Sally Casanova, for whom the Pre-Doctoral scholarship is named. The scholars work closely with California State University faculty sponsors to develop an overall plan which leads ultimately to enrollment in a doctoral program. Students are supported to attend events designed to interest them in graduate study and scholarly careers. A major component of the program is the Summer Research Internship wherein scholars have the opportunity to participate in a structured 8-10 week fully funded research project under the supervision of a professor at a prominent doctoral granting institution.

The California Pre-Doctoral Program is designed to improve coordination between CSU master’s degree programs and participating doctoral institutions, so that a better pipeline of potential academic talent will develop. As in prior years, a modest amount of faculty travel was supported so that CSU faculty could accompany the selected students visiting Ph.D. granting institutions. This enables the students to learn more about opportunities for doctoral study and to establish ongoing faculty-to-faculty relationships with faculty at the doctoral granting institutions.

A portion of lottery funds supports the California Graduate Education Forum (CGEF). The forum brings together promising juniors, seniors, and master’s degree students for a series of workshops covering all aspects of doctoral work. In addition, each CSU campus receives a modest amount of funds for supplies and services so that each campus designated Pre-Doctoral Advisor can collect and disseminate information on doctoral study. A systemwide Pre-Doctoral Program Coordinator coordinates these activities and provides leadership for related programs including the CGEF.

**CSU Summer Arts Program**

CSU Summer Arts began in 1986 as a dance program housed on the campus of CSU Long Beach and has since developed into a multidisciplinary systemwide program offering academic credit, plus a festival in
the visual, performing and literary arts. The academic component offers two-to-four-week residency workshops in arts education, creative writing, dance, music, film/video, theater, performance, visual arts, and new technology. Students from throughout the California State University system, as well as from other colleges and universities throughout the nation, are encouraged to apply, as are practicing teachers, arts professionals, and serious amateurs in various arts areas. Scholarships are available to those who qualify. All courses are coordinated by members of the CSU faculty and are taught by guest artists at the top of their fields. The CSU Summer Arts Program gives students the opportunity to come together and share what they have in common; creative expression.

**Campus-Based Programs**

Campus-based programs represent the largest portion of lottery funds allocation. These funds permit campuses to provide instructional activities that enhance the quality of campus life. The use of these funds allows campuses maximum flexibility in meeting unique campus needs and adds discretionary authority for resource managers to respond quickly to changes in those needs. In keeping with past lottery revenue budgets, funds are allocated to achieve maximum impact through instruction enhancements. In 2011-12, a total of $29.5 million was spent on Campus-Based Programs in support of student instructional and academic programs.

**Campus Early Start Financial Aid**

In May of 2009, the Board of Trustees adopted a resolution authorizing the development of an Early Start Program (ESP). The program serves first time freshman students who are deficient in math and English skills through remedial instruction during the summer term prior to matriculation at any of the CSU campuses. The program successfully launched in summer of 2012 by Executive Order 1048, and the Board of Trustees has authorized the use of $5 million in lottery funds to provide financial aid to students demonstrating need who enroll in the ESP. Although Summer, 2012 is the leading term for the 2012-13 college year, it is necessary to pre-fund the waivers by setting aside funds each year in advance of the upcoming summer term. According to a January, 2013 board of Trustees report on summer 2012 ESP enrollment, 12,000 students registered for math remediation programs while 6,000 students registered for English remediation. A total of 10,800 program fee waivers were awarded in summer, 2012.

**SECTION II – 2012-13 PROJECTED REVENUES AND EXPENDITURES /ALLOCATIONS**

The Board of Trustees approved a 2012-13 lottery budget that included projected revenue comprised of an estimated beginning system reserve balance of $3 million and a new receipts projection of $39 million. Per a Board of Trustees resolution dated November 14, 2012, CSU will maintain $3 million of 2012-13 projected lottery revenue to serve as a reserve for economic uncertainties and cash flow variations resulting from fluctuations in lottery receipts, as well as to provide funds for special instructional and academic support projects the Chancellor may determine are necessary during the fiscal year. The previously reserved additional $2 million will continue to be allocated for supplemental Academic Program Support in accordance with the Board’s direction. It should be noted that continuing to provide this additional $2 million to campuses is contingent on unplanned carry forward balances that might occur at the end of the 2012-13 fiscal year, or funded through a reduction in one of the other designated programs previously mentioned.

Table 3 on the following page identifies the projected revenues for 2012-13 and the funds approved for allocation.
Table 3. 2012-13 Approved Revenue Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$3,000,000</td>
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<tr>
<td>Receipts</td>
<td>39,000,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$42,000,000</strong></td>
</tr>
<tr>
<td>Less Systemwide Reserve</td>
<td>(3,000,000)</td>
</tr>
<tr>
<td><strong>Total Approved for Allocation</strong></td>
<td><strong>$39,000,000</strong></td>
</tr>
</tbody>
</table>

Table 4 below identifies the 2012-13 Board of Trustees approved expenditure plan and allocations of $39 million, which matches the revenue budget approved for allocation in Table 3.

Table 4. 2012-13 Approved Expenditure Plan

<table>
<thead>
<tr>
<th>Lottery Program</th>
<th>Fiscal Year 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forgivable Loan/Doctoral Incentive Program</td>
<td>2,000,000</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
<td>714,000</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
<td>1,200,000</td>
</tr>
<tr>
<td>System Lottery Fund Administrative Costs</td>
<td>531,000</td>
</tr>
<tr>
<td>Campus-Based Programs</td>
<td>29,555,000</td>
</tr>
<tr>
<td>Campus Early Start Financial Aid</td>
<td>5,000,000</td>
</tr>
<tr>
<td><strong>Total Planned Expenditures</strong></td>
<td><strong>$39,000,000</strong></td>
</tr>
</tbody>
</table>