May 15, 2015

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

The Honorable Toni G. Atkins  
Speaker of the Assembly  
P.O. Box 942849  
Sacramento, CA 94249

The Honorable Kevin de León  
Senate pro Tempore  
State Capitol, 205  
Sacramento, CA 95814

California State University Report: Lottery Revenue Fund Receipts and Expenditures  
Fiscal Year 2013-2014

In accordance with lottery policies adopted by the California State University Board of Trustees and as required by section 24.60 of the 2014-2015 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.”, the CSU’s 2013-2014 Lottery Revenue Fund Receipts and Expenditures Report has been posted to www.calstate.edu/budget/fybudget/legislative-reports/. This report displays the actual 2013-2014 receipts and expenditures and planned 2014-2015 receipts and expenditures for the CSU System.

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

Sincerely,

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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CSU Campuses
Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino

San Diego  
San Francisco  
San José  
San Luis Obispo  
San Marcos

Sonoma  
Stanislaus
CSU Legislative Reports Website
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Full report posted to www.calstate.edu/budget/fybudget/legislative-reports/

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   Diane Boyer-Vine, Legislative Counsel
   Mac Taylor, Legislative Analyst
   Daniel Alvarez, Secretary of the Senate
   E. Dotson Wilson, Chief Clerk of the Assembly
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   Garrett Ashley, Vice Chancellor, University Relations and Advancement
   Ryan Storm, Assistant Vice Chancellor for Budget
   Karen Y. Zamarripa, Assistant Vice Chancellor, Advocacy and State Relations
   Kara Perkins, Executive Budget Director
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 2013-14. The second section contains projected revenue and proposed program expenditures for the 2014-15 fiscal year.

SECTION I – 2013-14 REVENUES AND EXPENDITURES

The CSU Board of Trustees traditionally adopts an annual Lottery Revenue Budget in November of each year. For fiscal year 2013-14, the Board of Trustees adopted a budget totaling $42 million as shown on Table 1. The lottery budget for 2013-14 was based on an estimated beginning balance of $3 million and estimated receipts of $39 million. Since fiscal year 2010-11, the board has voted to maintain a reserve of $3 million. This reserve provides resources to manage the allocation of Lottery revenue to campuses pending quarterly receipts from the State Controller and to address unforeseen budget challenges that require immediate, temporary response. Allowing for the systemwide reserve of $3 million, the total budget expenditure plan approved for allocation in fiscal year 2013-14 was $39 million.

The CSU continues to conservatively budget lottery revenue based upon its history of annual fluctuation and the inconsistent nature of lottery receipts. In light of this uncertainty, the CSU will monitor the actual receipts received while making necessary mid-year adjustments as needed.

Lottery revenue available for expenditure in fiscal year 2013-14 was $51.0 million, which includes the beginning balance of $3 million and total receipts of $48.0 million in new lottery generated revenue as transferred to the CSU by the State Controller’s Office (SCO). Total 2013-14 actual expenditures was $39.2 million. There was an unexpended revenue balance of $11.8 million mainly resulting from an unexpected increase in Lottery receipts of $9.0 million in 2013-14.

<table>
<thead>
<tr>
<th>Table 1. Revenue - Fiscal Year 2013-14</th>
<th>Budgeted</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Reserve Balance</td>
<td>$3,000,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>39,000,000</td>
<td>47,977,000</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>$42,000,000</td>
<td>$50,977,000</td>
</tr>
<tr>
<td>Systemwide Reserve</td>
<td>3,000,000</td>
<td>3,000,000</td>
</tr>
<tr>
<td>Allocations/Expenditures</td>
<td>34,000,000</td>
<td>31,527,000</td>
</tr>
<tr>
<td>Early Start Program-Financial Aid</td>
<td>5,000,000</td>
<td>4,623,000</td>
</tr>
<tr>
<td>Total Allocations/Expenditures/Reserves</td>
<td>$42,000,000</td>
<td>$39,150,000</td>
</tr>
</tbody>
</table>
Table 2 below displays the detail of amounts budgeted and allocated for expenditure by lottery program.

<table>
<thead>
<tr>
<th>Table 2. Expenditures - Fiscal Year 2013-14</th>
<th>2013-14 Allocations</th>
<th>2013-14 Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forgivable Loan/Doctoral Incentive Program</td>
<td>2,000,000</td>
<td>0</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
<td>714,000</td>
<td>642,000</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
<td>1,200,000</td>
<td>1,054,000</td>
</tr>
<tr>
<td>Systemwide Administrative Costs</td>
<td>531,000</td>
<td>535,000</td>
</tr>
<tr>
<td>Campus-Based Programs</td>
<td>29,555,000</td>
<td>29,296,000</td>
</tr>
<tr>
<td>Early Start Program-Financial Aid</td>
<td>5,000,000</td>
<td>4,623,000</td>
</tr>
<tr>
<td><strong>Total Program Budget/Expenditure Allocation</strong></td>
<td><strong>$39,000,000</strong></td>
<td><strong>$36,150,000</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>$42,000,000</strong></td>
<td><strong>$39,150,000</strong></td>
</tr>
</tbody>
</table>

In 2013-14, the CSU expended $6.3 million for the California Pre-Doctoral Program, the CSU Summer Arts Program, and the Campus Early Start Financial Aid program. CSU also expended $29.3 million for campus-based programs. The 2013-14 funding allocations are consistent with lottery allocations in prior years and follow guidelines established by state lottery fund policy. Detailed program cost information is provided on the following pages.

**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 subsequent 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 availability of the full $2 million program fund allocation each year, should the trust fund be depleted.
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 2013-14, a total of $29.3 million was spent on Campus-Based Programs in support of student instructional and academic programs.

Since fiscal year 2000-01, campus budgets previously designated for Access and Academic Development, CSU Scholarship Program for Future Scholars, and Teacher Diversity and Recruitment have been consolidated as part of campus-based program allocations. This change was made in order to give campuses more flexibility and control while maintaining the CSU’s efforts to increase outreach and teacher recruitment. Campuses continue to fund these important activities each year based on each campus’s own unique academic environment. Additional expenditures in this category include both new and replacement instructional equipment, curriculum development, scholarships, library materials and subscriptions, and other instructionally-related items.

Early Start Program—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. The program paid $4.6 million for Summer 2013 in fiscal year 13-14.

SECTION II – 2014-15 PROJECTED REVENUES AND EXPENDITURES /ALLOCATIONS

In November 2013, the Board of Trustees approved a 2014-15 lottery budget that included projected revenue comprised of an estimated beginning system reserve balance of $5 million and a new receipts projection of $41 million. Per a Board of Trustees resolution dated November 6, 2013, CSU designates $5 million of 2014-15 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.
Table 3 below identifies the projected revenues for 2014-15 and the funds approved for allocation.

<table>
<thead>
<tr>
<th>Table 3. 2014-15 Approved Revenue Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
</tr>
<tr>
<td>Receipts</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
</tr>
<tr>
<td>Less Systemwide Reserve</td>
</tr>
<tr>
<td><strong>Total Approved for Allocation</strong></td>
</tr>
</tbody>
</table>

Table 4 below identifies the 2014-15 Board of Trustees approved expenditure plan and allocations of $41 million, which matches the revenue budget approved for allocation in Table 3.

<table>
<thead>
<tr>
<th>Table 4. 2014-15 Approved Expenditure Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lottery Program</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Forivable Loan/Doctoral Incentive Program</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
</tr>
<tr>
<td>System Lottery Fund Administrative Costs</td>
</tr>
<tr>
<td>Campus-Based Programs</td>
</tr>
<tr>
<td>Early Start Program--Financial Aid</td>
</tr>
<tr>
<td><strong>Total Planned Expenditures</strong></td>
</tr>
</tbody>
</table>