

THE CALIFORNIA STATE UNIVERSITY

OFFICE OF THE CHANCELLOR



January 10, 2002

MEMORANDUM

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SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

TO: CSU Board of Trustees
CSU Presidents

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed".

SUBJECT: Governor's Budget

As the Governor said in his State-of-the-State message last Tuesday, "tough times call for tough decisions." His budget, released today, makes those tough decisions. At the same time it reflects the governor's continued support for education in California. Although the details of the budget may be revised as the state's economic picture becomes clearer in the months ahead, the Governor's Budget is a vote of confidence in the importance of education at a time of great uncertainty for our state and our country.

The governor's commitment to the CSU remains strong as reflected in a \$116.9 million (4.5%) General Fund increase in CSU's overall \$2.7 billion General Fund budget for 2002/03. The governor's proposed increase for CSU, when combined with \$20.9 million in projected fee revenue for enrollment growth would bring the total CSU state budget base to over \$3.5 billion.

The Governor's Budget most notably includes \$87.9 million to support our projections of a 4% enrollment growth increase next year. Although our plan to complete our conversion to year round operations—with six remaining campuses still needing conversion—was not fully funded, the principle of funding CSU matriculated student conversion to state-supported summer operations at full marginal cost has been preserved.

The budget also provides increased funding, although not at the full higher education partnership agreement levels. The funding provided, however, allows CSU to meet mandatory cost obligations for operating and maintaining 1.5 million square feet of new building space, property insurance increases, and \$5 million to support required equipment for the CSU campus network initiative. In addition, the budget allows for \$10.5 million to cover the full-year 2002/03 cost of employee health insurance and assist campuses with increased premium costs incurred between January and June of this year. Although we are disappointed that the proposed budget does not increase employee compensation at the levels we sought, funding is provided for a 1% increase in employee compensation (\$22.4 million).

CSU Board of Trustees and Presidents

Page 2

January 10, 2002

There are a few targeted areas of reduction in the budget. These reductions include funds previously provided for training K-12 teachers on the use of education technology in classrooms, CalTeach teacher recruitment, and the State University Grant support provided when student fees were reduced in 1998/99 and 1999/00 (\$26 million). There is an additional reduction in the funding to reflect reduced costs of natural gas and a general undesignated cut (\$20 million). In the area of capital outlay, the Governor's Budget provides \$258.8 million from a future bond for projects consistent with the Trustees' capital budget priorities.

In addition to the above capital budget, yesterday the governor unveiled his one billion dollar Economic Stimulus Package. A major element of this package is \$678 million to accelerate public works projects across a number of state agencies. Included are three capital projects for the CSU — one at San Francisco, one at Los Angeles, and one at San Marcos — for a total of \$191 million dollars. This funding will allow us to accelerate three projects that were at the very top of our capital development priority list of qualified projects and it is greatly welcomed.

In sum, given the economic circumstances, we are very pleased with the Governor's Budget and also welcome his Economic Stimulus Package. Together these proposals once again demonstrate the Governor's commitment to higher education, even in difficult times. We must, however, remain cautious as budget negotiations move to the state legislature and we must also follow through on steps we have taken to meet the \$20 million in reductions already called for this year based on projected savings in CSU natural gas costs.

A summary of the CSU Budget request and the Governor's Budget is attached. If you have questions, please contact Executive Vice Chancellor West or me.

CBR:bo

Attachment

cc: CSU Executive Staff

2002/03 Governor's Budget Proposal versus CSU Support Budget Request

10-Jan-02

	BOT October Budget	Governor's Budget	Change
Source of Funds			
2002/03 Budget Plan Revenue Increase			
2002/03 General Fund Budget Increases			
Partnership Funding	\$129,925,000	\$37,709,000	(\$92,216,000)
4 Percent Enrollment Increase (12,030 FTES) and CSU Chico YRO	87,304,000	79,208,000	(8,096,000)
Student Fee Increase Buyout	27,854,000	0	(27,854,000)
Revenue Above the Partnership Agreement	300,000	7,000	(293,000)
2002/03 State University Fee Revenue Increase			
4% Enrollment Growth	20,541,000	20,541,000	0
YRO Enrollment	3,202,000	370,000	(2,832,000)
Total Budget Plan Revenue Increase	\$269,126,000	\$137,835,000	(\$131,291,000)
Permanent Reduction in funding for 2001/02 lower Natural Gas costs		(20,000,000)	(20,000,000)
Net 2002/03 Budget Revenue Increase		\$117,835,000	(\$151,291,000)
Use of Funds			
Mandatory Costs			
Health Benefit Premium Increases	10,883,000	10,482,000	(\$411,000)
New Space	9,720,000	9,720,000	0
Property Insurance	1,000,000	1,000,000	0
Enrollment			
YRO Summer Enrollment Conversions	10,838,000	1,353,000	(9,485,000)
4% Enrollment Growth	87,879,000	87,891,000	12,000
State University Grants/Mandatory Fee Waivers	7,900,000	0	(7,900,000)
Compensation (4% Increase-BOT, 1% Increase-Gov. Bgt.; all employees)	89,496,000	22,382,000	(67,114,000)
Long-Term Budget Need			
ITS Network Equipment	10,000,000	5,000,000	(5,000,000)
ITS Network Operations	4,000,000	0	(4,000,000)
Libraries	6,000,000	0	(6,000,000)
Deferred Maintenance	6,000,000	0	(6,000,000)
Workforce Preparation and Economic Development	10,000,000	0	(10,000,000)
Student Services	10,100,000	0	(10,100,000)
Applied Research	5,000,000	0	(5,000,000)
Off-Campus Center Program Expansion	300,000	0	(300,000)
CPEC Eligibility Study Cost Increase	0	7,000	7,000
Total Budget Plan Expenditures	\$269,126,000	\$137,835,000	(\$131,291,000)
Permanent 2001/02 Natural Gas Funding Reduction	0	(20,000,000)	(20,000,000)
Net CSU Revenue Increase	\$269,126,000	\$117,835,000	(\$151,291,000)

The California State University

Office of the Chancellor – Public Affairs

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January 10, 2002

Governor Proposes 4.5% Increase in CSU Budget

With the release of his 2002/03 California state budget plan this morning, Gov. Gray Davis has proposed a \$116.9 million, or 4.5 %, general fund increase for the California State University. The proposed budget provides full funding for enrollment growth.

CSU leaders welcomed the budget proposal but remained cautious about the fate of the budget in the months ahead.

"This budget reflects how important higher education is to the future of our state, especially at a time of great economic uncertainty," said CSU Chancellor Charles B. Reed. "Fully funding our enrollment growth will be the key to providing educational opportunity to future generations of Californians."

The governor's proposed increase for the CSU, when combined with \$20.9 million in projected fee revenue from enrollment growth, would bring the total CSU base state budget to over \$3.5 billion.

The proposal includes an \$87.9 million increase requested by the CSU to fund an additional 12,030 full-time equivalent students expected to enroll in 2002/03. The enrollment funding ensures that the CSU will be able to serve its new students with the faculty, staff, and course offerings they need.

At the same time, however, the CSU did not receive the funding it had requested for several priority areas. Although the CSU requested a 4 percent employee compensation increase, the governor's budget allows for only \$22.4 million, or a 1 percent increase.

"This budget proposal, while responsive during these difficult times, still leaves us with certain unmet needs," said Richard P. West, the CSU's executive vice chancellor and chief financial officer. "We will continue to make the case for those needs in the context of the state's resources."

The final outcome for the CSU budget will continue to remain uncertain, with the governor and the legislature struggling to find ways to close an estimated \$12 billion state budget deficit.

The next steps in drafting the 2002/03 state budget will include the release of a budget analysis by the Legislative Analyst's Office in February and a series of legislative budget hearings held from March through May. In May, the governor will submit a revised budget request based on the April forecast of state revenues (known as the "May Revision" or "May Revise"). Following completion of hearings and votes in each chamber, the legislature will then pass a budget bill for the governor's signature. The governor is set to approve the budget by July 1, the first day of the new fiscal year.

For more information, see http://www.dof.ca.gov/HTML/BUD_DOCS/Bud_link.htm or <http://www.calstate.edu/budget/>