Goals in Closing CSU Budget Gap

- Serve as many students as possible with quality instruction and related services
- Protect as many jobs as possible
- Preserve the university’s financial integrity
- Plan beyond 2009-10 Fiscal Year
Fundamental Parameters

- Problem is enormous
- Problem extends beyond 2009-10
- The gap must be closed
- Uncertainty is high; potential for smaller deficit extremely limited while potential for bigger deficit is great.
- Realities of operating campuses require moving forward, even if state action is delayed
- All options must be on the table
- No single option can solve the problem
Historic Downturn in State Revenues

- The next slide illustrates graphically how the state’s General Fund revenues have fared, both recently and over the last decade.
- The slide also shows the downward trend in the share of the General Fund that the state allocates to the CSU, as other claims on the General Fund – such as prisons and debt service – grow.
State General Fund Revenue and CSU Percentage Share
In Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>State General Fund Revenue</th>
<th>CSU % Share of State General Fund Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>$58.6 B 3.13%</td>
<td></td>
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<tr>
<td>1999-00</td>
<td>$71.9 B 3.69%</td>
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<tr>
<td>2000-01</td>
<td>$71.4 B 3.46%</td>
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<tr>
<td>2001-02</td>
<td>$72.3 B 3.61%</td>
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<tr>
<td>2002-03</td>
<td>$80.6 B</td>
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<td>2003-04</td>
<td>$82.2 B</td>
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<td>2004-05</td>
<td>$93.5 B 3.24%</td>
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<td>2005-06</td>
<td>$96.5 B</td>
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<tr>
<td>2006-07</td>
<td>$102.6 B</td>
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<tr>
<td>2007-08</td>
<td>$94.5 B 2.89%</td>
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<tr>
<td>2008-09</td>
<td>$85.9 B 2.89%</td>
<td></td>
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<tr>
<td>2009-10</td>
<td>$88.8 B 2.89%</td>
<td></td>
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<tr>
<td>2010-11</td>
<td>$90.7 B 3.34%</td>
<td></td>
</tr>
<tr>
<td>DOF Projected Need</td>
<td>$103.0 B 2.89%</td>
<td>1.80%</td>
</tr>
</tbody>
</table>
CSU General Fund Allocation
In Billions

2008-09 and 2009-10 amounts assume $717.5 million “retroactive” cut to 2008-09 appropriation, proposed by the Governor on July 1, 2009, will take effect in 2009-10.
State is in a Cash Crisis

- California is not only facing a daunting budget deficit...
  - As it enters the summer, it also faces an unprecedented cash flow crisis. The LAO has called the situation a “cash flow abyss”
  - Even if the Governor’s budget-balancing proposals are enacted right away, the state must borrow extensively, as shown in the next slide.
State Must Borrow Externally to Pay its Bills – Without Balanced Budget, Cannot Borrow at All

Governor's Proposed Budget and Cash Flow Solutions

Without Any Budget or Cash Flow Solutions
Crisis is Affecting CSU’s Own Cash Flow

- Various measures taken by the State have already put pressure on CSU’s cash balances, including the state’s suspension of interim financing of capital projects.
- Current proposals by the Governor and Legislature for retroactive cuts and payment deferrals create larger challenges.
Most University Spending is for Salaries and Benefits

- Like all education institutions, the CSU is highly labor-intensive.
- As the next slide shows, over 85% of CSU’s operating budget is spent on salaries and benefits.
- This means that large expenditure cuts inescapably require significant reductions in labor costs.
Salaries & Benefits as a Percent of Total Operating Budget

14.1%

85.9%

Remaining Budget

Salaries & Benefits

Total Budget is adjusted to remove financial aid, lease bond payments and retiree dental payments.
CSU Faces Major Operating Deficit in 2009-10

- The huge reductions in state General Fund for the CSU shown in a previous slide are offset somewhat by anticipated federal stimulus funds and by the 10% fee increase approved by the Board of Trustees last May.

- Even accounting for this, the CSU faces an operating deficit of $584 million – over half a billion dollars – as illustrated in the next slide.
Net Fiscal Impact of Budget Reduction in 2009-10

Total General Fund Budget = $2.97 Billion

- $2.387 Billion (80%)
- $584 M (20%)

Total budget based on original 2008-09 Budget Act
$584 million deficit understates full fiscal impact

- The $584 million is relative to the budget enacted by the state last February. (We used this as a starting point because presidents and vice presidents were already working off of that budget.)

- It therefore does not include the $66.3 million permanent cut to the CSU that was made in the February budget.

- It also does not include $40.5 million of new mandatory costs.
$584 Million in Perspective

- $584 million is the combined sum of the operating budgets of CSU Long Beach and CSU Sacramento (Including General Fund and student fee revenue).

- $584 million is equivalent to the marginal cost funding provided by the state for instruction of about 95,000 students.
Planning Needs to Anticipate at least 24 Months

- It will take the state a long time to recover from its current fiscal problem.
- Three large tax increases from the February budget package expire in 2011. Increases in personal income tax expires January 1, 2011; sales tax and vehicle license fee on July 1, 2011.
- A $16 billion loss over three fiscal years starting with 2010-11.
Major Factors for 2010-11

- Federal stimulus funds will already be spent.
- Can the Governor and Legislature replace the $255 million line-item veto of 2009-10?