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# Chancellor's Budget Message

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**A**s the state continues to renew its commitment to higher education, the California State University—at the beginning of the fourth and final year of the governor's funding compact for higher education—is poised at a crossroads. We can simply finish the groundwork needed to sustain current enrollment, or we can confront the new challenges and requirements for increased enrollment demand at CSU's 23 campuses. The latter path is CSU's only real alternative, because it is the only choice that will ensure California's workforce has the skills necessary to meet the competitive economic challenges of the twenty-first century.

We approach this crossroads under the cloud of what a recent RAND report on higher education calls “a time bomb ticking.” The fuse is a long-term trend showing increasing disparity between the demand for enrollment and funding for higher education. RAND calls for a two-pronged strategy to address this disparity: increased public investment in higher education and comprehensive reform of higher education institutions. It is a strategy that must be achieved before a second tidal wave of enrollment, ridden by the children of the baby boomers, floods the higher education community with students.

CSU has rebounded from three years of budget cuts and unpredictable fee increases in the early 1990s with three years (1995/96 through 1997/98) of consistent enrollment growth, a

streamlined workforce, a more productive approach to management, innovative delivery of instructional services, and stabilized student fees which remain among the lowest in the nation. This success, to a great extent, is due to the four-year financing compact the governor initiated in 1995/96 and the support it has received in the state legislature. This success is also the result of the combined efforts of students, faculty, staff and the greater CSU constituency who accepted the hard choices required by the framework of the compact to achieve the university's goals for enrollment growth and productivity gains.

The current financial compact with the state represents an essential first step to restore the state's commitment to higher education access—a commitment that eroded during the economic downturn of the early 1990s. The compact has a reasonable balance of 1 percent annual enrollment growth and a 4 percent growth commitment in annual General Fund support. In return for this state funding commitment, the CSU has responded with significant institutional reforms. The compact partnership, with the governor's support, has also generated a stable and predictable cost-share for student fees. Because of the success of the compact, CSU's enrollment decline halted in 1995/96 and enrollment has increased by the equivalent of 15,000 full-time students over the past three years.

However, the current four-year compact is only a beginning. CSU enrollments are still below the peak level achieved in fiscal year 1990/91. Current compact funding levels underestimated enrollment growth. Demand for access is growing; campuses provided access to 7,000 more students than were funded in 1996/97. Fewer dollars are available for addressing all critical areas of enrollment access, notably physical plant maintenance and technology. Quite critically, CSU still operates under the shadow of a continuing lag in faculty compensation for its strongest teachers and scholars—a funding deficit that diminishes CSU's ability to maintain a core base of creative, innovative staff as we compete for their services with strong universities across the nation.

The state has not yet addressed a comprehensive funding strategy that includes essential assumptions concerning student fees and financial aid. The CSU is committed to predictable fee rate increases. However, that commitment must be made with the acknowledgment that higher education costs of doing business and enrollment demand are rising at a much faster pace than public funding. CSU fees are among the lowest in the nation, and they are the lowest among the university's public comparison institutions for the second year in a row. Fee revenue supported only 20 percent of total marginal instructional costs for each of the 7,000 students enrolled over state-funded targets in 1996/97.

The state's Cal Grant programs provide awards to fewer than half of the needy students who apply for awards each year. While funding for the Cal Grant programs has increased significantly in the last two years, the relative portion of the funds awarded to students attending CSU has decreased. CSU's State University Grant (SUG) program provides grant aid—largely funded from student fee revenues—to offset some fees for students least able to afford college. But this commitment does not replace Cal Grant shortfalls. The lack of comprehensive state funding policy in the area of fees and financial aid is a significant factor in CSU's inability to address fully the cost pressures of current and future enrollment.

At the crossroads of 1998/99, there are significant economic, demographic, political and financing challenges affecting CSU's ability to continue its historic commitment to access:

- The major growth areas that have taken California out of economic recession are high-tech, service-related industries which require a well-educated workforce able to move easily among careers and employers.
- By 2005, CSU annual enrollment will have grown by 69,000, with two out of three new students coming from community colleges. This enrollment growth will increase demand for upper-division instruction.
- The constitutional restrictions on state spending and increasing caseloads in other areas of California's budget ultimately will result in higher education's receiving a declining share of total spending as fewer discretionary dollars are available.

As the RAND study recommends, increased public funding to address current challenges must be combined with institutional reform. Through the Cornerstones project, CSU is taking important steps to increase its ability to respond effectively to the educational needs of the next century and to continue to prepare qualified individuals to join the workforce needed to sustain California's economy.

For example, an important emphasis of the Cornerstones report is awarding the baccalaureate on the basis of demonstrated learning. That learning must be anchored by a comprehensive set of general educational outcomes, institutional accountability, systems of learning assessment at each campus, and sufficient resources for faculty development. CSU academic programs and support services will be structured to do a better job of meeting the diverse needs of students and society. Proposed changes include modifying academic calendars to maximize the availability of courses, redesigning current standards and processes of plant utilization so campuses can offer courses throughout the year, and developing a technology infrastructure to support alternative delivery of learning into home, community and business locations. Students will be encouraged to take a more active role in the learning process through the creation of individual academic plans which include self-paced and self-directed study as well as the development of systemwide and campus arrangements that allow students to engage in community service learning experiences.

To maintain the primary mission of a teaching-centered comprehensive university, CSU will continue to invest in quality faculty, taking steps to define and address the salary lag, faculty renewal and development, shared governance, and diversity. This will include reexamination of policies and practices in replacing retiring faculty, and working with graduate schools to increase the likelihood that prospective CSU faculty will have sound training in teaching and learning. Above all, we will press forward on pay-for-performance so that our best teachers and scholars are rewarded fairly.

All of CSU's reform efforts are designed to further the success of students—not only measured in time-to-degree, but also by how well we nurture and sustain a hunger for lifelong learning among our graduates.

However, these strategies for comprehensive rethinking of the way we do business are only part of what will be needed to successfully address the challenges before us. The second critical element of a two-pronged approach is full funding of enrollment growth. In tandem with CSU reform strategies, CSU must maintain its proportional share of state resources and receive additional General Fund support to fund all enrollment in excess of annual growth of 1 percent. Combining the funding of enrollment growth with institutional reform will allow CSU to respond to the educational needs of all eligible students who wish to attend.

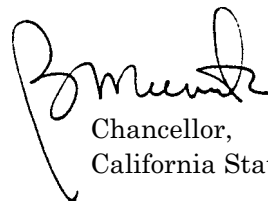
“Shared responsibility” is the definition of the very nature of a public university. Public funding must be supplemented by private revenues. Students and their families should bear a responsibility for paying a portion of their education costs. However, student fees should not be a barrier for academically qualified students with financial need.

In our view, the enormous deficits facing the higher education sector in the near future are more critical than the much publicized crisis in the Social Security system. Indeed, unless America manages to open up the narrowing bottleneck of higher education, there will not be enough economic growth to support any version of the Social Security plans being discussed. In very real and practical terms, education is the key to the nation's future. Americans must ensure it becomes a national priority.

*Breaking the Social Contract: The Fiscal Crisis in Higher Education*  
RAND

The next logical steps to rebuild the state's commitment to higher education are a state commitment to expanded support, implementation of CSU's comprehensive strategies for more efficient instructional delivery and more productive operation, shared fiscal responsibility provided through a comprehensive statewide fee and financial aid policy, and private investment in higher education.

As I complete my seventh and final budget proposal, I leave CSU at this crossroads as a strong and vibrant institution. There are many diligent and caring stewards who will continue to provide able management as the university confronts the challenges ahead. My successor is a superb leader who will move us forward without any loss in momentum. I want to thank all of you for the wise and supportive counsel provided throughout my time here. I also want to thank the governor and state legislators for working with CSU to solidify its preeminence as the nation's strongest public system for baccalaureate and master education with a dramatic commitment to K-12 reform. Through your continued efforts, CSU will remain a stalwart beacon for Californians seeking a rewarding and prosperous future.



Chancellor,  
California State University

**1998/99 PRIORITY FOCUS:**

# **ACCESS**

...if Cal State is to meet  
the demands of Tidal Wave II,  
...the time to make Cal State  
campuses relevant to modern educational  
and economic needs is now.

*L.A. Times*  
September 1, 1997



*Access to college is not an abstract,  
faraway, dreamy issue for most Americans.  
It is the crucial point around which  
they orient their lives.*

*~Nicholas Lehman,  
National Correspondent for the *Atlantic Monthly*,  
from his article "Open the Doors to College," the *Washington Monthly**

## 1998/99 PRIORITY FOCUS: ACCESS

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**P**roviding the financial ability to respond to dramatic enrollment growth is the single most critical element to maintaining access at CSU and fueling the economy of our state. Last year, the number of full-time equivalent students (FTES) swelled 7,000 over budgeted targets. This year, enrollment is expected to exceed budgeted targets by a comparable amount. In the next seven years it is projected CSU will need to serve an additional 69,000 FTES. And by 2010, CSU will face an increase of 100,000 FTES. CSU *must* be prepared for this enrollment boom.

This year and last, enrollment growth exceeded the one percent growth level assumed in the higher education funding compact. Enrollment in excess of 1 percent has put financial pressure on other aspects of the budget, such as compensation, investment in technology, and maintenance of the physical plant. One-year stop-gap measures to help support these excess enrollments have included one-time funds, fee revenue from the additional students served, campus cost-saving productivity measures, and adjustments in the delivery of classroom instruction and teaching services.

In the long term, these adjustments are insufficient to continue offering educational services to all who are qualified for admission to our campuses, and they are insufficient to withstand the new surge of enrollments projected to reach CSU campuses through the year 2005. While CSU recognizes the need for long-term productivity improvements, such as the \$10 million annual commitment included in the funding compact (which CSU has exceeded in the first two years of

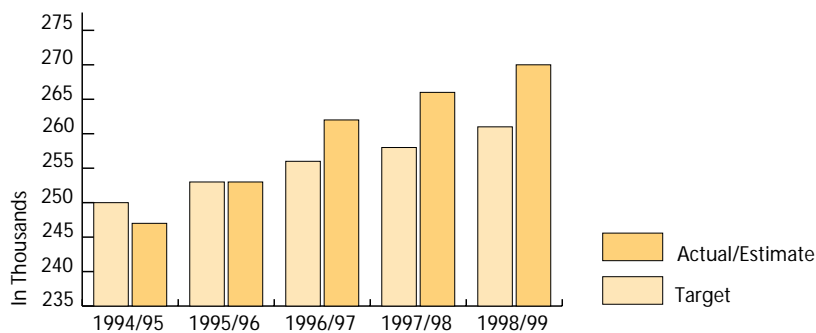
the compact and is expected to exceed for 1997/98), other ways of delivering instruction to gain productivity need to be examined. However, the amount of enrollment demand CSU is experiencing cannot be absorbed with productivity gains alone. And although diligent CSU faculty have shouldered a considerable amount of the pressure from the excess enrollment, the situation cannot continue with only one-time supplemental funding and short-term shifts of available resources.

Access means more than just enrolling a student at a campus. A flourishing university must have in place the resources that:

- provide outreach and advise Californians who are preparing for higher education;
- encourage and provide guidance for students to persist to degree at the pace they require and desire;
- offer the courses needed to earn the degree with flexible scheduling and options that address students' needs;
- support the faculty development, recruitment, and retention that encourages innovation to meet the changing needs of college-educated Californians and rewards faculty for excellence in teaching and learning;
- complement a fee and financial aid framework that promotes shared responsibility for funding education and removes barriers for students with financial need; and
- address the maintenance and growth needs of the physical and virtual university.

Moreover, students attending the California State University will live and work in the “information age,” a period characterized by unparalleled expansion in the production, distribution and utilization of information. The emergence of digital technologies in the context of a global economy has fundamentally altered and accelerated the way the world works. Telecommunications and electronics provide the infrastructure for this new world. Maintaining the quality and value of the CSU degree requires that students graduate from the university with the skills and knowledge expected of them by future employers. The improvements to the campuses’ technology infrastructure, including training and support, are essential to provide CSU students with a high-quality education.

### CSU Budgeted and Actual/Estimated FTES Enrollment



The four-year funding compact reached in agreement with the governor in 1995 recognized the cost of access. The compact agreement was based on the assumption that 4 percent annual General Fund growth coupled with fee revenue increases and increased campus productivity would be sufficient to fund access for 1 percent annual enrollment increase. To provide access to more students than the compact assumes, additional resources are required to support the six components of access and campus technology requirements noted previously.

Accommodating enrollment over budgeted targets is not a new concept at CSU. CSU takes pride in its commitment and ability to provide access to all qualified students seeking higher education. However, the redirection of resources and campus efficiency measures used to satisfy excess enrollment demand historically have been one-time measures replaced with General Fund support for higher enrollment targets in the subsequent year.

At the time the compact was developed, CSU had just halted the decline in student enrollment and the pace of enrollment recovery could not be accurately predicted given the uncertainty of the state's economic recovery. Achieving 1 percent annual growth was considered an attainable enrollment target based on available state funds and revenue expectations in 1995. To achieve the future economic goals of California, funding must now be increased to serve the upsurge in enrollment demand. CSU's ability to fulfill successfully its enrollment commitment under the compact and achieve the institutional reforms necessary to sustain growth exceeding compact targets justifies expansion of enrollment funding provided under the compact.

*The bright line running through American society is higher education; generally speaking, those who have it are doing well, and those who don't, aren't. The dream of middling prosperity that animates American life has become substantially linked to access to higher education – it equals opportunity.*  
~Nicholas Lehman

The new demography challenging CSU's commitment to access for qualified Californians has been documented by the CSU Cornerstones<sup>1</sup> task force:

In an economy in which the well educated will thrive, and those lacking education will fare poorly, the California State University has a special responsibility. We have a long history of providing opportunity for those Californians who may be the first in their family to attend college. Especially through our partnership with California's community colleges, we provide education and access to the economy for millions of Californians. As the employment profile of the new economy shifts towards the value-added industries, the demand for collegiate education will soar.

The sheer magnitude of the numbers bears reminding. By the year 2005, CSU annual enrollment will grow by 69,000 full-time equivalent students (FTES). We face an increase of 100,000 FTES by 2010.

CSU must move beyond the 1 percent compact enrollment commitment to confront new enrollment challenges. Additional enrollment growth of 4 percent over 1997/98 enrollment targets is achievable. Additional funding provided to accommodate this extra growth will position CSU to serve total campus projected enrollment of approximately 270,800 FTES in 1998/99.

Meeting the increased enrollment demand will place additional stress on CSU productivity. To meet the challenge of Tidal Wave II<sup>2</sup>, it is projected that CSU must achieve annual savings and efficiencies of \$200 million by 2005 and \$300 million by 2010 through restructuring and increased productivity. Therefore, in conjunction with funding provided for the 1998/99 priority focus on enrollment access, CSU productivity efforts will focus on faculty renewal and reinvestment strategies, reducing remediation, reducing administrative costs, and increasing learning productivity. This focus will include comprehensive strategies for hiring replacement faculty, reducing freshman need for remediation to 10 percent of the entering class by 2007, and the expanded use of multimedia and Internet-based instructional tools and distance education technologies<sup>3</sup>. This productivity focus also will include improved academic advising and course scheduling, and greater availability of courses during evenings, weekends, and summers.

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<sup>1</sup> Cornerstones is a comprehensive systemwide initiative launched by the California State University in June 1996 to evaluate strategies and make specific plans to meet the challenges of the next decade. Built on several ongoing planning and reformation efforts, the Cornerstones initiative was designed to address fundamental systemwide planning imperatives in a task-oriented process involving faculty, trustees, students, and administrators.

<sup>2</sup> Tidal Wave II is fueled by the children of the baby boomers and is expected to increase potential higher education enrollments by 488,000 students by 2005, based on studies by California demographers and the sharp increase in high school graduates expected during the next decade.

<sup>3</sup> Distance education technologies include satellites, microwaves, and compressed video.

Support Budget  
**SUMMARY**  
1998/99

The two funding priorities that are most prominent in the 1998/99 budget plan are Enrollment and Compensation. We have tried to balance the needs of qualified students seeking access to CSU with the requirements for maintaining a workforce that provides the best quality service possible to our students.

Richard West  
Senior Vice Chancellor  
Business and Finance



# Three-Year Budget Summary and 1998/99 Budget Request Details

	1996/97 Actual	1997/98 Budget	1998/99 Request
General Fund Appropriations	\$1,810,061,000	\$1,879,965,000	\$2,055,928,000
Revenue	627,095,000	619,075,000	614,275,000
Reimbursements	116,645,000	127,384,000	127,384,000
<hr/>			
CSU Appropriations Request	\$2,553,801,000	\$2,626,424,000	\$2,797,587,000

## Fee Revenue Change

Revenue Loss (AB 1318)	(\$19,368,000)
1% Compact Enrollment Growth (+2,580 FTES)	4,676,000
Enrollment Growth over 1% Compact Level (+7,740 FTES)	9,892,000
<b>Total Change in CSU Revenue</b>	<b>(\$4,800,000)</b>

Increase



Compact 4% Annual Funding Increase	\$72,790,000
Lease Bond Payments Increase	6,381,000
General Fund Buyout of 10% Fee Rate Increase	31,365,000
Enrollment Growth over 1% Compact Level	39,559,000
Camarillo State Hospital Conveyance	6,500,000
<b>1998/99 Budget Plan General Fund Increase</b>	<b>\$156,595,000</b>
General Fund Backfill for 5% Fee Rate Reduction	19,368,000
<b>Total 1998/99 General Fund Increase</b>	<b>\$175,963,000</b>

## Highlights of 1998/99 Budget Request

- Fourth year of the four-year funding compact for higher education initiated in 1995/96.
- Enrollment growth of 10,320 FTES, or 4% over the 258,000 FTES target for 1997/98. \$4,676,000 gross State University Fee revenue increase for 1% compact commitment. \$9,892,000 gross marginal cost State University Fee revenue increase for 3% enrollment over compact.
- Student fee rate reduction of 5% (\$78) for the academic year. Annual full-time fee of \$1,506. General Fund backfill provided for the fee rate reduction and compact fee rate commitment.
- \$71.3 million for a 4% compensation increase pool effective July 1, 1998—equal to 63% of total compact funding and 45.5% of the total \$156.6 million General Fund budget plan request.
- General Fund support at the marginal cost level for enrollment growth over the 1% compact commitment.
- \$6.5 million to relocate and operate expanded Ventura County off-campus center at the former Camarillo State Hospital.
- \$6.4 million increase for debt service on capital projects.

# 1998/99 Budget Plan

## Sources of Revenue Increase

1998/99 Budget Plan General Fund Increase		\$156,595,000
State University Fee (SUF) Revenue Increase		
<i>Compact 1% Enrollment Growth</i>	4,676,000	
<i>Additional 3% Projected Enrollment</i>	<u>9,892,000</u>	
Total, SUF Revenue Increase		<u>14,568,000</u>
<b>Total Budget Plan Revenue Increase</b>		<b><u><u>\$171,163,000</u></u></b>

## Budget Plan

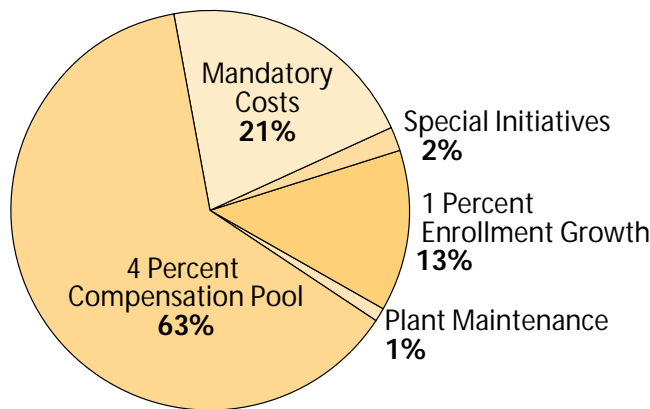
### Mandatory Costs:

Benefits Maintenance	8,560,000	
Full-Year 1997/98 Compensation	2,353,000	
Workers' Compensation	4,807,000	
Lease Bond Payments	6,381,000	
New Space	560,000	
State University Grants		
<i>Compact 1% Growth</i>	1,559,000	
<i>Additional Projected Enrollment</i>	<u>3,297,000</u>	
Total, State University Grants		4,856,000
Total, Mandatory Costs		27,517,000
<b>New Campus Start-Up: Monterey Bay</b>		2,599,000
<b>Enrollment</b>		
<i>Compact 1% Growth Commitment (2,580 FTES)</i>	15,385,000	
<i>Additional 3% Projected Enrollment (7,740 FTES)</i>	<u>46,154,000</u>	
Total, Enrollment		61,539,000
<b>Compensation (4% pool, effective July 1)</b>		71,304,000
<b>Camarillo State Hospital Conveyance</b>		6,500,000
<b>Physical Plant</b>		<u>1,704,000</u>
<b>Total Expenditure Increase</b>		<b><u><u>\$171,163,000</u></u></b>

# 1998/99 Budget Plan: Distribution of Funds

The majority of the funding increase provided by the four-year compact, 63 percent, is budgeted for employee compensation increases. The funding provided will create a 4 percent compensation pool for collective bargaining. After providing for Mandatory Costs and the 1 percent compact enrollment growth commitment, only 2 percent of funding provided by the compact is available for all other funding needs: Plant Maintenance, Price Increase, Technology, Mandatory Fee Waivers, and Deferred Maintenance. The 1998/99 budget plan funds only one item of other need—plant maintenance.

## 1998/99 Compact Funding Increase



<b>Compact Increases</b>		<b>\$115,212,000</b>
Mandatory Costs	\$24,220,000	
Special Initiatives	2,599,000	
1 Percent Enrollment Growth	15,385,000	
Plant Maintenance	1,704,000	
4 Percent Compensation Pool	<u>71,304,000</u>	
	\$115,212,000	
<b>Additional Support Request</b>		<b>\$55,951,000</b>
Camarillo State Hospital Conveyance	\$6,500,000	
Additional Enrollment	<u>49,451,000</u>	
	\$55,951,000	
<b>Total 1998/99 Budget Plan Increase</b>		<b>\$171,163,000</b>
Revenue Loss Restoration		<u>\$19,368,000</u>
<b>Total 1998/99 Budget Increase</b>		<b>\$190,531,000</b>
General Fund	\$175,963,000	
Fee Revenue	14,568,000	



# Executive Budget Summary

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**T**he 1998/99 CSU Support Budget request has been developed under the financial framework of the four-year funding compact proposed by the governor in fiscal year 1995/96 with the agreement and support of CSU and the University of California. For each of the previous three years of the compact, the legislature has supported the funding agreement and provided necessary budget augmentations for special CSU initiatives not covered by the compact agreement. It is expected that the state will support, again, CSU funding commitments in this final year of the compact.

In addition, CSU has been monitoring long-term trends in the gap between demand for higher education services and the funding provided to satisfy demand. The university agrees with the conclusion reached by RAND in its most recent study commissioned by the Council for Aid to Education: the escalating disparity between the demand for enrollment and the funding supply must be addressed by increased public investment in higher education.

The 1998/99 Support Budget request includes funding for additional projected enrollment growth above the 1 percent compact commitment. This additional funding will be used in tandem with institutional reforms already under way at CSU as the next step in preparing for a second tidal wave of enrollment projected to enter the university.

The 1998/99 Support Budget request also includes funding necessary to transfer the existing off-campus center in Ventura County to the state facility at Camarillo and to expand educational offerings to address the demand for higher education services in Ventura County.





# Sources of Revenue Increase

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In total, \$176 million in General Fund revenue is requested for FY 1998/99. This amount includes \$19.4 million to replace revenue lost as a result of AB 1318. The remaining \$156.6 million will be used to finance the 1998/99 CSU budget plan.

## **Appropriation to Reduce State University Fee Rates (\$19.4 million)**

Recently enacted legislation, AB 1318, requires that State University Fee rates at CSU be reduced 5 percent for undergraduate resident students commencing with the fall term of the 1998/99 fiscal year. State University Fee rates for graduate students would be frozen at current levels. The revised student fee rates established for 1998/99 would remain unchanged in 1999/2000. The legislation provides that CSU will be compensated from the General Fund for revenue lost as a result of the fee rate reduction.

A 5 percent reduction in the State University Fee will lower rates from \$1,584 to \$1,506 per academic year for a full-time undergraduate resident student. The resulting loss in revenue will total \$19.4 million. (See Major Funding Issues for calculation.)

## **General Fund Increase Provided by the Compact (\$72.8 million)**

The funding compact provides an annual increase of 4 percent over prior year General Fund appropriations to CSU. Prior year appropriations are adjusted to remove funding appropriated to make payments on lease revenue bonds and borrowing for deferred maintenance before the 4 percent calculation is made. Supplemental appropriations in the amount of \$3 million were provided after the Budget Act was adopted. This additional General Fund appropriation is included in the 4 percent compact calculation. In addition, 1997/98 General Fund appropriations have been adjusted to remove \$5.1 million in retirement rate reduction savings.

A 4 percent increase in adjusted appropriations provided for 1997/98 results in a \$72.8 million General Fund increase for 1998/99.

## **Lease Bond Payments Increase (\$6.4 million)**

The funding compact provides General Fund appropriations separate from the 4 percent annual funding increase for lease revenue bond payments. General Fund debt service requirements for CSU capital bonds will increase by a projected \$6.4 million in 1998/99 over 1997/98 authorized payments of \$64.2 million.

## **Fee Increase Buyout (\$31.4 million)**

The compact provides for State University Fee increases of up to 10 percent each academic year, as determined by the CSU Board of Trustees, to finance the university's commitments called for in the compact agreement. For the previous three years of the compact, the state has provided additional General Fund support to avoid the 10 percent fee increase.

The 1998/99 Support Budget request assumes the state will continue to provide support equivalent to the revenue generated from a 10 percent increase in student fees. General Fund appropriations of \$31.4 million is requested. This funding is crucial to preserve the compact agreement and to provide full funding for the expenditure plan contained in this budget proposal.

## **Enrollment Growth (\$39.6 million)**

The 1998/99 priority budget focus is on enrollment. Campus enrollments exceeded 1996/97 funded targets by 7,000 full-time equivalent students (FTES). Preliminary review of fall 1997 enrollment census reports reveal that enrollment will once again exceed current year funded targets. To accommodate this enrollment demand, CSU is requesting additional General Fund appropriations to fund the marginal cost of instruction (the funding needed to provide instructional support) for an additional 3 percent enrollment growth over the 1 percent compact target.

Enrollment growth of 4 percent over 1997/98 funded targets is equal to 268,320 FTES, a 10,320 FTES increase. The 1 percent growth commitment included in compact funding provisions equals 2,580 FTES. General Fund support requested for 1998/99 to enroll the additional 7,740 FTES totals \$39.6 million.

## **State University Fee Revenue (\$-4.8 million)**

Revenue associated with 1 percent enrollment growth is included in the 1998/99 Support Budget. One percent enrollment growth will yield \$4.7 million in State University Fee gross revenue (after making the 5 percent reduction in current fee rates required by AB 1318).

In addition, CSU is requesting General Fund support for an additional 3 percent enrollment growth. An additional 3 percent enrollment growth, 7,740 FTES, would yield \$9.9 million in State University Fee gross revenue (based on fee rates 5 percent below current levels as required by AB 1318).

It is CSU policy that one-third of all increased revenue from the State University Fee will be used to increase the State University Grant pool for academically qualified students with financial need.

When the revenue from enrollment growth is combined with the revenue loss from the 5 percent reduction in CSU fee rates, State University Fee revenue for 1998/99 will be \$4.8 million less than revenue collected at CSU in 1997/98.

## **Transfer of Camarillo State Hospital and Developmental Center (\$6.5 million)**

A special task force convened by the governor recommended that the Camarillo facility be converted for use by the California State University. The legislature endorsed this recommendation with the passage of SB 623 (O'Connell, Chapter 914). Transfer of the Camarillo State Hospital and Developmental Center to the CSU requires \$6.5 million from the state to support the ongoing operation of the instructional program and maintenance of the site. This funding level is the minimum financial contribution required from the state. The total cost of operating the former hospital will be shared among the state, the CSU, and lease and development revenues from that portion of the site that is not required for CSU use. Total planned operating costs for an expanded off-campus center at the Camarillo site are projected to be \$11.8 million in 1998/99.

# Budget Plan for Increased Revenue

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The 1998/99 CSU budget plan addresses obligatory mandatory costs that must be funded during the fiscal year and focuses on sustaining the level of enrollment growth achieved above the higher education funding compact requirement. In accordance with the funding compact, the 1998/99 budget plan also provides funds to continue university efforts to keep CSU salaries competitive.

## Restoration of Fee Revenue Loss

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Approximately \$19.4 million in student fee revenue will be lost as a result of a 5 percent reduction in the CSU State University Fee mandated by AB 1318. The legislation provides \$19.4 million in General Fund support to offset this loss. The funding provided by AB 1318 will be used to maintain current operations and therefore will not be available to fund any new spending requests in 1998/99.

## Compact Increases

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Based on the four-year compact, \$115.2 million in revenue will be available to fund new spending requirements in 1998/99. Funding for the following expenditure increases will be provided.

- **Mandatory Costs**

Health benefits rates will increase by 9 percent and dental benefits rates by 3 percent in the middle of the 1997/98 fiscal year. CSU will use one-time available carryforward funding to pay for the costs incurred from January 1, 1998, to July 1, 1998. The budget plan provides \$8.6 million to pay the full-year cost of the health and dental benefits rate increases in 1998/99.

The full-year costs of 1997/98 service-based salary increases, which are provided in accordance with employment anniversary dates, will require \$2.4 million in 1998/99.

Funding required to provide sufficient coverage for CSU Workers' Compensation claims through the CSU Risk Pool will increase by \$4.8 million in 1998/99.

CSU anticipates 1998/99 lease bond payments of \$70.6 million. This represents an increase of \$9.8 million over 1997/98 budgeted payments. Of the increased amount, CSU will require \$6.4 million in new General Fund revenue to fund the cost of the October 1997 sale of an estimated \$167 million in previously authorized lease payment debt. The remaining \$3.4 million will be financed from projected bond payment savings in 1997/98. CSU will open an additional 87,000 square feet of facility space during the 1998/99 fiscal year. The budget plan includes \$560,000 at a cost of \$6.45 per square foot to support additional costs for utilities and building maintenance.

CSU budget policy requires that one-third of all additional State University Fee revenue budgeted for the fiscal year be set aside to increase funds available for State University Grants to academically qualified students with financial need. These grants do not exceed the maximum State University Fee rate charged for the academic year. It is projected that \$1.6 million will be available from compact enrollment growth revenue for State University Grants. An additional increase of \$3.3 million will be added to the grant total if enrollment above the 1 percent compact level is funded.

- **Special Initiatives**

Funding is provided for the fourth year of start-up costs at CSU Monterey Bay. Typically, new campuses receive start-up cost supplements for five years after first enrolling students. An additional \$2.6 million will be provided to supplement funding for enrollment growth and instructional costs.

- **Enrollment**

Funding for 1 percent growth in CSU enrollment (2,580 FTES) as called for by the compact requires \$15.4 million based on the marginal cost of instruction. At the request of the legislature, the marginal cost of instruction is calculated using funding factors reached in agreement with the Department of Finance, legislative analyst, and the University of California.

- **Compensation**

Approximately 63 percent of total funding available under the compact will be used for employee compensation increases. Dedicating resources to halt the growth in the lag between CSU average faculty salaries and the average of comparison institutions, as well as keeping CSU salaries competitive as we recruit and retain employees, is an investment in the university that compares favorably with the responsible management practices of other labor intensive institutions. The 1998/99 budget plan includes \$71.3 million to provide a 4 percent compensation pool for salaries and related benefits.

- **Physical Plant Maintenance**

CSU will use all remaining revenue provided by the compact to continue its priority commitment to support ongoing maintenance of facilities and to slow the growth in its deferred maintenance backlog. After providing for mandatory costs, enrollment and compensation, only \$1.7 million of compact resources are available for ongoing maintenance cost increases.

## **Non-Compact Revenue Increases**

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Funding provided in accordance with the provisions of the compact is not sufficient to address some areas of budget need that require immediate attention. The 1998/99 budget plan includes \$56 million to accommodate additional enrollment over the 1 percent compact commitment and to complete the transfer of the Camarillo State Hospital in Ventura County for conversion to CSU's twenty-third campus.

- **Additional Enrollment Growth**

CSU is serving enrollment that significantly exceeds the level funded in the budget. In acknowledgment of CSU's ability to meet compact enrollment expectations, funding is requested for an additional 3 percent enrollment growth in 1998/99. Just as CSU has used current funding to meet and exceed compact commitments, additional funding will provide the means to satisfy escalating enrollment demand that will be exacerbated as the next wave of baby boomer enrollments reaches CSU campuses.

The 1998/99 budget plan includes \$49.5 million for this additional enrollment growth of 7,740 FTES. This funding level provides full funding for the marginal cost of instruction and includes the use of increased fee revenue resulting from the additional enrollment growth.

The budget plan for additional enrollment growth also includes \$3.3 million to increase the State University Grant pool. This amount represents one-third of the State University Fee revenue projection for additional growth.

- **Transfer of Camarillo State Hospital**

To satisfy higher education needs in Ventura and Santa Barbara counties, CSU has agreed to partner with the state in the conversion of the Camarillo State Hospital and Developmental Center for CSU use. Initial planning indicates the campus could quickly reach undergraduate FTES enrollment of 2,000-2,500 and graduate enrollment of 300-400 FTES. Increases in the numbers of high school graduates and young adults in the two counties should result in 20-25 percent growth within the next decade.

Transfer of the Camarillo State Hospital facility to CSU requires \$6.5 million to successfully complete conveyance. It is anticipated that renovations and special repairs will take place in the first half of 1998/99. This will permit the physical move of the Ventura Off-Campus Center to the Camarillo site in the November-December 1998 time frame and, thus, instruction will begin for 1,100 FTES (about 2,000 individuals) in January 1999.

Specifically the funds will be used as follows:

- Special repairs.
- Debt service on the renovation of approximately 100,000 square feet of instructional and administrative space and Group II equipment.
- Instructional support including necessary faculty recruitment and relocation.
- Equipment to establish a technology-enabled instructional program.

Total planned operating costs for an expanded off-campus center at the Camarillo site are projected to be \$11.8 million in 1997/98. The total cost of operating the former hospital will be shared among the state, the CSU, and lease and development revenues from that portion of the site that is not required for CSU use.



# MAJOR FUNDING ISSUES

America's political leaders—the President, Congress, governors, mayors, and other state and local officials—should reallocate public resources to reflect the growing importance of education to the economic prosperity and social stability of the United States. Public funding for higher education has stagnated since 1976. It is time for the nation to reverse this policy.

*Breaking the Social Contract:  
The Fiscal Crisis in Higher Education*  
RAND



# Major Funding Issues

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The major funding issues for the 1998/99 CSU Support Budget planning process included the following:

- A 5 percent undergraduate fee rate reduction and student fee freeze required by AB 1318, Chapter 853 which was signed by Governor Wilson on October 10, 1997.
- A projected 9 percent increase in employee health benefits rates and a projected 3 percent increase in employee dental benefits rates.
- A 20 percent increase in campus liability insurance premium payments primarily due to increases in Workers' Compensation costs.
- State University Grant financial assistance for students with need based on student fee policy enacted by the Board of Trustees in March 1993.
- Enrollment growth in accordance with CSU actual enrollment experience over the past two years and in response to statewide enrollment trends and projections for higher education.
- Compact requirements for maintenance of competitive CSU salaries, with an emphasis on merit-based salary increases.
- Conveyance of Camarillo State Hospital and Development Center in partnership with the state for the effective reuse of facilities.
- Physical plant maintenance requirements based on specifically defined cost factors.
- Price increase due to inflation calculated in accordance with price factors issued by the Department of Finance.
- Technology investment needed to keep the university's instructional programs relevant and its infrastructure responsive to the technological demands of a computer-driven, global economic environment.





# State University Fee Rate Reduction

## 1997/98 Fee Rates - All Students

More than Six Units	\$1,584
Six Units or Fewer	\$ 918

## 1998/99 Five Percent Fee Rate Reduction

Undergraduates	
More than Six Units	\$1,506
Six Units or Fewer	\$ 876
Graduates	
More than Six Units	\$1,584
Six Units or Fewer	\$ 918

## 1998/99 Fee Revenue Loss

1997/98 Final Budget Revenue	\$474,336,000
Base Revenue Adjustment (Student Mix)	<u>(1,208,000)</u>
AB 1318 Fee Revenue Base	\$473,128,000
1998/99 Revenue with 5% Fee Reduction (258,000 FTES)	<u>453,914,000</u>
<b>Revenue Loss, 258,000 FTES Base Enrollment</b>	<b>(\$19,214,000)</b>
1998/99 Revenue at 1997/98 Fee Rates (260,580 FTES)	\$477,959,000
1998/99 Revenue with 5% Fee Reduction (260,580 FTES)	\$458,591,000
1998/99 Revenue Growth at Old Fee Rates	4,831,000
1998/99 Revenue Growth at Reduced Fee Rates	4,677,000
<b>Revenue Loss, 2,580 FTES Enrollment Growth</b>	<b>(\$154,000)</b>
<b>Total AB 1318 Revenue Loss</b>	<b>(\$19,368,000)</b>

## CSU Appropriations

1997/98 Adjusted Gross Budget	\$2,626,424,000
General Fund	1,879,965,000
State University Fee Revenue	474,336,000
Fee Revenue Share of Total Budget	18.1%
1998/99 Gross Budget with Rate Reduction	\$2,797,587,000
General Fund	2,055,928,000
State University Fee Revenue	469,536,000
Fee Revenue Share of Total Budget	16.8%

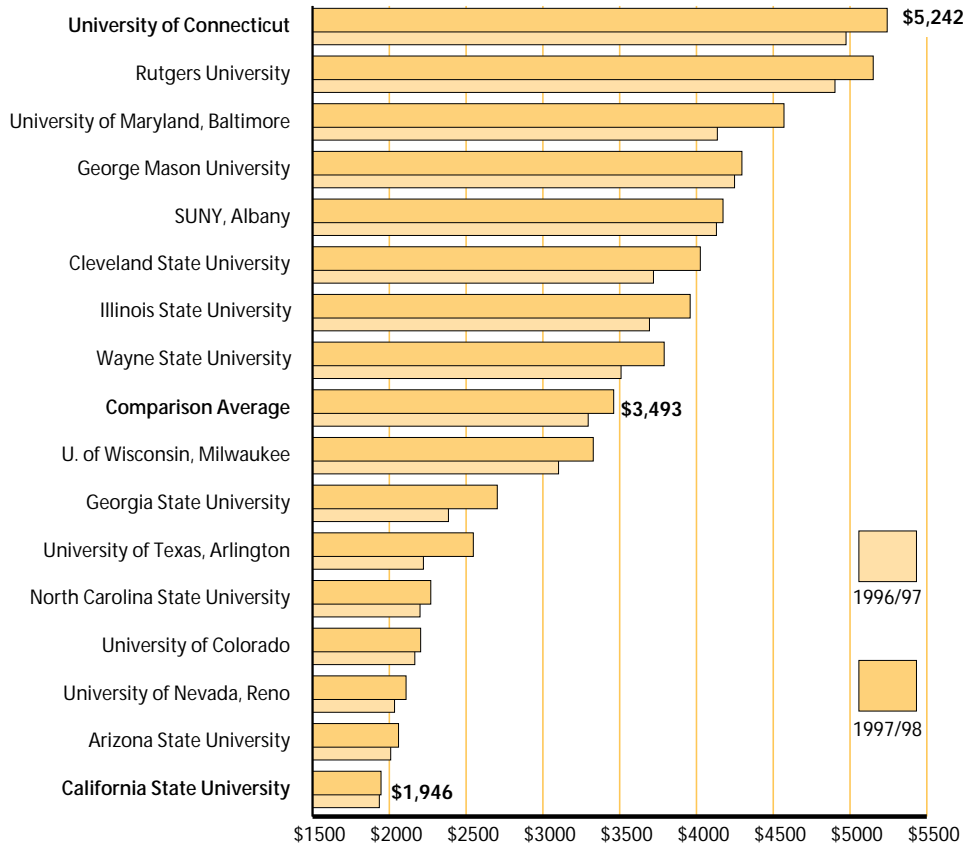
The rate reduction required by AB 1318 will reduce CSU academic year fee rates by \$78 for full-time and \$42 for part-time undergraduate students in fiscal year 1998/99. Fee rates for graduate students will remain at 1997/98 levels.

Total loss of revenue resulting from fee rate reductions is \$19.4 million. A General Fund appropriation of an equivalent amount is required to maintain current expenditure levels at the university. Total revenue change in 1998/99 will be \$-4.8 million when the rate reduction loss is offset by revenue from planned enrollment growth.

The portion of CSU's budget financed with student fee revenue will be reduced from 18.1 percent to 16.8 percent, a 1.3 percent decrease.

# State University Fee *(continued)*

## CSU Fee Rates versus Public Comparison Institutions



CSU fees are already the lowest among public comparison institutions used by the California Postsecondary Education Commission. A 5 percent fee rate reduction will make CSU average full-time student fees \$1,625 below the 1997/98 comparison average.

### 1997/98 Three Highest Rates

University of Connecticut	\$5,242
Rutgers University	\$5,151
University of Maryland, Baltimore	\$4,570
<b>1997/98 Average of 15 Public Comparison Institutions</b>	<b>\$3,461</b>

### 1997/98 Three Lowest Rates

CSU	\$1,946
Arizona State University	\$2,060
University of Nevada, Reno	\$2,109
<b>CSU with 1998/99 Rate Reduction</b>	<b>\$1,868 (\$1,506 + \$362 Average Campus Fees)</b>

## Benefit Rates: Health and Dental

Health Cost Increase	\$ 8,000,000
Dental Cost Increase	<u>560,000</u>
<b>Total</b>	<b>\$ 8,560,000</b>

*Both employer-paid rate increases are effective January 1998.*

*Permanent funding for fiscal year 1998/99 is proposed for 12 months of cost increases.*

Health costs are projected to increase approximately 9 percent beginning January 1998. One-time funding available from 1996/97 systemwide carryforward dollars will be used to fund the increased cost for 1997/98. Approximately \$8 million is requested for permanent funding of the benefits increase in 1998/99.

Government Code health rates are increasing January 1998 as a result of health plan mergers and various health plan premium rate increases. The CSU cost increase is based on the difference between the old rates and the new rates multiplied by the number of health benefit enrollees.

Dental costs are projected to increase 3 percent beginning January 1998. One-time funding from systemwide carryforward dollars will be used to fund 1997/98 CSU cost increases. Approximately \$560,000 is requested in permanent funding for fiscal year 1998/99.

The Delta Dental plan rates are expected to increase based on the CSU's current contract with the carrier. The fourth and fifth years of the contract stipulate that dental rates will be based on experience rather than a fixed rate. The CSU cost increase for fiscal year 1998/99 is based on the difference between the old rates and the estimated increase multiplied by the number of dental benefit enrollees.



# Workers' Compensation

Workers' Compensation Proposed Increase

\$4,807,000

Prior to fiscal year 1995/96, the CSU Chancellor's Office paid all Workers' Compensation claims and related expenses. The CSU funded Workers' Compensation on a cash basis as claims became payable. Beginning in fiscal year 1995/96, the campuses became accountable for Workers' Compensation liabilities. A Risk Pool (now called the CSURMA JPA) was developed and includes Workers' Compensation, as well as liability, industrial disability, non-industrial disability, and unemployment. CSURMA is a mechanism that allows campuses to share the costs of claims payments. It is designed to help managers more effectively manage risk and holds managers accountable for containing liability costs. Each campus' base budget was increased by their pro-rata share of the CSU systemwide budget for all liabilities.

The goal of the CSURMA is to fund fully each year's liabilities as they are incurred, protecting campuses from significant budget increases as liabilities become payable. Campuses pay a premium to the CSURMA each fiscal year to cover costs of claims attributed to the fiscal year, even though the claims may be paid over future years. Transition to full funding has been difficult due to the following factors:

- Claims from prior years continue to generate current year payables;
- Workers' Compensation claims costs have been rising as payroll and staff have increased, as have benefit levels payable to injured workers since the early 1990s; and
- Workers' Compensation claims costs have accelerated as campuses aggressively seek to resolve long-standing claims lingering on the books.

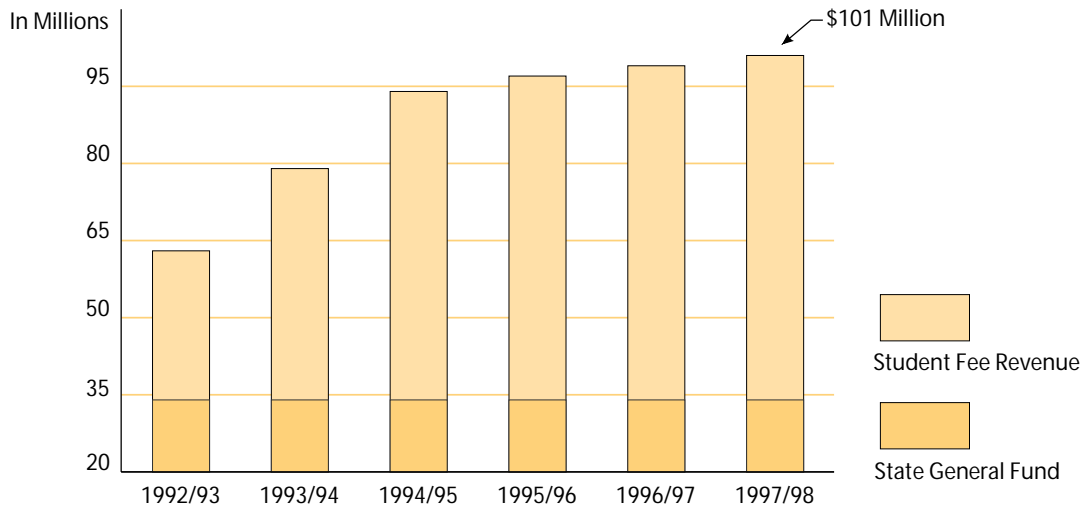
In order to fund fully each year's liabilities, campus premium payments to the pool will increase in fiscal year 1998/99 approximately 20 percent over the 1997/98 premiums. The proposed \$4.8 million increase will be allocated to campuses to mitigate premium cost increases.



# State University Grants

1997/98 State University Grant Funding from General Fund <i>(Same amount since 1991/92)</i>	\$33,718,000
1997/98 Grant Funding from Fee Revenue	<u>66,800,000</u>
<b>1997/98 Total CSU State University Grant Funding</b>	<b>\$100,518,000</b>
Percent Increase in Total Grant Funds (Since 1992/93)	60%
Percent Increase in General Fund Portion of Grants	0%
Percent Increase in Student Fee Revenue Portion of Grants	129%
1997/98 Total CSU State University Grant Funding	\$100,518,000
1998/99 Increase from Fee Revenue - 1% Enrollment Growth	1,559,000
1998/99 Increase from Fee Revenue - 3% Additional Growth	<u>3,297,000</u>
<b>1998/99 Proposed Grant Funding</b>	<b>\$105,374,000</b>
Percent of Eligible Students Awarded Grants in 1997/98	75%

## State University Grants 1992/93 to 1997/98



The amount budgeted for State University Grants for 1997/98 is nearly \$101 million, an increase of \$1.3 million over the 1996/97 level of \$99.2 million. The CSU SUG program has grown by more than 60 percent over the past five years (1992/93 through 1997/98). SUG funding growth since 1991/92 has come primarily as a result of the CSU budget policy that directs one-third of all new State University Fee revenue to the grant program.

The amount of student fee revenue directed to the SUG program has grown from approximately \$29 million in 1992/93 to almost \$67 million today, a 129 percent increase since 1992/93.

The state's share of the SUG program has not changed since 1991/92 and remains at the \$33.7 million level. This amount was frozen at that time in response to the state's recession of the early 1990s. Prior to the freeze in state funding, CSU received General Fund support for total estimated State University Grant need at CSU.



## Enrollment Growth (Full-Time Equivalent Students)

Total Enrollment FTES Target Increase Proposal	10,320
Total Enrollment Funding Proposal	\$61,539,000
1997/98 FTES Target	258,000
1997/98 Estimated FTES	266,400
1998/99 Proposed FTES Target	268,320
<b>1998/99 FTES Enrollment and Funding Proposal</b>	
FTES Enrollment Increase	10,320
• 1% Increase Under Compact	2,580 FTES
• Additional 3% Increase Beyond Compact	7,740 FTES
Enrollment Increase Funding	
• 1% Increase Under Compact (2,580 FTES x \$5,963)	\$15,385,000
• Additional 3% Increase Beyond Compact (7,740 FTES x \$5,963)	\$46,154,000

### Enrollment Exceeding 1% Growth

- 1996/97 Actual Reported Enrollment was 262,428 FTES—6,927 FTES more than the targeted enrollment of 255,501 FTES Target.
- 1997/98 Estimated Total Enrollment is 266,400 FTES—8,400 FTES more than the 258,000 FTES Target.
- The CSU has provided access to students over budgeted enrollment levels in both fiscal years—a financial loss to CSU of \$33 million in 1996/97 (based on the \$4,734 General Fund share of the 1996/97 Marginal Cost of Instruction) and \$41.5 million in 1997/98 (based on the \$4,936 General Fund share of the 1997/98 Marginal Cost of Instruction).

### 1998/99 Marginal Cost of Instruction

		<b>\$6389</b>
• General Fund Support	\$5,111	
• Fee Revenue (20% of total marginal cost)	\$1,278	
(Less 1/3 Fee Revenue for Financial Aid)		<u>– 426</u>
<b>Marginal Cost of Instruction for Enrollment Allocations</b>		<b>\$5,963</b>

- The Marginal Cost of Instruction calculation is based on services directly affected by enrollment increases. It is primarily driven by average costs included in the instruction, academic support, student services, and institutional support programs that are discounted by percentages calculated for fixed costs. The methodology also recognizes the cost of instructional equipment but excludes financial aid and physical plant operations.

Additional enrollment requested for 1998/99 is funded at the marginal cost of instruction. General Fund support is requested at \$5,111 per FTES for enrollment above the 1 percent compact funded level. Total cost to the General Fund for additional enrollment of 7,740 FTES in 1998/99 is \$39.6 million



# Compensation

## 1. New and Full-Year Compensation

Four Percent Compensation Pool (Effective July 1, 1998)	\$71,304,000
Cost of a 1 Percent Compensation Increase	\$17,826,000
Faculty	9,633,000
Non-Faculty	8,193,000
Full-Year 1997/98 Compensation	\$ 2,353,000
CSU Compensation Pool History during the Governor's Compact	
1995/96 Compensation Pool	2.5%
1996/97 Compensation Pool	4.0%
1997/98 Compensation Pool	4.0%
1998/99 <i>Proposed</i> Compensation Pool	<u>4.0%</u>
Total	14.5%

The proposed increase will provide an aggregate pool for compensation totaling \$71.3 million for salary and benefits to be negotiated with collective bargaining representatives and evaluated for nonrepresented employees.

The compensation package is equivalent to approximately 4 percent of the CSU's current budgeted compensation costs and may be used to negotiate a compensation plan involving general salary adjustment, service-based salary increases, as well as salary adjustments based on performance. The specific distribution of the increase will be determined by the individual agreements negotiated between each employee bargaining unit and CSU representatives.

Full-year compensation costs are service-based salary increases (SSI) that were not funded in the fiscal year 1997/98 final budget. All SSIs are effective on employees' anniversary dates. The CSU funds only that portion of the SSIs expended in the budget year which, for example, would be 10 months of funding for an employee with an anniversary date on September 1. The remaining two months are funded as a full-year compensation cost in the subsequent fiscal year.

## 2. Faculty and Presidential Salary Lags

Salary Lag Cost and Funding Action	Faculty	Executives
1997/98 Salary Lag Percentage	10.8%	30.5%
Estimated cost to eliminate the current lag	\$104 million*	\$1.5 million
Estimated cost of 1997/98 Salary Increase Pool	\$36.9 million	\$.5 million
Salary Increase as a Percentage of		
Total Salary Lag in 1997/98	37%	32.8%

\* Up from the 1997/98 estimate of \$99.1 million due to base budget increases.

In fiscal year 1997/98, the Board of Trustees approved a 4 percent pool of funding for faculty collective bargaining and specific salary increases for presidents equivalent to a 10 percent average increase as contributions toward closing the 10.8 percent and 30.5 percent salary lags, respectively.

The collection of information and the calculation methodology of the faculty and presidential salary lags is the responsibility of the California Postsecondary Education Commission (CPEC). The same 20 comparison institutions are used to calculate the faculty and the presidential salary lags.



# Transfer of Camarillo State Hospital

Transfer of the Camarillo State Hospital facility to CSU requires \$6.5 million to successfully complete conveyance. This is the minimum requirement of state funding needed. It is anticipated that renovations and special repairs will take place in the first half of 1998/99. This will permit the physical move of the Ventura Off-Campus Center to the Camarillo site in the November-December 1998 time frame and, thus, instruction will begin for 1,100 FTES (about 2,000 individuals) in January 1999.

Specifically, the funds will be used as follows:

- Special repairs.
- Debt service on the renovation of approximately 100,000 square feet of instructional space.
- Instructional support including necessary faculty recruitment and relocation.
- Equipment to establish a technology-enabled instructional program.

Total planned operating costs for an expanded off-campus center at the Camarillo site are projected to be \$11.8 million in 1998/99. The total cost of operating the former hospital will be shared among the state, the CSU, and lease and development revenues from that portion of the site that is not required for CSU use.

## 1998/99 Camarillo Hospital Conveyance Budget Proposal

### Uses of Funds

Instructional and Support Costs	\$4,900,000
Instructional Equipment/Technology Support	500,000
Maintenance and Utilities Costs	5,300,000
Debt Service for Renovation in 1998/99	<u>1,100,000</u>
Total Uses of Funds	\$11,800,000

### Sources of Funds

Funded from CSU Budget	\$4,900,000
Lease and Development Revenues	400,000
Additional State Funding Request	<u>6,500,000</u>
Total Sources of Funds	\$11,800,000



# Physical Plant

## New Space Support (based on APPA Cost Standard)

### Ongoing Maintenance

APPA Regular Maintenance Cost per Square Foot	\$6.45
MIT Scheduled Maintenance Cost per Square Foot	<u>\$0.93</u>
Total Ongoing Maintenance Cost per Square Foot	<b>\$7.38</b>

Total System Custodial Square Footage	32,003,200
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Ongoing Maintenance Need	\$236,000,000
Ongoing Maintenance Budget	<u>204,000,000</u>
Ongoing Maintenance Unmet Need	<b>\$32,000,000</b>

### Deferred Maintenance

Deferred Maintenance Backlog (adjusted for inflation) \$351 million addressed over 20-year period	<b>\$18,000,000</b>
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### Renovation

Renovation of 2 percent of CSU's \$7 billion capital assets per year	\$140,000,000
Amount budgeted for Renovation Projects	<u>119,000,000</u>
Unfunded Renovation Project Need	<b>\$21,000,000</b>

### Growth

Dominguez Hills Technology Center, Health and Administrative Services Building	\$31,000,000
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## Total Physical Plant Need

Ongoing Maintenance	\$32,000,000
Deferred Maintenance	18,000,000
Renovation	<u>21,000,000</u>
<b>Total</b>	<b>\$71,000,000</b>

There are several areas of physical plant need that cannot be funded in the 1998/99 budget plan. After providing for mandatory cost obligations and a priority commitment to enrollment and compensation, funds remaining in the CSU budget plans will be used to address only 3.4 percent of total operating support need. Funding provided under the compact for capital need will also fall short of CSU requirements.

## New Space, Ongoing Maintenance, and Deferred Maintenance

New space coming on-line is funded by the Association of Higher Education Facilities Officers cost standard (APPA) for regular maintenance. Regular maintenance is action taken by the university to preserve facility infrastructure from failure or decline. The regular maintenance cost standard, used by CSU since 1996/97, is based on the average building and grounds maintenance, custodial services, utilities, waste, minor repair and renovation, and plant administration expenditures for maintenance at higher education facilities throughout the western United States. The 1998/99 budget plan includes \$560,000 for new space.

The funding standard of \$7.38 per custodial square foot for ongoing maintenance is based on the regular maintenance funding standard and the MIT cost standard for scheduled maintenance. Scheduled maintenance is the regularly scheduled repair of facilities and infrastructure before failure or decline occurs. CSU currently budgets \$6.40 per custodial square foot, only 87 percent of the maintenance standard, for ongoing maintenance (\$204 million/32 million square feet).

## Physical Plant *(continued)*

CSU's priority funding commitment to plant maintenance in 1996/97 and 1997/98, totaling \$17 million, has reduced annual unfunded maintenance need from a high of \$49 million in 1995/96 to \$32 million in 1997/98. Despite this decline in annual unfunded maintenance need, continuing unfunded need contributes to the growth of CSU's deferred maintenance backlog. The CSU deferred maintenance backlog has grown to an estimated \$351 million since 1994/95, after adjusting for inflation (2.6 percent per year since 1995/96). To retire this backlog over a 20-year period would require \$18 million per year.

### Renovation and Growth

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The renovation cost standard is based on a 50-year life cycle for physical assets and is premised on a minimum of 2 percent of all assets undergoing annual renovation. Two percent of CSU's \$7 billion capital assets requires \$140 million in annual renovation. Annual renovation provides for life-cycle maintenance of facilities and the upgrade of buildings and their components. CSU uses the \$150 million annual capital budget increase provided by the higher education funding compact to fund renovation costs and capital growth projects. After providing for one priority growth project at CSU Dominguez Hills, only \$119 million of capital outlay funds are available for annual renovation costs. This results in an unfunded renovation need of \$21 million.

### Total Unmet Physical Plant Need

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Total unmet need in the CSU physical plant illustrates the continuing challenge that must be addressed in a comprehensive response to higher education funding needs. To truly accommodate the demands of enrollment access, it is important that a long-term strategy that addresses the additional \$71 million in capital and operating support needed for CSU facilities and infrastructure be incorporated in planning and financing discussions.

## Price Increase

### Price Increase (also known as Inflation Increase)

- Funding Available Under the Compact: \$ 0
- Funding Need Based on Price Factors Contained in the Department of Finance's 1998/99 Budget Letter: \$14,362,000

Price Factors Used to Calculate Need	Percent Increase
Library Purchases	
Books	11.8%
Subscriptions	21.2
Serials	12.6
Postage	4.7
Electricity	1.6
Gas	(-2.9)
Printing	10.0
Other Operating Expenses	<u>3.4*</u>
<b>Average Percent Increase</b>	<b>3.7%</b>

\* Based on the most recent Higher Education Price Index Factor (CPEC 97 Fiscal Profiles Display 69 = 3.37 percent)

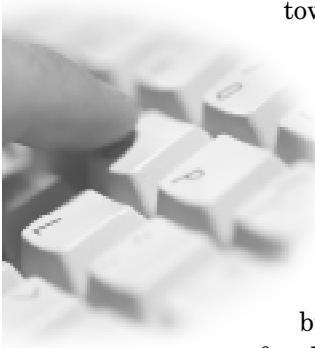
Price increase reflects inflationary growth in the costs of nonsalary operating expenses and equipment. CSU uses price factors contained in annual budget letters issued by the Department of Finance to calculate the mandatory cost increase for inflation. This calculation yields a cost requirement that typically has exceeded the amount CSU has been able to include in its budget plan due to the competing needs for limited revenue growth. The price increase calculation for 1998/99 totals approximately \$14.4 million. However, funding has not been proposed in the CSU budget plan due to the priority funding emphasis on enrollment access and CSU compensation requirements. Inflationary costs have increased over previous years, in part due to recent adjustments in the Higher Education Price Index Factor and growth in operating expenses and equipment.




## Technology

A world-class 21st century university requires a technology infrastructure that provides its students, faculty and staff the tools necessary to compete, produce and prosper in a global and knowledge-based economy. CSU is laying the groundwork for this success by advancing an Integrated Technology Strategy (ITS). In 1997/98, CSU gave priority budget recognition to the cost requirements for improving and expanding its technology infrastructure and providing student and faculty access to technological equipment and learning resources. There continues to be significant funding need associated with successful implementation of ITS. However, after providing for enrollment and compensation, the remaining funds available in the 1998/99 budget plan must be used to support plant maintenance needs.

Sufficient state funds for both the capital and operating costs to build and support CSU's technology infrastructure have not been provided in the past and do not appear to be forthcoming in the near future. Aware of this problem and cognizant of the trend toward public/private partnerships throughout California and the nation, the drafters of the Integrated Technology Strategy have been pursuing a partnership between CSU and leading technology corporations to provide and sustain this technology infrastructure in a timely and cost-effective way. Following a year of intensive planning, the CSU is in the final phase of negotiations with a team of four corporate partners (GTE, Fujitsu, Hughes and Microsoft) to create the needed public/private partnership. The CSU believes that partnering with this team of corporations will provide CSU the resources needed to build a technology infrastructure to support and sustain it into the future for the entire university system.







Budget  
**CALENDAR**



# CSU Budget Calendar

- System Budget Advisory Consultation

- Special SBAC meeting on Budget Perspectives
- Executive Council Policy Retreat

CSU Constituent Consultations

May

June

July

August

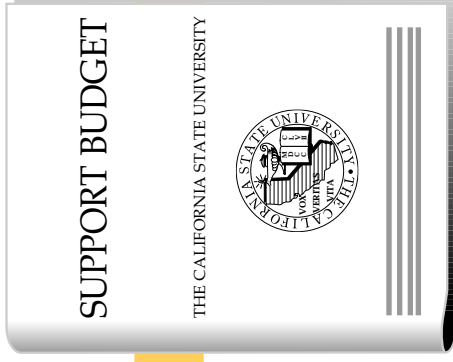
September

October

November

CSU Constituent Consultations

- Review campus enrollment targets
- Budget consultation with presidents
- SBAC discussion of budget proposals
- Budget Briefing for the Board of Trustees



- Trustees adopt **Support Budget** request

December

January

February

March

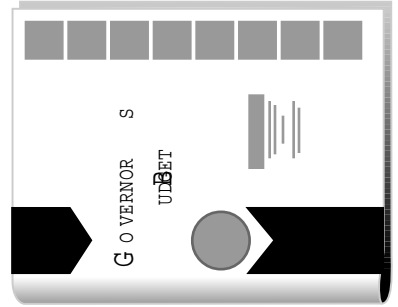
April

May

June

July

- Review CSU enrollment targets and revenue assumptions



Legislative analyst's analysis of the budget

- Legislative Budget Hearings
- May Revision of State Economic Assumptions

CSU Constituent Briefings



Governor's Budget submitted to legislature

CSU Final Budget adopted



# 1998/99 CSU Budget Calendar

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## May 1997

The 1998/99 budget process began with consultation of the System Budget Advisory Committee (SBAC) which includes representatives of the CSU academic senate and faculty union, students, presidents, administrative and academic vice presidents, and alumni.

The committee reviewed CSU funding issues that would be addressed in the 1997/98 fiscal year and how those issues would impact planning for 1998/99. The committee also reviewed issues that would require funding and policy strategies beyond CSU's current funding compact with the state.

## July 1997

The SBAC requested a special meeting to discuss budget perspectives for a long-term strategy that addresses multi-year funding needs within the annual budget process.

Constitutionally, the budget should be enacted by July 1 of each year. However, the state often fails to meet this deadline. The political issues surrounding the 1997/98 budget delayed final budget action until mid-August, over one and a half months after it was due.

Delay, particularly when the budget contains provisions that could significantly impact funding for CSU, affects the planning and budget decisions that must be prepared for the next fiscal year.

## August - October 1997

Following passage of the final budget, planning began in earnest for the 1998/99 fiscal year. The CSU aggregate systemwide enrollment target was reviewed, the chancellor consulted with the presidents to adopt budget proposals to be presented to the Board of Trustees, the SBAC discussed the merits of the funding proposals, and the board was briefed in September on the preliminary results of the consultative budget process.

## November 1997

November calls for trustees' adoption of the 1998/99 support budget request to the governor. The budget request represents the culmination of our best thoughts concerning the funding that will be available to CSU and the priority plans for expenditure of those funds.

Adoption of the budget request does not preclude modifications to the trustees' proposal. Campus fall census enrollment reports, identification of CSU priority issues requiring funding above compact levels, and the governor's own funding initiatives can require significant changes in the CSU budget request.

## January - February 1998

In January, the governor will send his budget proposal to the legislature for consideration.

Within a month, the Office of the Legislative Analyst (LAO) will provide a detailed analysis of the governor's spending proposals and identify a series of issues that may be of concern to the legislature.

## March - June 1998

Based on the LAO analysis, the legislature sets the agenda for a series of budget hearings between March and June to finalize budget decisions for the fiscal year.

An update of state revenue projections is made in May.

Modifications to the Governor's Budget request, which is termed the May Revise, are based on those updated projections.

Legislative attempts to address competing constituency priorities at CSU often conflict with the budget goals identified by the Board of Trustees, especially during an election year, as will occur in 1998.

Funding decisions made outside of the CSU budget request can have a negative impact on CSU base funding levels. It is important that funding decisions regarding CSU are made in the context of the budget priorities the university identifies.

The legislative budget hearings can provide an excellent opportunity to justify current financing needed to sustain growth within the system and to link that financing with the long-range goals and pressures on the university.

## July 1998

It is anticipated that with enactment of the 1998/99 budget, CSU will be positioned to complete the financial transformations required after the state's economic recession of the early 1990s. Moreover, if funded, the 1998/99 budget will establish the framework needed to begin the planning process for a second financial compact with the state.