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Chancellor's Budget Message

As we prepare to enter the 21st century, we know that many demands and challenges lie ahead for California's educational systems. The California State University will face its share of these challenges — from accommodating burgeoning enrollment growth to keeping up with rapid technological advances.

Clearly, this is a critical time for CSU and its budgetary needs. So while we plan and establish priorities to meet the demands ahead, it is more important than ever that we keep a strong focus on the mission of the CSU system. Simply stated, this mission is to provide an accessible, affordable, top-quality higher education for California's students so that they are prepared for the knowledge-dependent work environment of the 21st century.

I believe that nothing is more important for the educational and economic success of our state than to stand by that mission. That is why I pledge that this, my first CSU budget, as well as those to follow, will reflect every effort on our part to make that mission our top priority.

We have already taken aggressive steps to increase our ability to respond to the needs of the new century. I am proud to report progress on many fronts:

- As we move toward completing start-up at CSU Monterey Bay, we have already begun work on a comprehensive foundation for developing our newest campus site in Ventura County.
- Our campuses are evaluating targeted year-round use of current facilities.
- We are doubling our efforts to make certain that students who need remedial coursework receive it before they enroll at our campuses.
- We are formulating strategies to ensure that the teachers we graduate for K-12 instruction are the best prepared for their profession.
- We will be implementing key initiatives distilled from CSU Cornerstones planning—a process that describes what CSU will do to increase access, quality and accountability with respect to its services over the next decade.

Yet we must acknowledge the daunting challenges that the new century has in store for us. From a financial point of view, this has meant preparing the budget proposal with special attention to four important points.

- First, we must construct a new state financing strategy that preserves the stability that CSU achieved under the four-year financial compact from 1995/96 through 1998/99. The compact provided a predictable stream of revenue that allowed for improvement in the quality and the capacity of California's higher education institutions.
- Second, the 1999/2000 budget proposal will honor CSU's commitment to provide competitive employee salary increases to make further progress on the faculty salary lag.
- Third, the budget will be predicated on the state's commitment to provide full funding for projected enrollment growth.
- Fourth, we will need a strong technology foundation to fulfill the CSU educational mission. A comprehensive, long-term strategy is needed to build out campus networks, acquire current equipment, software and training, and establish a process for renewal that will continuously update the learning tools required by existing and future enrollment.

While the 1999/2000 budget continues to lay the groundwork for academic excellence over the next decade, it must also capture the long-range vision of the Cornerstones' academic planning initiative. Cornerstones directs CSU to award baccalaureate degrees on the basis of learning outcomes, improve teaching-learning effectiveness, ensure that all students are provided a path to the baccalaureate degree marked by appropriate and understandable requirements, and minimize time and place obstacles. Moreover, Cornerstones encourages CSU to work with high schools to increase the number of students who are prepared to begin college work. Finally, Cornerstones commits to increasing access to postbaccalaureate education and to supporting faculty efforts to make the changes upon which this improvement agenda is predicated.

In response to these funding needs, I am presenting a budget that employs \$165.9 million to sustain current services, \$53.9 million to address priority funding initiatives, and \$45 million to provide permanent recognition for structural budget deficiencies that were funded on a one-time basis in the 1998/99 budget. This \$264.8 million proposal for growth in operations is complemented by the \$208 million average annual capital outlay budget that would be funded from November 1998 bond fund revenue or the General Fund equivalent in debt service funding to address the needs of our capital program. This is a practical budget plan that adheres to the shared-cost partnership between the state, the university, and its students and their families. It preserves the accountability required under the previous compact, and it ensures that accountability and productivity will be essential components of campus plans for cost-effective operations.

I am aware that there was a time in CSU's history when the state was able to fund the university's total operation through precise formulae. This is no longer an option. The cost to restore funding to traditional levels and then provide for budget year workload and capacity requirements would be just under one billion dollars at CSU alone. Although this level of funding is unrealistic, the state is well positioned to continue the financial commitment provided over the past four fiscal years, which would preserve the quality and growth of CSU instructional

programs. Further, I am asking the state to remain firm in its commitment to fund total projected enrollment at the university. These commitments are within the resources that the state can be reasonably expected to provide under current economic conditions.

As for projected enrollment growth, we expect to achieve the peak enrollment level we had prior to the early 1990s economic downturn in the 1999/2000 fiscal year. In addition, CSU faces an estimated increase of 100,000 full-time equivalent students by 2010. Whether this tidal wave of enrollment crests in peaks throughout the next decade or flows in on a constant tide, CSU must be prepared to enroll, teach, counsel and graduate the professionals and technicians that will keep California's economy strong and fluid. Moreover, as the provider of 60 percent of California's teachers, CSU must be prepared to ratchet up its teacher preparation levels in order to address the needs of the state's growing K-12 population.

Beyond that, the state must have the opportunity to make investments in higher education as state resources permit. These budgetary needs would be in addition to future compact agreements as they were during the past four years. Special initiatives, requested above compact amounts, allow the state to assist critical areas of need without jeopardizing the quantity or quality of existing services.

Faculty compensation is extremely important. When I assumed leadership of CSU, I promised to address the salary lag with comparison institutions through a multi-year strategy. Using the methodology developed in collaboration with the California Postsecondary Education Commission (CPEC), at the time of writing this budget we have requested a 6% funding increase.

The revenue calculations for new compact funding cannot absorb the additional 2% requirement to close the faculty salary lag. Consequently, the budget plan for 1999/2000 includes a special initiative request for 2% compensation increase funding to eliminate the 1998/99 salary gap. This action, of course, creates a differential in CSU employee compensation increase for the first time in at least ten years. I am pleased to honor this commitment to reward our best faculty and scholars and to encourage the highest standards of performance.

It is also my hope that we can reach accommodation with the state regarding the need for immediate action on technology. The structural deficiencies in CSU's technology base prevent us from finding simple solutions in one-time allocations or piecemeal appropriations. A comprehensive, long-term strategy is needed to revitalize existing infrastructure, provide current equipment, software and training, and establish a process for renewal that will continuously update the learning tools required by existing and future enrollment. We will need that strong technology foundation in order to achieve our Cornerstones goals and fulfill the CSU mission.

As part of the long-term view associated with the 1999/2000 budget plan, I have challenged our presidents to identify the individual campus strategies that will be needed to improve our teacher preparation offerings. We have already established pilot projects at three campuses in 1998/99 for summer session offerings in teacher preparation. These summer sessions not only help us make full use of our existing classroom resources, they allow us to offer more flexibility in scheduling and greater course availability. I supported legislative action in this area during the budget process for 1998/99, and I am committing \$5 million of proposed compact resources in 1999/2000 for further planning and exploration in this area.

The stability and vitality of California's economy is becoming more, not less, dependent on a well-educated workforce. The need for access to the state's Master Plan for higher education requires the continued commitment of state resources. With this commitment comes accountability. Our enrollments are near the record level achieved at the beginning of the downturn, our campuses and offices have been reorganized to be more productive and efficient, and we continue to offer innovative, practical solutions to address our needs and to be fully accountable.

I recognize the tradition of statewide leadership and public support that has established CSU as America's preeminent institution of public access to baccalaureate and master's education with a strong commitment to K-12 education. In addition, I am committed to fulfilling CSU's mission of providing a high-quality education that will prepare California's students for the workforce of the new century.

That is why I am pleased to offer this proposal for 1999/2000 — a proposal that preserves what has been achieved, and positions the university for continued growth, achievement and fulfillment of its mission in the 21st century.

Charles B. Reed
Chancellor



**1999/2000
PRIORITY FOCUS**

**NEW FINANCIAL COMPACT
COMPENSATION
TECHNOLOGY**

1999/2000 Support Budget

PRIORITY FOCUS

CSU's "focus" for the 1999/2000 fiscal year must be aimed in several directions simultaneously. The sunset of the four-year funding compact that provided budgetary stability between the 1995/96 and 1998/99 fiscal years means the university must be acutely aware of the state financial conditions that will influence continuation of a reliable financing strategy for higher education. As CSU looks toward the development of a new compact, we must also focus on the demands of sustained enrollment growth over the next decade. Consequently, any plan for a financially stable compact must emphasize that the state remain firm in its commitment to fully fund projected enrollment growth at the marginal cost of instruction. As enrollment demand grows, the role of student fees in a stable budget environment becomes another important issue. The university must balance a realistic assumption for predicatable student fee revenue growth with a strong state ethic to keep student fees as low as possible. While the option always remains for the state to buy out fee increases, prudent financial planning requires a fair, sensible alternative when the option to buy out fees cannot be taken.

As we approach the new century, the state has shown excellent leadership in directing available resources toward sound investments in higher education. For CSU, this has meant a good-faith investment in teacher preparation. As will be demonstrated in the section beginning on page 19 of this report, CSU has initiated the steps to offer a strong return on the state's investment in teacher preparation. Therefore, as we focus on preserving a stable financial base, the university must continue to identify the areas of investment that offer the best return on the state's goals for the higher education Master Plan.

Finally, CSU's focus must also remain on its faculty and staff — the essential component to how successfully we achieve our mission. The university competes for faculty with institutions nationwide, and our multi-campus system also relies on a dedicated, competent staff to enroll nearly 350,000 students and award more than 60,000 academic degrees. Our focus for the university must have a long-term view on recruiting, rewarding and retaining our best workers.

To encompass this multi-directed focus, CSU has identified three priority areas for the 1999/2000 fiscal year: A NEW FINANCIAL COMPACT, COMPENSATION, and TECHNOLOGY. Through these three priorities we can continue and improve the programs and services that make CSU the nation's strongest public system for baccalaureate and master's education, further the university's commitment to K-12 reform, and maintain the best qualified assembly of faculty and staff to educate students to succeed in a knowledge-dependent work environment.

NEW FINANCIAL COMPACT

The financial compact used by the state for budget development in the 1995/96 through 1998/99 fiscal years was an excellent plan for restoring the state's commitment to higher education access and for rebuilding higher education budgets decimated by the dramatic downturn in California's economy in the early 1990s. Without the compact — and the support it received from the governor, legislature, students, faculty and staff — CSU could not have stopped the erosion and restored sustainable growth in its enrollment levels, completed the renovations and construction needed to keep classroom and operations space safe and accessible, nor could it have achieved the significant institutional reforms required to increase productivity and financial accountability.

To preserve these gains and move forward as the university prepares for the next century, a new financial compact is needed. It is necessary that the revenue calculation strategy for annual General Fund support increases used effectively throughout Compact I be incorporated in the development of a new long-term higher education financing strategy. This funding would be augmented with annual General Fund support at the marginal rate of instruction for total projected enrollment growth. Together, these funding strategies will preserve the policies and programs that have been used successfully over the past four years to preserve quality in programs and to accommodate access to CSU.

CSU funding requires continued emphasis in the physical plant areas of ongoing, scheduled and deferred maintenance, renovation and growth. As Compact I proved, being able to predict revenue throughout the compact period permits CSU to focus operating and capital resources on these critical needs. The result has been a slowing of the growth of deferred maintenance while extending the useful life of facilities systemwide, improvement of campus infrastructure systems and an increase in the university's ability to address some enrollment growth demand, particularly at small campuses.

To optimize scarce resources, CSU worked closely with the state during Compact I to achieve increased management authority in the execution of its capital programs. This included making sure campuses complete projects on time and within budget. Accountability is maintained by restricting campuses from requesting additional funds over the original appropriation. The recommendations proposed for increased financial flexibility — with prudent accountability measures — provides the state another opportunity to enhance CSU efforts to use its management flexibility successfully in meeting the university's capital needs.

Although the state has provided General Fund support to eliminate the need for student fee increases over the past four years, it did so within the context of a recognized need for fee increases as a key component of any long-term financing guarantee for higher education. Recognizing that any financing compact must preserve the traditional balance between state, institution and student shared costs, for 1999/2000 and for the development of the next financing compact, CSU supports a shared-cost formula based on an annual percentage growth of 4.5% in systemwide student fees. This percentage growth is well below the average 10-year percentage growth calculation for current student fee rates, within the range of typical indices for price-indexed inflation, and compares favorably with CSU average annual rate increases under former statutory fee policy. It provides a predictable base from which students and their families can make realistic financial decisions. It is also a low-cost pricing indicator that preserves fiscal

flexibility for the state to buy out fee increases when resources permit and for the university, students and their families to plan responsibly when they do not.

CSU will continue to honor its commitment to set aside one-third of any increases in State University Fee revenue for financial aid. However, the cost pressures of current and future enrollment cannot be fully addressed without a comprehensive state funding policy in the area of student financial aid. The increases provided to the Cal Grant programs in 1998/99 were an incremental step in progress toward achieving the state's policy goal of providing new grant awards equivalent to 25% of the number of high school graduates. However, the relative portion of funds awarded to students attending CSU continues to decline and the state has not provided, at a minimum, the funding necessary to cover the full amount of mandatory systemwide and campus-based fees to students attending the University of California and the California State University. Although CSU will continue to commit additional resources (largely from student fee revenue) to offset fees for students least able to afford college, this commitment does not replace the state's responsibility for providing student financial aid.

Moreover, the eligibility requirements for the state-mandated fee waivers for dependents of California veterans, and the surviving children of deceased law enforcement or fire suppression employees have cost CSU nearly \$5 million since fiscal year 1992/93. The state previously funded these waivers but has failed to do so since 1990/91. Despite the turnaround in California's economy, the state still does not include the costs of these waivers in its compact funding calculation. As CSU enrollment pressures mount, it has become necessary for CSU to use a portion of its annual financial aid set-aside to begin to address this critical need. For 1999/2000, the university will dedicate approximately \$1 million towards this effort. However, even this action is not sufficient to address the \$5 million shortfall in funding for state-mandated fee waivers.

Any new financing agreement for the university must provide opportunities for the state to continue and strengthen its investment in higher education as state resources permit. These investments would recognize budgetary needs above those that can be funded within future compact agreements. These special investments above the compact amount, which assists critical areas of need, allow for practical and comprehensive financial planning without sacrifice to the quantity or quality of existing services.

As in the past, CSU will honor under this new financial compact a commitment to undergraduate teaching. The university will continue to place a high priority on providing classes so that full-time students can graduate in four years or less and part-time students can graduate in as few years as possible. The actions employed to do this will include:

- working with faculty to develop effective teaching workloads;
- eliminating duplication in academic programs;
- reallocating resources to high priority programs;
- minimizing expenditures for remedial education; and,
- maintaining a collaborative partnership with the University of California and the community colleges to maximize transferability of students and courses, and to increase portability of courses.

COMPENSATION

Investing in faculty is a top priority. It is vital for maintaining CSU's primary mission as a teaching-centered comprehensive university. In light of the dramatic transformation of the California economy in which graduates will work, CSU must invest in compensation strategies that result in well-paid, highly motivated, experienced faculty who can confront the challenges of the state's increasing demand for a highly skilled workforce and prepare the best graduates possible. CSU must also increase salary levels in order to maintain a competitive position in the marketplace for its employees. In addition, rewarding faculty for their contributions to quality and effective delivery of instruction as enrollment demand grows is critical to providing access to all qualified students and fulfilling the university's primary mission as a teaching institution.

For 1999/2000, compensation is the largest area of proposed funding. One significant reason for this is that the current lag in faculty compensation for the university's strongest teachers and scholars remains a serious issue. Using the California Postsecondary Education Commission (CPEC) faculty salary methodology and 1997/98 salary data, the projected faculty salary lag (which assumes a salary increase in 1998/99 for the comparison institutions but none for CSU faculty) is 11.1%. When the 5% CSU faculty salary increase budgeted for 1998/99 is subtracted from the CPEC lag calculation, a 6% faculty compensation increase pool for 1999/2000 would close the existing shortfall. Salary data for the 1998/99 fiscal year will not be available until December 1998.

However, the university's focus on compensation increases is only one component of strategies designed to address parity with comparison institutions and preservation of a quality faculty. Faculty renewal and development programs as well as reward structures that acknowledge excellence are also crucial to CSU's efforts to maintain a quality faculty. During the last three years faculty compensation increases have included a general salary increase, increases based on service, and increases based on performance. The distribution of funds among these three categories is subject to collective bargaining.

CPEC is responsible for advising the governor and legislature regarding faculty salaries at the CSU and the University of California. At the request of the legislature in fall 1995, CPEC reviewed the existing faculty salary methodology and adopted changes to the calculation. This review occurred in consultation with a technical advisory committee composed of representatives from the University of California, CSU administration and faculty, the Department of Finance (DOF), and the Legislative Analyst's Office (LAO). The list of 20 comparison institutions has remained the same since 1990.

TECHNOLOGY

ITS-TECHNOLOGY INFRASTRUCTURE INITIATIVE FUNDING STRATEGY

The following outlines the funding strategy for the CSU Technology Plan.

SCOPE AND GOAL

The funding goal of this plan is to have sufficient funds, from both capital and support budgets, to:

- Build out the intra-campus telecommunications infrastructure on all campuses to minimum baseline standards;
- Renew and maintain the inter- and intra-campus infrastructure;
- Implement and renew, on a three-year cycle, the workstation environment for the faculty and staff and the student computing laboratories;
- Ensure quality operations and support of the network infrastructure and services — voice, video and data — across all campuses; and,
- Provide quality support services and training so all students, faculty and staff may effectively access and utilize the growing amount of information resources required to advance the learning and teaching mission of the CSU.

CURRENT ENVIRONMENT

For most of this decade state revenues for higher education, as a percentage of the state budget, have been static or declining. Public resources to support the needs of colleges and universities (from buildings, supplies, and equipment, to faculty and staff salaries, and technology) are in competition with other priorities such as K-12, corrections, transportation, and health care. Although recent state support has improved, the support budget losses of the early 1990s have not been fully restored. Nor is it likely that CSU will receive all of the funds required to finance its educational needs, given its projected enrollment growth combined with the increased competition for state financial support. However, many of the funding gaps are currently being addressed, at least in part, as the state economy has improved.

TARGET ENVIRONMENT

Campus Telecommunications Infrastructure Build-Out Costs. A series of studies has identified \$243.6 million, as the amount required to build-out the intra-campus infrastructure on all campuses, completing a network to serve all students, faculty and staff. The following chart depicts the breakdown of the costs.

**CAMPUS TELECOMMUNICATIONS INFRASTRUCTURE
BUILD-OUT COST COMPONENTS**
(in Millions)

Physical plant (e.g., pathways), intra-campus media	\$135.4
Engineering, overhead	38.6
Electronics, media	59.8
Asbestos containment	9.8
Total	\$243.6

Given the size and nature of the project, it is evident that a combination of capital outlay, support, and special repairs budgets will be needed to fund the build-out. Of the total costs, \$167.6 million will come from the capital budget and \$9.8 million from special repairs for asbestos containment. Since the infrastructure electronics must be refreshed and maintained on a three-year cycle, the initial build-out costs of \$66.2 million for electronics, media and some engineering will come from the support budget. After build-out is complete, the ongoing annual support budget funding requirements will be \$18.8 million per year to renew and maintain the electronics and infrastructure.

Technology Plan Annual Operating Costs

The projected annual operating costs for the technology plan fall into four cost centers:

- Campus Telecommunications Infrastructure – build out all campuses to baseline and maintain and refresh it on an ongoing basis.
- User Workstation Environment – provide faculty, staff and student laboratories with computers, software, training and user support services.
- Network Operations and Support Services – operate and support an integrated seamless voice, data and video network within and among all campuses that provides connectivity from anyplace to anyplace at anytime.
- Student Personal Information Resource Kit – provide CSU students with access to value added resources and services – software, training programs, Internet services and help desk support – from anywhere, at anytime. In essence, equip CSU students with a Personal Information Resources Kit (PIRK).

Currently, CSU spends about \$177.8 million annually on technology and support services related to the initiative. An additional \$83.4 million will be needed annually by 2002/03 to renew the technology as well as fund operations and support services.

ANNUAL OPERATING COST REQUIREMENTS	(in Millions)		
	NEED (2002/03)	CURRENT	UNMET
Campus Telecommunications Infrastructure	\$18.8	\$0.0	\$18.8
User Workstation Environment	137.9	121.9	6.0
Network Operations and Support Services	62.2	52.3	9.9
Student Personal Information Resources Kit (PIRK)	42.3	3.6	38.7
TOTAL	\$261.2	\$177.8	\$83.4

Campus Telecommunications Infrastructure — As the CSU builds out the telecommunications infrastructure on all campuses, it must refresh and maintain that infrastructure. Currently, the refresh and maintenance program is not systemically funded. The plan calls for the electronics to be systemically refreshed on an ongoing three-year cycle, at an annual cost of \$13.1 million. Another \$5.7 million is required, annually, to maintain and warranty this infrastructure to ensure its availability to the students, faculty and staff.

User Workstation Environment — CSU currently spends \$121.9 million annually to provide workstation computers, related software, training and support services to faculty and staff and to students for use in campus computer laboratories. Direct information technology support and services provided by colleges, departments, media centers and libraries are also included in these costs. To attain the goal of providing a technically current user workstation environment and to provide quality core support services, there is a projected need for \$137.9 million annually.

Network Operations and Support Services — CSU currently spends \$52.3 million annually operating campus data, video and telephone services and the collaborative CSU/Community Colleges telecommunications network, 4CNet. CSU has projected a need for \$62.2 million annually. The \$9.9 million deficit includes \$5.7 million to upgrade the capacity of 4CNet. In addition, to facilitate effective communications and to guarantee proper authorization and security in using the network CSU plans to implement a Unified Messaging System (UMS) at a cost of \$4.2 million per year. Currently, there are no funds budgeted for the UMS.

Student Personal Information Resource Kit (PIRK) — CSU currently spends \$3.6 million to provide limited dial-in network connections so students can have access, from anywhere, to on-campus information resources and services that are vital to their educational experience. Only some campuses provide such service. Working with the California State Student Association (CSSA) and other student leaders, the University has made a preliminary estimate that \$42.3 million will be needed annually to provide a minimum PIRK.

The Student PIRK program is still under development. With the help of a team of students a plan of action has been laid out for 1998/99 to determine student needs and requirements. This plan of action calls for a random sample survey to be conducted with CSU students from all campuses this fall. Follow-up focus groups sessions will be held in the winter. Throughout the academic year education forums will be offered to students on all campuses.

By late spring a Student PIRK program will be finalized for implementation starting in 2000/01. As part of this plan, the University believes that all CSU students should be provided with value added resources and services – software, training programs, Internet services and help desk support – so they can have access from anywhere, at anytime. Based on this work we propose implementation in the second year of our funding plan, 2000/01.

CSU leadership has concluded that at least two categories of funding sources should be considered for the technology plan: state support (bonds and General Fund) and institutional support (redirection, productivity improvements and revenue programs). The chancellor and the presidents, after receiving input from various groups, have formulated a long-range funding strategy for the plan as depicted in the following.

NEW FUNDING REQUIREMENTS SOURCES
(in Millions)

FUND SOURCE	1999/2000	2000/01	2001/02	2002/03	2003/04
<u>State General Fund</u>					
• User Hardware/Software, Training & Support	\$15.1	\$15.1	\$15.1	\$15.1	\$15.1
• Core Software & Training Programs Acquisition	0.0	0.0	0.0	0.0	0.0
• Network Operations & Support (4CNet @ \$5.7M & UMS @ \$4.2M)	<u>9.9</u>	<u>9.9</u>	<u>9.9</u>	<u>9.9</u>	<u>9.9</u>
General Fund, Subtotal	\$25.0	\$25.0	\$25.0	\$25.0	\$25.0
<u>CSU Resources</u>					
• Campus Infrastructure Electronics and Interbuilding Media (Lease/Purchase – Initial Build-Out & 3-yr. Renew Cycle)	\$3.5	\$13.4	\$18.7	\$18.8	\$18.8
• User Hardware/Software, Training and Support	<u>5.2</u>	<u>5.2</u>	<u>5.2</u>	<u>5.2</u>	<u>5.2</u>
CSU Resources, Subtotal	\$8.7	\$18.6	\$23.9	\$24.0	\$24.0
<u>To Be Determined</u>					
• Student Personal Information Resource Kit	<u>\$0.0</u>	<u>\$34.4</u>	<u>\$34.4</u>	<u>\$34.4</u>	<u>\$34.4</u>
Total, General Fund/CSU Resources	\$33.7	\$78.0	\$83.3	\$83.4	\$83.4
<u>Capital Outlay Budget</u>					
• Campus Infrastructure Build-Out to Baseline	\$1.5	\$48.7	\$63.8	\$53.6	\$0.0

STATE

General Obligation Bonds. One major source of funding is capital outlay which has been used primarily for land, buildings and equipment. Since 1992, telecommunications infrastructure has been recognized as a utility eligible for capital funding. Assuming the passage of a new bond issue, Proposition 1A, this again becomes a viable source of funding for the technology plan. CSU will allocate \$114 million from Proposition 1A-bond funds for the first three years of the infrastructure build-out.

General Fund Support Budget. After several years of slow economic growth, state revenues are robust. As a consequence, the 1998/99 CSU budget contains \$25.0 million of one-time funds for technology. CSU is proposing these funds be made permanent starting in 1999/2000. These funds will be used to cover \$15.1 million for the User Workstation Environment costs and \$9.9 million for the Network Operations and Support Services costs.

CSU RESOURCES

CSU Redirection, Campus Productivity Improvements or Revenue Programs. In line with a range of operational models and organizational experiences, CSU must consider whether a portion of the projected funding requirements can be met by changing the way that technology support services are structured and managed. The various operations and services models being considered give CSU an opportunity to consider a variety of ways to gain efficiencies.

CSU is considering several types of industry relationships as we contemplate new ways of doing business. Relationships could range from various types of partnerships for goods and services to relationships which garner external revenue that would come from selling technology products and services to individuals and groups affiliated with the CSU. Among the products might be personal computers, cellular phones and software. Services might include Internet services, long distance calling, maintenance of equipment and help desk support.

CSU plans to use \$24.0 million from its existing base budget to help cover the needs of the technology plan. To cover the costs of renewing and maintaining the new campus infrastructure, CSU plans to redirect \$18.8 million from its base support budget. An additional \$5.2 million per year will be needed from revenue programs to cover a portion of the unmet costs for user hardware, software, training and support.

As noted earlier, CSU is planning for a Student PIRK program. Preliminary estimates are that the minimum cost for the program will be \$42.3 million. Sources for funding Student PIRK are to be determined.

CONCLUSION

The funding strategy is based on a shared responsibility for closing the financial gap of \$83.4 million for annual operating expenses. It also depends upon the passage of Proposition 1A, a bond issue that will provide capital funds to build out the telecommunications infrastructure on all campuses. CSU believes that it has developed a technology plan worthy of support through this funding strategy.

TEACHER PREPARATION

As we approach the new century, the state has shown excellent leadership in directing available resources toward sound investments in higher education.

CSU Response to State Investment — 1998/99

TEACHER PREPARATION

During the past two fiscal years, the state has invested \$23 million in CSU teacher preparation. In 1997/98, \$5 million was provided as part of the governor's Economic Improvement Initiative and in 1998/99 the state provided \$18 million to fund preparation, distance learning and recruitment activities to increase the number of teachers and teaching credentials. CSU has responded to this investment with a number of strategies designed to yield the largest return possible on the state's good faith investment. The 1999/2000 budget includes \$5 million in permanent funding to expand CSU teacher preparation summer operations.

The Urgency: Many More Well-Qualified Teachers Needed

The need for many well-qualified teachers for California public schools is approaching a state of crisis. Estimates of new teachers needed for the next ten years in California range from 250,000 to 300,000. This number can be attributed not only to K-3 class size reduction, but also to the growing wave of teachers reaching retirement age, teacher attrition, and an increasing public school enrollment. In addition to working in conjunction with state educational institutions to produce new teachers, CSU must also work with them to build the access to and the capacity of programs that maintain and improve the quality of these teachers. The magnitude of California's teacher requirements cannot be solved by CSU alone. A multi-faceted approach wherein CSU is a key team component in a statewide effort to recruit, prepare and retain teachers is the appropriate response that guides state funding decisions and the foundation on which CSU has developed its multi-year strategies.

As the state's premiere teaching institution, CSU has a long-standing responsibility to provide the leadership necessary to initiate actions to address the state's education priorities, productively channel state resources towards the most cost-effective learning programs and activities, and contribute effectively in meeting the state's education goals.

CSU approaches its responsibility with a well-researched understanding of the underlying California needs, opportunities, and strategies. The Board of Trustees' Committee on Educational Policy provided valuable leadership in developing CSU's teacher education agenda. Led by Committee Chair Campbell, a retreat was held in August 1997 to identify key issues, consider solutions, and develop a plan of work for ensuring that CSU fulfills its responsibilities as the primary source of educators in California. The CSU Institute for Education Reform, co-directed by former State Senator Gary Hart and Sue Burr, presented findings of its studies and seminars on CSU's central role in teacher preparation to the trustees at the September 1997 meeting. The

CSU Presidents Commission on Teacher Preparation and K-18 Education was formed in the summer of 1996 and presented recommendations on restructuring teacher preparation for the 21st century to the CSU Board of Trustees in November 1997. The Board of Trustees received from California Secretary of Education and Child Development Marian Bergeson and Executive Director of the California Commission on Teacher Credentialing Sam Swofford at its January 1998 meeting the recommendations of the SB 1422 Advisory Panel for changing California's requirements for receiving a teaching credential. The arrival of Charles Reed, with his professional training and direct experience in teacher preparation, as the new CSU chancellor brought rare expertise to guide Board policy development and to launch CSU implementation efforts.

At the July 1998 meeting of the Board of Trustees, CSU adopted its Commitment to Prepare High Quality Teachers.

CSU's Commitment to Prepare High Quality Teachers

The California State University is committed to serving every individual who wants to be a teacher, wishes to be prepared by CSU, and meets CSU admission standards. To enhance access and to ensure its teacher preparation is sound and of high quality, the CSU is drawing from the recommendations of the *CSU Presidents Commission on Teacher Education Report* (1997), the *SB 1422 Advisory Panel Report* (CCTC, 1997), and *The Teachers Who Teach Our Teachers* (CSU Institute for Education Reform, 1996).

To honor this obligation and fulfill its responsibility as the primary source of California teachers, **CSU is committed to reaching the following goals by the dates indicated.**

Access (To build capacity and efficiency of California's largest public university)

- By March 1998, the California Center for Teaching Careers (CalTeach) will be recruiting new teachers and referring students to teacher preparation programs. Special efforts will be devoted to attracting students from groups having low college participation rates. By July 1999, CalTeach will be the focus of recruitment for the CSU and local education agencies in California.
- By November 1998, all admission procedures for teacher preparation programs on campuses will be simplified and more user friendly. Students will be able to make one call, visit virtually via the web, or make real visits and receive complete, consistent, and accurate information.
- By July 2000, the CSU will increase recommendations for credentials from approximately 12,000 to 15,000 annually.

Curriculum (To develop opportunities for early and better articulated teacher preparation)

- By July 1999, the CSU will have initiated integrated undergraduate teacher preparation programs that provide multiple entry points and pathways to the teaching profession that include: 1) a system of application and early advisement, 2) subject matter/teacher preparation integration, 3) early field experiences for candidates, including articulation with community colleges, 4) local district participation, and 5) effective coordination, administration, and support of undergraduate programs leading to teaching credentials.

- By September 1999, all CSU campuses will have a continuum of teacher preparation programs including five-year integrated programs, extended education, district partnerships, and traditional fifth year programs. These classes will be offered on campus, off campus, and via distributed learning.

High Standards *(To establish the CSU benchmark for a well-prepared California teacher)*

- By July 2000, all CSU campuses will have adopted common admission guidelines, common transfer procedures, and common exit standards based on the *California Standards for the Teaching Profession*.
- By July 2000, all CSU teacher preparation programs will participate in individual candidate assessment programs for both teacher and subject matter content preparation in response to state mandate.

Collaboration with Schools *(To broaden University/K-12 shared role in teacher preparation)*

- By February 1999, CSU campuses will use joint appointment processes to employ district personnel to work as full partners with other CSU faculty to advance teacher preparation.
- By July 2000, each CSU campus-based teacher preparation program will have significantly increased and expanded the number of university/school district partnerships to include preparations for MSAT, emergency permit to intern, intern to full credential, supplementary authorizations, teacher aide to full credential, and other programs consistent with regional needs.
- By July 2000, all CSU teacher preparation programs will participate in induction programs providing support for new teachers and establishing a lifelong professional development program that includes district and teacher organization participation as possible.

CSU Efforts with Additional State Support

“[It] takes a whole university to prepare a teacher.”

Robert C. Maxson, Chair

CSU Presidents Commission on Teacher Education

CSU has been providing instruction to over 20,000 students in education credential programs and recommending about 12,000 candidates for basic teaching credentials annually. CSU’s goal is to increase credential production by 25% by July 2000.

The preparation of teachers is a university-wide responsibility that requires thoughtful personnel practices, academic planning, budgeting, and public pronouncements that ensure appropriate college-level instruction, scholarly and creative activities and service.

Recognizing CSU’s unique position as California’s premiere teaching institution, in 1997/98 and 1998/99 the state provided \$23 million in permanent and one-time funding to CSU to support teacher preparation agenda.

Access: Expand Capacity

Sixty percent of the \$23 million in CSU support, \$13.8 million, is provided as direct support to campuses at the marginal cost of instruction. Campuses are spending this General Fund support in 1998-99 to provide over 2,700 additional FTES (over 81,000 semester student credit units or over 27,000 3-unit classes) state-supported instruction in teacher preparation.

Access: Teacher Recruitment Efforts

Teacher recruitment must improve for California to meet its phenomenal need for qualified teachers. In 1997/98, the CSU Institute for Education Reform received \$500,000 to establish the Center for Teaching Careers, in addition to providing support for its Reading Center and charter schools programs. The Center for Teaching Careers (CalTeach), housed at the Sacramento and Long Beach campuses, is an intersegmental activity to increase the number of teachers recruited for California and to improve their access to teacher preparation and teaching positions. To increase its public service efforts through a multimedia campaign, in 1998/99 \$2 million has been earmarked on a one-time basis for CalTeach activities. Another \$200,000 is targeted for a CSU emphasis on the recruitment of mathematics teachers. CalTeach will also provide one-stop service for individuals seeking information on credential requirements, transcript evaluation, and assistance dealing with the credentialing commission.

A Collaboration Involving Curriculum and High Standards

In collaboration with K-12, \$1.5 million will be used for in-service professional development programs for mathematics teachers who are under-prepared in the mathematics subject area. It is projected that in-service professional development will be made available to over 4,500 teachers.

A Partnership Involving Access, Curriculum, High Standards and Collaboration

The final component of the \$23 million CSU budget appropriation for teacher preparation involves an innovative collaboration with the British Open University. To develop a distance education program of high quality for students who may not otherwise have access to CSU teacher preparation programs, \$5 million in one-time funding has been earmarked to develop courses, hire faculty, and access networks. The program will be a multi-campus effort serving emergency permit holders and other applicants who are in situations that preclude them from entering traditional programs. It is anticipated that this endeavor can be integrated on a permanent basis with other CSU distance learning credential programs, such as CredentialNet.

In its budget request for 1999/2000, CSU focuses on the following:

Access: Year-Round Operation

CSU will provide \$5 million to begin state-supported year-round operations at CSU campuses. This budget request will increase CSU capacity and access to teacher preparation courses by over 975 FTES of instruction.

Access: Implementing the Open University Approach

CSU will launch its Open University approach to teacher preparation in 1999/2000, with expectation of an enrollment increase of 250 FTES.

Executive Budget
SUMMARY
1999/2000

Simply stated, CSU's mission is to provide an accessible, affordable, top-quality higher education for California's students so that they are prepared for the knowledge-dependent work environment of the 21st century.

Three-Year Budget Summary and 1999/2000 Budget Request Details

	1997/98 Actual	1998/99 Budget	1999/2000 Request	
General Fund Appropriations	\$1,872,391,000	\$2,164,046,000	\$2,416,113,000	
Revenue	639,284,000	625,993,000	639,615,000	
Reimbursements	<u>128,504,000</u>	<u>128,658,000</u>	<u>128,658,000</u>	
CSU Appropriations Request	\$2,640,179,000	\$2,918,697,000	\$3,184,386,000	
		Compact 4% Annual Funding Increase	\$78,478,000	
		Lease Bond Payments Increase	\$15,044,000	
		General Fund Buyout of 4.5% Fee Rate Increase	14,739,000	
		Enrollment Growth	44,914,000	
		State Investments	53,892,000	
		Investment for State-Recognized Budget Deficiencies	<u>45,000,000</u>	
		Total 1998/99 General Fund Increase	\$252,067,000	

Highlights of 1999/2000 Budget Request

- Based on a new compact funding strategy for higher education.
 - 4% increase in General Fund support.
 - General Fund buyout of 4.5% annual student fee rate increase.
 - State enrollment growth funding for total projected enrollment at marginal cost of instruction.
 - Debt service for current and new capital projects, as required.
- New compact strategy provides \$150.9 million gross revenue increase and \$15 million for debt service.
 - \$30.4 million in CSU mandatory cost obligations, including new debt service.
 - \$73.4 million for a 4% compensation pool effective July 1, 1999, to keep salaries competitive.
 - \$57.2 million for 8,381 FTES growth, or 3% over the planned FTES target for 1998/99.
 - \$ 2.9 million for start-up costs at CSU Monterey Bay.
 - \$ 2 million balance for ongoing maintenance.
 - \$15 million for increased debt service on capital projects.
- State investment of \$98.9 million that benefits students, faculty and long-term institutional need.
 - \$19.5 million for 2% compensation pool increase to keep faculty salaries competitive.
 - \$ 2.4 million for Channel Islands campus planning and capacity growth in Coachella Valley.
 - \$25 million permanent commitment to technology infrastructure and operations.
 - \$ 2 million to continue statewide teacher recruitment campaign.
 - \$ 5 million for applied agricultural research at four CSU campuses.
 - \$20 million to continue progress toward eliminating the deferred maintenance backlog.
 - \$15 million to address the annual depreciation replacement costs of instructional equipment.
 - \$10 million to continue refresh, modification and expansion of available library volumes.

1999/2000 CSU Budget Plan

Sources of Revenue Increase

4% General Fund Increase		\$78,478,000
Lease Bond Payment Increase		15,044,000
General Fund 3% Enrollment Growth (8,381 FTES)		44,914,000
General Fund Compact Fee Buyout (4.5% Fee Increase)		14,739,000
Enrollment Growth Revenue		
Increased State University Fee Revenue	13,622,000	
Offset for Increase in State Mandated Fee Waivers	-906,000	
Net, Available Enrollment Growth Revenue		<u>12,716,000</u>
Total Compact Funding		<u>\$165,891,000</u>
State Investments		<u>98,892,000</u>
Total Budget Plan Revenue Increase		<u><u>\$264,783,000</u></u>

Budget Plan

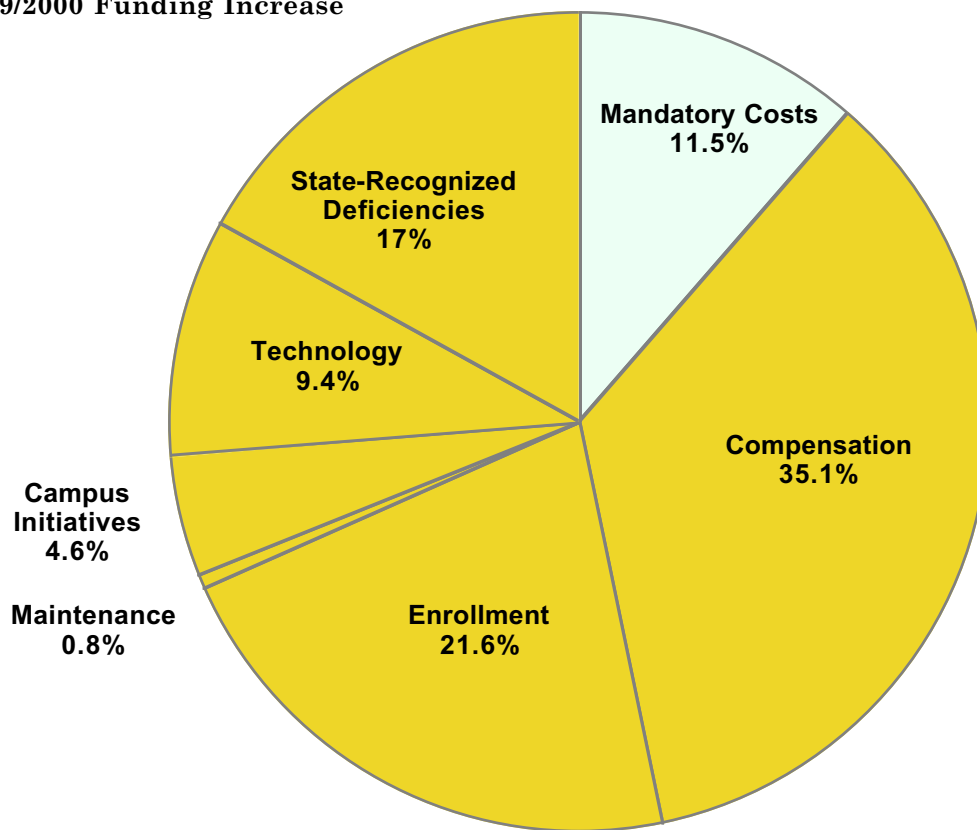
Mandatory Costs		\$30,436,000
Lease Bond Payments	15,044,000	
Full-Year Compensation	2,500,000	
Health Rate Increase	7,200,000	
New Space	2,057,000	
State University Grants (1/3rd of marginal cost revenue)	3,635,000	
Compensation		73,440,000
Faculty (4% effective 7/1/99)	39,024,000	
Non-Faculty (4% effective 7/1/99)	34,416,000	
Enrollment		57,175,000
3% FTES Growth (8,381 FTES)	52,175,000	
Teacher Preparation - Summer Operations	5,000,000	
Special Initiatives		2,883,000
Monterey Bay (Start-up Funding Supplement)*		
Maintenance of Plant		<u>1,957,000</u>
Total Compact Funding		<u>\$165,891,000</u>
State Investments		
Technology Infrastructure and Desktop Support		25,000,000
Faculty Compensation (2% effective 7/1/99)		19,512,000
Teacher Recruitment		2,000,000
Channel Islands		2,000,000
Coachella Valley		380,000
Applied Agricultural Research		5,000,000
State-Recognized Deficiencies (<i>as state resources become available</i>)		
Deferred Maintenance		20,000,000
Instructional Equipment Replacement		15,000,000
Libraries		10,000,000
Total Budget Plan Expenditure Request		<u><u>\$264,783,000</u></u>

* Enrollment funding for Monterey Bay is included in the 3% Enrollment Growth estimate.

1999/2000 CSU Budget Plan: Distribution of Funds

The largest funding increase requested in the 1999/2000 Support Budget, 35%, is budgeted for employee compensation increases, including a special request to increase funding available for faculty salaries 2% above the general increase provided to other CSU employees. After providing for mandatory costs, the budget places priority focus on enrollment, technology and continued support for state-recognized budget deficiencies. The budget plan also funds campus initiatives associated with start-up costs at CSU Monterey Bay, planning and development at CSU Channel Islands, permanent off-campus center space in Coachella Valley, and applied agricultural research at four campuses. Only \$1.9 million is available from compact-based resources to address CSU maintenance cost requirements of \$12.9 million.

1999/2000 Funding Increase



Mandatory Costs	\$30,436,000
Compensation	92,952,000
Enrollment	57,175,000
Maintenance	1,957,000
Technology	25,000,000
Campus Initiatives	12,263,000
Recognized Deficiencies	45,000,000
Total, 1999/2000 Budget Increase	\$264,783,000

Executive Budget Summary

The 1999/2000 CSU Support Budget request has been developed under the financial framework of a compact funding strategy similar to the one used by the governor for the 1995/96 through 1998/99 fiscal years. The legislature supported that funding strategy in each of the four fiscal years and provided necessary budget augmentations for special CSU initiatives not covered by the compact. It is expected that the state will support, again, CSU funding commitments based on a similar strategy in 1999/2000.

The purpose of a funding compact is to provide stability and fair share distribution of discretionary state resources. The compact envisioned for 1999/2000 is in keeping with legislative funding incentives and the governor's direction for improving the efficiency of state budget allocations. CSU will use this funding strategy to address three priority issues: competitive salaries, enrollment and technology.

A base budget General Fund increase of 4% and provisional support to eliminate a 4.5% increase in student fee rates are requested to continue current university operations. This increase will be used to maintain educational services at existing levels, providing support for standard incremental increases primarily associated with mandatory costs (CSU contractual and state-mandated obligations) and general employee compensation increases. It will also be used to expand current service levels for teacher preparation and to provide supplemental funding for start-up costs at CSU Monterey Bay.

In addition, a separate General Fund appropriation is requested for total projected enrollment growth. CSU estimates it will accommodate 3% enrollment growth in 1999/2000, 8,381 full-time equivalent students (FTES). Funding for this enrollment growth has been requested at the marginal cost of instruction in accordance with negotiated agreements reached by the Department of Finance, Legislative Analyst, University of California and CSU. The marginal cost calculation was formally adopted by the legislature in 1996/97. One-third of enrollment growth revenue will be set aside for student financial aid. CSU will use these funds to increase the pool of funds available for State University Grants and to provide assistance for unfunded growth in state-mandated fee waivers for dependents of California veterans and the surviving children of law enforcement and fire suppression employees of a California public agency killed during active duty.

The 1999/2000 Support Budget request also includes funding for state investment opportunities. These investments address the state's interest in maintaining competitive salaries for CSU faculty, planning and development support for CSU Channel Islands, permanent facility space for the

off-campus center in Coachella Valley, applied agricultural research at four CSU campuses, and support for the upgrade and replenishment of CSU's technology infrastructure and operational needs. In addition, as state resources become available, CSU is requesting that the state continue its investment to eliminate the higher education funding deficiencies that received one-time appropriations in 1998/99. These include deferred maintenance, libraries and instructional equipment.

The 1999/2000 Support Budget assumes the state will fund lease bond payment increases in accordance with scheduled payments identified by the state treasurer's office. CSU estimates that increased debt service payments in 1999/2000 will total \$15 million.

Sources of Revenue Increase

The CSU budget plan reflects an estimated \$15 million increase in funding for lease bond payment increases. This funding will be provided by the state in accordance with calculations prepared by the state treasurer's office.

In addition to the projected \$15 million lease bond payment increase, a \$249.8 million budget plan has been developed for 1999/2000. CSU requests funding for the budget plan from the following sources.

Four Percent General Fund (\$78.5 million)

A 4% increase over prior year General Fund appropriations is requested as a base augmentation for 1999/2000. Prior year appropriations were adjusted to remove funding provided to make payments on lease revenue bonds and borrowing for deferred maintenance before the 4% calculation was made. In addition, 1998/99 General Fund appropriations were adjusted to remove \$60.9 million in retirement rate reductions and \$77 million in one-time appropriations received for CSU funding deficiencies.

A 4% increase in adjusted appropriations provided for 1998/99 results in a \$78.5 million General Fund increase for 1999/2000.

Fee Increase Buyout (\$14.7 million)

A new compact financing strategy should include student fee increases that are fixed to a moderate, predictable growth index. Approximately 80% of current support budget costs are funded from state General Fund appropriations and reimbursements to the university. Revenue from student fees and charges fund the remaining 20% of costs.

State law mandates that no increase in the CSU systemwide student fee shall occur in 1999/2000. The CSU Support Budget request assumes the state will provide support equivalent to the revenue that would be generated from a 4.5% increase in student fees. This level of increase is calculated in accordance with typical price increase indices used by the state and is reflective of fee levels calculated under previous statutory fee policy. A General Fund appropriation of \$14.7 million is requested. This funding is crucial to preserve the stability of CSU financial support and to provide full funding for the expenditure plan contained in this budget proposal.

Enrollment Growth (\$44.9 million)

Campus enrollments continue to exceed both Department of Finance and California Postsecondary Education Commission (CPEC) projections. For 1999/2000, CSU projects enrollment growth of 8,381 full-time equivalent students (FTES). This represents a 3% increase in enrollment over planned targets for 1998/99. To accommodate this enrollment demand, CSU is requesting \$44.9 million in additional General Fund appropriations. This request is calculated on the basis of the state-approved marginal cost rate for instruction.

State University Fee Revenue (\$13.6 million)

Revenue associated with 3% enrollment growth is included in the 1999/2000 Support Budget. Enrollment growth will yield \$13.6 million in State University Fee gross revenue.

It is CSU policy that one-third of all increased revenue from the State University Fee be used to increase financial aid. Funding will be provided from enrollment related fee revenue increase State University Grant support to academically qualified students with need. In addition, campus revenue projections will be offset in recognition of the increased cost of state-mandated fee waivers. This offset will reduce revenue available for new budget expenditures by approximately \$1 million.

State Investment in Higher Education (\$98.9 million)

CSU has identified two areas of need for continued state investment in higher education program and services.

Educational Programs and Services

The 1999/2000 Support Budget request includes \$53.9 million to improve CSU educational programs and services. A key component of this funding request allows CSU to move forward with a multi-year plan to reduce the CPEC-calculated faculty salary gap in accordance with state budget directives to maintain competitive salaries and recognize performance. Supplemental support is requested to increase by 2% the compensation pool for faculty collective bargaining provided as part of a new compact. This \$19.5 million investment would be used for performance based pay increases and represents 36.4% of the total request to improve educational programs and services. As one of CSU's most important resources, funds to recognize, reward and retain creative, innovative faculty is critical as the university competes for their services with strong universities across the nation.

The major component of state investment in educational programs and services is technology infrastructure and desktop support. Representing 46.4% of this funding request, the \$25 million investment in CSU technology will make permanent funds provided on a one-time basis in 1998/99. This funding will serve as the foundation for a four-year plan that has been developed to build out, expand and continually refresh CSU technology services that have become standard requirements for producing academically qualified and employable graduates.

The remaining portion of the funding request for educational programs and services, \$9.4 million, supports CSU teacher recruitment activities and campus capacity and development. CSU is requesting that the state make permanent the \$2 million in one-time funding received in 1998/99 for teacher recruitment administered through its successful CalTeach Center. With enactment of SB 1923 (O'Connell, Chapter 861) on September 25, 1998, site authority to provide the financial structure for converting the Camarillo State Hospital into CSU Channel Island has been established. Two immediate issues associated with the site involve police and fire safety and campus planning and development. CSU is requesting a \$2 million state investment for these activities in preparation for student enrollment in August 1999, in recognition of the sizeable amount of vacant land adjacent to the campus site, and for normal planning and analysis associated with the development of a full-fledged campus institution. To restore its return on investment in applied agricultural research, \$5 million is requested for the California Agricultural Technology Institute (CATI). CATI was created in 1984 at the encouragement of the state's agricultural and business communities and the legislature to engage in applied agricultural

research, development and technology transfer activities. The dollars requested will be used at the four CSU agricultural program campuses; this use is designed to respond to the unique diversity of needs facing all of California's rural and urban agricultural communities.

State Recognized Budget Deficiencies

The state provided \$45 million in one-time funding in 1998/99 to address serious structural deficiencies in the CSU budget. This funding was provided in recognition of serious backlogs in deferred maintenance, erosion in the number of library volumes available to students and faculty, and the annual depreciation and obsolescence of instructional equipment. CSU is requesting continued state investment of \$45 million in these critical areas of need for the 1999/2000 fiscal year.

Budget Plan for Increased Revenue

The 1999/2000 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 as a result of the financial stability provided under the higher education funding compact. The budget plan for 1999/2000 also provides funds to keep CSU salaries competitive and to begin implementation of a four-year plan to build out, expand and continually refresh technology infrastructure and desktop support services. Special recognition is also given to the need for continuing state investment in CSU educational programs and services.

Compact Calculated Increases (\$165.9 million)

Based on revenue calculations similar to those used for the previous four-year compact, \$165.9 million in revenue is requested to fund new spending requirements in 1999/2000. The following details the need for increased expenditures.

- **Mandatory Costs**

CSU estimates lease bond payments will increase by \$15 million in 1999/2000. This estimate is subject to revision based on the state treasurer's office projection of costs. Lease bond payments cover the debt service on borrowing for CSU capital projects.

The full-year costs of 1998/99 service-based salary increases, which are provided in accordance with employment anniversary dates, will require \$2.5 million in 1999/2000.

Health benefits rates will increase by 6.5% in the middle of the 1998/99 fiscal year. CSU will use one-time available carryforward funding to pay for the costs incurred from January 1, 1999 to June 30, 1999. Dental benefits rates are projected to increase by 4% over 1998/99 rate levels. The budget plan provides \$7.2 million to pay the full-year cost of the health and dental benefit rate increases in 1999/2000.

CSU will open an additional 288,119 square feet of facility space during the 1999/2000 fiscal year. The budget plan includes \$1,858,000 at a cost of \$6.45 per square foot to support additional costs for utilities and building maintenance. In addition, permanent funding is provided for facility space at two campuses that received temporary funding in 1998/99. The total cost of facility space in 1999/2000 is \$2.1 million.

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 financial assistance to academically qualified students with need. A portion of this increase, approximately \$1 million, will be used as an offset for growth in state-mandated fee waivers for children of public safety officers and firefighters killed in the line of duty and dependents of military veterans. The increased cost of state-mandated fee waivers since 1992/93 equals approximately \$5 million. The remainder of the one-third financial aid set-aside will be used to increase funds available for State University Grants, based on the marginal cost of instruction for enrollment growth. These grants do not exceed the maximum State University Fee rate charged for the academic year. It is projected that \$3.6 million will be available from enrollment growth revenue for State University Grants.

- Compensation

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 the university recruits and retains employees, is an investment in the university that compares favorably with the responsible management practices of other labor intensive institutions. The budget plan for 1999/2000 includes \$73.4 million to provide a 4% compensation pool for salaries and related benefits.

- Enrollment

Funding for 3% growth in CSU enrollment (8,381 FTES) based on the marginal cost of instruction at CSU and teacher preparation summer operations requires \$57.2 million. 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.

- Special Initiatives

Funding is provided for start-up costs at CSU Monterey Bay. Typically, new campuses receive start-up cost supplements for several years after first enrolling students. An additional \$2.9 million will be provided to supplement funding for enrollment growth and instructional costs.

- Physical Plant Maintenance

CSU will use all remaining revenue provided under compact-base revenue calculations to continue its priority commitment to support ongoing maintenance of facilities that will help to slow the growth in its deferred maintenance backlog. After providing for mandatory costs, enrollment and compensation, only \$1.9 million of projected resources are available for ongoing maintenance cost increases.

State Investment in Higher Education (\$98.9 million)

Funding based on the provisions of a higher education compact is not sufficient to address some areas of budget need that require priority attention. The budget plan for 1999/2000 includes \$98.9 million to implement a comprehensive strategy to address CSU technology requirements, affirm CSU's commitment to competitive faculty salaries, provide for CSU teacher recruitment activities and campus capacity and development, and continue to address structural budget deficiencies in state-recognized areas of critical need.

- Faculty Salaries

In accordance with methodology used by CPEC, CSU has identified a continuing lag in CSU faculty salaries and those of faculty at comparison institutions. As part of a multi-year approach to reduce this lag, CSU is requesting a \$19.5 million supplement for faculty compensation increases in 1999/2000. This supplement will provide a 6% compensation pool for faculty salary negotiations and will be used in the collective bargaining process for performance based pay increases. The university's focus on compensation increases is only one component of strategies designed to address parity with comparison institutions. In their entirety, these strategies will assist CSU's effort to reduce this lag over the next three budget years.

The faculty compensation supplement will create a differential in CSU's employee pay increase request for the first time in at least ten years. However, the state has made clear its intention in budget decisions over the past four years that competitive faculty salaries should receive priority attention.

- **Teacher Recruitment and Campus Capacity and Development**

To recruit highly capable and qualified individuals into the teaching profession in California, the state made a \$2 million one-time investment in CSU recruitment activities primarily conducted through the CSU CalTeach Center. To sustain this effort over the next two to three years in conjunction with CSU teacher preparation activities, the budget plan for 1999/2000 requests that the 1998/99 one-time investment be made permanent. As the demand for qualified teachers grows in response to smaller class sizes and projected enrollment growth, the CalTeach recruitment services will be an integral component of the university's success in motivating students to pursue the teaching profession and directing potential teachers through the teacher preparation pipeline.

The budget plan for 1999/2000 also includes a request for the state's continued investment in the planning and development of CSU Channel Islands. The legislature and governor have approved site authority for the transfer of the former Camarillo State Hospital to CSU. Funds are requested in the amount of \$2 million to assist in the continuing planning and development of a full-fledged campus facility and essential health and safety protections as CSU begins on-site utilization. A \$380,000 request is also included in the budget plan to fund permanent facility space for off-campus center capacity in Coachella Valley. This request brings the level of support provided to the off-campus center to budget standards and will assist center preparation for expanded capacity over the next several years.

CSU is also requesting that the state invest \$5 million for applied agricultural research at the four CSU agricultural campuses in the 1999/2000 fiscal year. All four campuses have noted increased industry demand for CSU applied agricultural research, development and technology transfer activities. For every state dollar invested, it has been demonstrated that three additional dollars are returned from industry or federal government sources. The \$5 million request will be administered through CATI at the CSU Fresno campus. CATI was created with encouragement from the state legislature and the agricultural and business community in 1984. Although agriculture is one of the state's largest industries, CATI has received only \$1 million in state support for agriculturally focused activities since 1984.

- **Technology**

At the encouragement of the state legislature, CSU has developed a four-year plan to build out its technology infrastructure and provide the desktop hardware and support services that will be the standard requirement of 21st century teaching institutions. This plan also provides for continuing refresh of the technology environment to keep delivery systems current and relevant to the needs of students, faculty and staff.

CSU has identified costs of \$243.6 million to build out campus telecommunications infrastructure by fiscal year 2002/03. Of this amount, \$167.6 million will come from the capital budget based on passage of Proposition 1A in November 1998. CSU will also use \$66.2 million from its operating revenue over the four-year period to complete the build-out. Planned expenses related to asbestos containment during the build-out, \$9.8 million, will also be funded from CSU resources.

Based on current funding, CSU has identified \$83.4 million in unmet need for annual technology operating costs. Of this amount, the budget plan for 1999/2000 requests that the state make permanent its \$25 million investment in CSU technology provided on a one-time basis in the 1998/99 budget. This \$25 million continuing investment will serve as the foundation for implementing the comprehensive approach to technology envisioned by the legislature and recognized by the state as essential to future development and mission of CSU.

An additional \$24 million will be provided from CSU resources. A portion of this \$24 million will be used to support the infrastructure build-out discussed earlier. After build-out is complete, this revenue will then be used to cover the cost of renewing and maintaining the new campus infrastructure. The remaining \$34.4 million is associated with the final portion of the technology plan related to value added student resources and services. CSU will make a final determination of the cost and funding source for this portion of the plan following additional assessment, planning and consultation with CSU students and student leadership.

- State-Recognized Deficiencies

In 1998/99, the state invested \$45 million in recognition of critical budget deficiencies in the areas of deferred maintenance, instructional equipment and libraries that undercut CSU efforts to move progressively forward with quality educational programs and services for its students. The budget plan for 1999/2000 requests that the state continue its investment in these areas of critical need.

Deferred Maintenance — With a current backlog totaling \$340 million, CSU deferred maintenance projects remain an area of significant budgetary deficiency. Deferred repairs are those that were scheduled for repair but due to project cost, timing and/or available resources were deferred to subsequent years. Since 1994/95, the state has invested \$61 million in CSU efforts to reduce this backlog.

Over the past three years, CSU has provided \$21.1 million toward increased support for ongoing maintenance. However, this amount is \$27.9 million short of the estimated need and these efforts have served only to slow, not halt, the growth in the deferred maintenance backlog. Continued state investment is needed in conjunction with CSU ongoing maintenance support to mitigate further growth. The budget plan for 1999/2000 requests that the state continue its \$20 million contribution toward this effort.

Instructional Equipment Replacement — CSU calculates annually the depreciation costs of its instructional equipment inventory. Based on annual depreciation, the cost for replacing and refreshing obsolete and outdated instructional equipment is calculated in accordance with state-recognized standards developed for the University of California and CSU. Typically, CSU replacement costs are \$30 million per year based on reports submitted by the 22 campuses.

Recognizing the gap between state support for equipment replacement and CSU need, \$15 million was included on a one-time basis in the 1998/99 budget. This investment represented roughly one-half of total need and was used to assist campus efforts to provide the most essential equipment required for student instruction and campus operations. The budget plan for 1999/2000 requests that the state continue this \$15 million investment in CSU instructional equipment support.

Libraries — Structural budget deficiency in CSU libraries occurred as state funding was reduced during the early 1990s economic downturn and as CSU budget funding was no longer determined by formula-based cost standards. CSU calculates that a structural deficiency of 132,000 volumes annually for library books, serials, and periodicals currently exists. The cumulative cost of this deficiency since 1990/91 is estimated to be in excess of \$86 million dollars.

The state invested \$10 million in recognition of this serious funding shortfall and its impact on the quality of students' educational experience. The budget plan for 1999/2000 asks that the state continue this investment to supplement campus efforts to address this critical need.



**MAJOR
FUNDING
ISSUES**

Major Funding Issues

The major funding issues for the 1999/2000 Support Budget include the following:

- Projected lease bond payments increase for debt service on capital projects.
- A projected 6.5% increase in employee health benefits rates and a projected 4% increase in employee dental benefits rates.
- Maintenance of competitive CSU salaries and a 2% faculty compensation differential to reduce the CSU faculty salary lag with comparison institutions.
- Enrollment growth of 3% in response to CSU actual enrollment experience, statewide enrollment trends, and statewide projections for higher education.
- State University Grant and state-mandated fee waivers financial assistance from increased fee revenue.
- Physical plant maintenance requirements based on specifically defined cost factors.
- State investment in technology needed to keep the university's instructional programs relevant and its infrastructure responsive to the technological demands.
- State investment in CSU Channel Islands and planning and development continues for CSU's 23rd campus.
- State investment in other CSU needs including teacher recruitment, applied agricultural research, and state-recognized funding deficiencies.

Lease Bond Payments Increase

The state funds increases in lease bond debt for CSU capital projects as a separate component of the annual budget. The bond payment increases are determined by the state treasurer's office based on new issuances, bond refinancings, and project schedules that affect debt service payments required for the budget year. CSU estimates what the projected increase may be based on similar factors as part of its budget request to the governor.

Lease Bond Payments

(Dollars in Thousands)

	1998/99
<u>Expenditures:</u>	
Debt Service	\$61,820
Service Fees	103
Insurance	657
Total Budget Expenditures	<u>\$62,580</u>
<u>Method of Finance:</u>	
1998/99 Budget Act	\$60,058
Credit from Surplus Accounts	2,759
	<u>\$62,817</u>
<hr/>	
	1999/2000
<u>Expenditures:</u>	
Debt Service	\$74,286
Service Fees	113
Insurance	703
Total Budgeted Expenditures	<u>\$75,102</u>
<u>Method of Finance:</u>	
1998/99 Budget Act	\$60,058
1999/2000 General Fund Increase	15,044
	<u>\$75,102</u>

Benefit Rates: Health and Dental

Health Cost Increase	\$6,300,000
Dental Cost Increase	<u>900,000</u>
Total	\$7,200,000

Health costs are projected to increase approximately 6.5% beginning January 1999. One-time funding available from 1997/98 carryforward dollars will be used to fund the increased cost for 1998/99. Approximately \$6.3 million is requested for permanent funding of the benefits increase in 1999/2000.

Health rates as provided by the Government Code are increasing January 1999 as a result of health plan premium rate increases. CSU's cost increases are 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 4% over the 1998/99 rates. As a result of these dental rate increases, CSU expects its costs to increase by approximately \$900,000 in 1999/2000. Dental contract rates for 1999/2000 are based on beneficiary usage or experience rather than on a fixed rate. Consequently, the requested increase is based on estimated increases and the actual increase may differ from this estimate. The estimated increase is multiplied by the number of dental benefit enrollees to determine the budget request.

Compensation

Four Percent Compensation Pool (effective July 1, 1999)	\$73,440,000
Two Percent Supplemental Increase for Faculty	<u>19,512,000</u>
Total 1999/2000 Compensation Proposal	\$92,952,000
<u>Cost of a One Percent Compensation Increase</u>	\$18,360,000
Faculty	\$9,756,000
Non-Faculty	\$8,604,000
Full-Year 1998/99 Compensation	\$2,500,000
CSU Compensation Pool History	
1995/96 — All Employees	2.5%
1996/97 — All Employees	4.0%
1997/98 — All Employees	4.0%
1998/99 — All Employees	5.0%
Average Annual Compensation Pool Percentage Increase	3.9%
1999/2000 Proposed Compensation Pool	
All Employees	4.0%
Faculty Supplement	2.0%

The proposed increase will provide an aggregate pool for compensation totaling \$73.4 million for salary and benefits to be negotiated with collective bargaining representatives and on the basis of evaluation for nonrepresented employees.

The compensation package is equivalent to approximately 4% of 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.

For 1999/2000, CSU is also proposing a 2% supplemental increase for faculty. This would raise the faculty compensation pool to 6%. The cost for an additional 2% is estimated to be \$19.5 million. Beginning in 1999/2000, Chancellor Reed has pledged to seek over the next three budget years budget allocations sufficient to reduce the faculty salary gap calculated annually by the California Postsecondary Education Commission.

Full-year compensation cost is a mandatory cost item for service-based salary increases (SSIs) that were not funded in fiscal year 1998/99. All SSIs are effective on the employee's anniversary date. The CSU funds only that portion of the SSI 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. The full-year cost included in the 1999/2000 budget proposal totals approximately \$2.5 million.

Enrollment Growth

(Full-Time Equivalent Students)

Total Enrollment FTES Target Increase Proposal	8,381
Enrollment Growth Funding Proposal	\$52,175,000
Teacher Preparation – Summer Operations	<u>5,000,000</u>
	\$57,175,000
1997/98 FTES Target	258,000
1997/98 Actual FTES	266,400
1998/99 Planned FTES Target (includes teacher preparation)	271,022
1999/2000 Planned Enrollment	279,403

1998/99 Marginal Cost of Instruction	\$6,699
General Fund Support	\$5,359
Fee Revenue (20% of total marginal cost)	1,340
(Less 1/3 Fee Revenue for Financial Aid)	<u>-447</u>
Marginal Cost of Instruction for Budget Plan Allocations	\$6,252

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 instructional 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.

1999/2000 Enrollment Funding

Planned 3% enrollment growth requested for 1999/2000 is funded at the marginal cost of instruction. General Fund support is requested at \$5,359 per FTES. Total cost to the General Fund for additional enrollment of 8,381 FTES in 1999/2000 is \$44.9 million.

To further assist campus efforts to expand teacher preparation during summer operations, the budget plan for 1999/2000 also provides \$5 million as part of CSU's enrollment costs.

Special Initiatives: CSU Monterey Bay

The 1999/2000 budget plan includes \$2.9 million in supplemental enrollment growth funding for start-up costs at CSU Monterey Bay. Typically, new campuses receive start-up cost supplements for several years after first enrolling students. The additional \$2.9 million will be provided to supplement funding for enrollment growth and instructional costs.

State University Grants

The amount budgeted for State University Grants (SUG) for 1998/99 was \$106.5 million. Of this amount, \$33.6 million is derived from state General Fund resources and the remaining \$72.9 million is provided through State University Fee revenue increases. State funding for the State University Grant program has not increased since 1991/92. CSU budget policy requires that one-third of new State University Fee revenue from fee rate increases or enrollment growth be set aside for need-based student financial aid. CSU will use a portion of this set-aside to increase the SUG grant pool by \$3.6 million. This level of increase is determined on the basis of one-third of marginal cost revenue projected for 3% enrollment growth in 1999/2000. Total available funding for the SUG program will equal \$110.6 million.

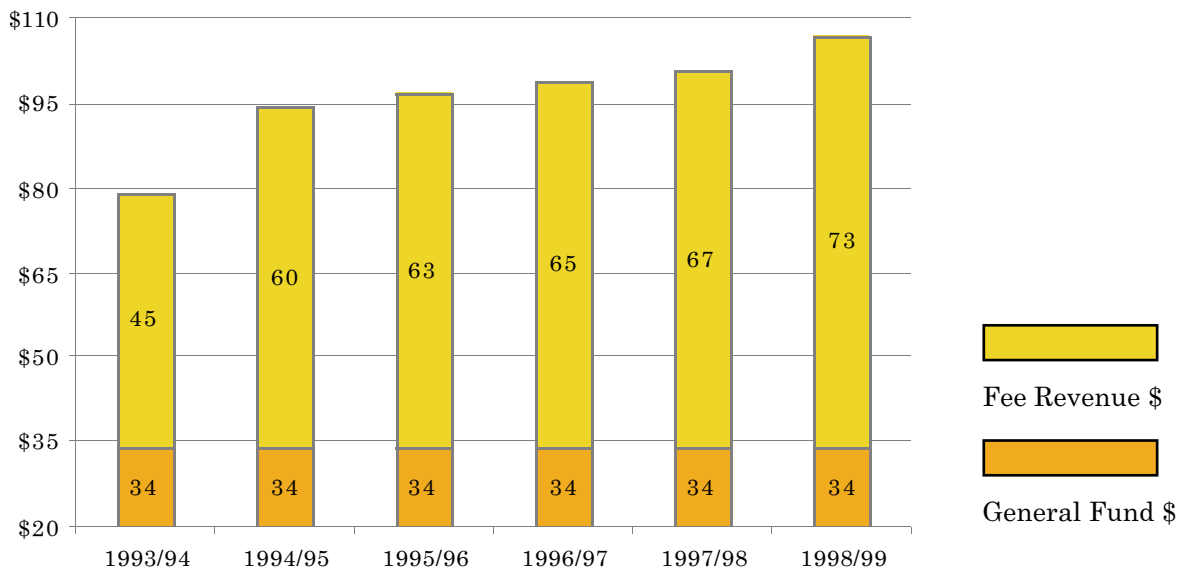
1998/99 State University Funding from General Fund	\$33,669,752
1998/99 Grant Funding from Fee Revenue	<u>72,860,000</u>
1998/99 Total CSU State University Grant Funding	\$106,529,752

<i>Student Fee Revenue Percentage Share of Total Grant Funding</i>	68%
<i>Estimated Number of Grant Recipients in 1998/99</i>	96,713

1998/99 Total CSU State University Grants	\$106,529,752
1999/00 Projected Increase from Marginal Cost Revenue	<u>3,635,000</u>
1999/00 Total CSU State University Grants	\$110,164,752

State University Grant Funding 1993/94 to 1998/99

In Millions



SUG funding for 1998/99 totals \$107 million, a \$6 million increase over 1997/98. This increase is roughly three times the increase in the two preceding years largely due to full funding of CSU projected enrollment growth in 1998/99. The \$3.6 million increase projected for 1999/2000 also results from anticipated enrollment growth.

State-Mandated Fee Waivers

Under current law (Education Code Section 32320), the state's institutions of public higher education are prohibited from charging any tuition or fees to the child of any veteran of the U.S. military who has:

- (a) a service-connected disability,
- (b) been killed in service, or
- (c) died of a service-connected disability, where the annual income of the child (including the value of any support received from a parent) is \$7,000 or less.

During the past decade, the number of students receiving these waivers has increased significantly, particularly in areas where large numbers of veterans are concentrated (e.g., San Diego and Los Angeles). Furthermore, data collected during this period indicate that a significant number of students receiving fee waivers under this program have not come from financially needy families. Meetings between CSU, University of California and Department of Veteran Affairs representatives concerning a reevaluation of the eligibility criteria and review process — one of the major reasons for increased costs — were not successful.

In addition, the state requires that state institutions of higher education waive fees for any surviving child of a deceased law enforcement or fire suppression employee of a public agency (Education Code 68121). The employee must have been:

- a resident of the state,
- employed by a public agency,
- had principal duties that consisted of active law enforcement or active fire suppression and prevention, and
- was killed in the performance of those duties or by accident or injury incurred in the performance of those duties.

The unfunded cost to CSU of these two state-mandated waiver requirements is roughly \$5 million. The state previously funded the costs of these waivers as an offset to revenue in the annual budget; however, no specific provision has been made to address this issue under compact-based budget policy. CSU has provided approximately \$1 million of the financial aid set-aside from increased State University Fee revenue as an offset to estimated revenue collections for 1999/2000 to help campuses fund this expense. This offset is based on current unfunded waivers and is not intended to recover the \$5 million revenue loss from previous years.

Physical Plant

New Space Support (based on APPA Cost Standard):	\$6.45
New Square Footage	288,119
1998/99 Unfunded Space Adjustments	30,550
Total, New Space Cost	\$2,057,000

On-Going Maintenance

APPA Regular Maintenance Cost Per Square Foot	\$6.45
MIT Scheduled Maintenance Cost Per Square Foot	<u>\$0.93</u>
Total On-Going Maintenance Cost per Square Foot	\$7.38

Total System Custodial Square Footage	
1998/99 Square Footage Base	32,003,200

Ongoing Maintenance Need	\$236,184,000
Ongoing Maintenance Budget	<u>223,253,000</u>
Ongoing Maintenance Unmet Need	\$12,931,000

Deferred Maintenance

1999/2000 Deferred Maintenance Backlog	\$340 million
Addressed over 20-Year Period	\$17,000,000

Renovation

Renovation of 2% of CSU's \$7 billion capital assets per year	\$140,000,000
Amount Budgeted for Renovation projects	<u>122,000,000</u>
Unfunded Renovation Project Need	\$18,000,000

<u>Growth</u>	\$93,000,000
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Total Physical Plant Need (excluding New Space support)

Ongoing Maintenance	12,931,000
Deferred Maintenance	17,000,000
Renovation	<u>18,000,000</u>
Total	\$47,931,000

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.

Ongoing Maintenance funds general maintenance and special repairs required to keep facility space operational. 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. Regular maintenance is action taken by the

Physical Plant *(continued)*

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.

CSU's funding commitment to plant maintenance in 1996/97, 1997/98 and 1998/99, totaling \$21.1 million, has reduced annual unfunded maintenance need from a high of \$49 million in 1995/96 to \$27.9 million in 1998/99. Campuses increased funding support for maintenance by an additional \$15 million from compact resources in 1998/99, further reducing outstanding need to \$12.9 million. 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 in 1998/99 had grown to an estimated \$351 million since 1994/95, after adjusting for inflation (2.6% per year since 1995/96). The state invested \$20 million in 1998/99 to reduce this backlog. Assuming a 2.6% inflation adjustment, to retire a \$340 million backlog in 1999/2000 over a 20-year period with continuing state investments would require \$17 million per year. This does not include any new deferred maintenance that would occur as a result of unfunded ongoing maintenance costs.

Renovation and Growth

The renovation cost standard is based on a 50-year life cycle for physical assets and is premised on a minimum of 2% 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 will use its annual capital budget increase provided by passage of Proposition 1A in November 1998 to fund renovation costs and capital growth projects. Of this amount, \$122 million is available for renovation costs to meet campus deficiency needs. This results in an unfunded renovation need of \$18 million.

Total Unmet Physical Plant Need

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 \$47 million in capital and operating support needed for CSU facilities and infrastructure be incorporated in planning and financing discussions.

State Investment: Technology

The funding goal of the CSU Technology Plan is to have sufficient funds, both capital and support budgets, to:

- Build out the intra-campus telecommunications infrastructure on all campuses to minimum baseline standards;
- Renew and maintain the inter- and intra-campus infrastructure;
- Implement and renew, on a three-year cycle, the workstation environment for the faculty and staff and the student computing laboratories;
- Ensure quality operations and support of the network infrastructure and services — voice, video and data — across all campuses; and,
- Provide quality support services and training so all the students, faculty and staff may effectively access and utilize the growing amount of information resources required to advance the learning and teaching mission of the CSU.

CSU has proposed a four-year implementation plan to accomplish this goal.

Cost of Telecommunications Infrastructure Build-out	\$243.6 million
Unmet Annual Operating Need	\$83.4 million
<u>Telecommunications Infrastructure Build-out:</u>	
CSU Resources	\$76.0 million
Capital Outlay Budget	<u>167.6 million</u>
Total	\$243.6 million
<u>Unmet Annual Operating Need:</u>	
1999/2000 Permanent General Fund Appropriation	\$25.0 million
CSU Resources	24.0 million
To Be Determined	<u>34.4 million</u>
Total	\$83.4 million

For build-out of the infrastructure, CSU resources include \$66.2 million for electronics, media and some engineering. In the fifth year and beyond, operating budget resources identified to complete the build-out will be used for renewal and refresh of the infrastructure electronics and interbuilding media as well as user hardware/software, training and support. CSU resources will also be used to cover the \$9.8 million projected expense associated with asbestos containment during the build-out. Capital Outlay Budget resources are based on passage of Proposition 1A, a bond issue that will provide capital funds to build out the telecommunications infrastructure on all campuses.

It is requested that unmet annual operating need be funded with a permanent appropriation of the one-time funding CSU received in 1998/99 for technology. These funds will be used to cover \$15.1 million for the User Workstation Environment costs and \$9.9 million for the Network Operations and Support Services costs. CSU will also use \$24 million of its resources to cover a portion of this unmet need. To be determined is the actual cost and funding source for a planned Student Personal Information Resources Kit (PIRK) program. This program would expand student access to information resources and services that are vital to their educational experience.

State Investment: CSU Channel Islands

In 1998/99, the state invested \$5.2 million in operating support to complete the conveyance of the Camarillo State Hospital facility to CSU. This level of support will fund the physical move of the Ventura Off-Campus Center to the Camarillo site in the November-December 1998 timeframe to prepare for instruction of approximately 1,100 FTES (about 2,000 individuals) in January 1999.

In September 1998 the state approved site authority for the transfer of the former Camarillo State Hospital to CSU. CSU is requesting that the state continue its investment in CSU Channel Islands by providing \$2 million for planning and development and for health and safety protection required as utilization of the site commences. The \$2 million appropriation funds the following:

Expenditures

Police Operations	\$1,073,493
Fire Protection Services	980,000
Campus Planning and Development	<u>835,000</u>
Total, Expenditures	\$2,888,493

Sources of Funds

State General Fund Investment	\$2,000,000
1998/99 Campus Budget	447,902
CSUCI Site Authority (Lease Revenue)	<u>440,591</u>
Total, Sources of Funds	\$2,888,493

Discussions with public safety and fire protection representatives in Ventura County indicate that providing services at the CSU Channel Islands site is more complex than originally considered. For example, the nearest fire station is approximately 7 miles away with a minimum response time of 8 to 10 minutes. Adding to the response time the on-campus reporting delay means the site could be without rescue or fire suppression capability for 15 to 20 minutes. Additionally, with more than 1,000 acres of vacant land unpatrolled by law enforcement agencies and in light of a recent shooting incident on the property next to the campus site, the minimum police staffing originally proposed in planning for the campus now appears risky.

Police services proposed in the 1999/2000 budget plan include two officers per shift with primary supervision and management provided by two sergeants. No funding is provided for dispatchers as communications will be provided through contract with Ventura County Sheriff's Department. Equipment funding provides for funding of one vehicle and the required personal safety equipment for seven new officers.

Fire protection services include full fire protection, life safety, paramedic and related services with a 24 hours per day/7 days per week on-site fire department.

Campus Planning and Development includes the continuing analysis and strategic planning required prior to establishment of a full-fledged campus facility.

State Investment: Other Needs

Teacher Preparation

To recruit highly capable and qualified individuals into the teaching profession in California, the state made a \$2 million one-time investment in CSU recruitment activities primarily conducted through the CSU CalTeach Center. To sustain this effort over the next two to three years in conjunction with CSU teacher preparation activities, the budget plan for 1999/2000 requests that the 1998/99 one-time investment be made permanent. As the demand for qualified teachers grows in response to smaller class sizes and projected enrollment growth, the CalTeach recruitment services will be an integral component of the university's success in motivating students to pursue the teaching profession and directing potential teachers through the teacher preparation pipeline.

Coachella Valley Off-Campus Center

A \$380,000 request is also included in the budget plan to fund permanent facility space for off-campus center capacity in Coachella Valley. This request brings the level of support provided to the off-campus center to budget standards and will assist center preparation for expanded capacity over the next several years.

Applied Agricultural Research

CSU is also requesting that the state invest \$5 million for applied agricultural research at the four CSU agricultural campuses in the 1999/2000 fiscal year. All four campuses (Chico, Fresno, Pomona, San Luis Obispo) have noted increased industry demand for CSU applied agricultural research, development and technology transfer activities. For every state dollar invested, it has been demonstrated that three additional dollars are returned from industry or federal government sources. The \$5 million request will be administered through the California Agricultural Technology Institute (CATI) at the CSU Fresno campus. CATI was created with encouragement from the state legislature and the agricultural and business community in 1984. Although agriculture is one of the state's leading industries, CATI has received only \$1 million in state support for agriculturally focused activities since 1984.

State-Recognized Funding Deficiencies

- 1) **Deferred Maintenance** — With a currently recognized backlog totaling \$331 million, CSU deferred maintenance projects remain an area of significant budgetary deficiency. Deferred repairs are those that were scheduled for repair but due to project cost, timing and/or available resources were deferred to subsequent years. Since 1994/95, the state has invested \$61 million in CSU efforts to reduce this backlog.

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State Investment: Other Needs

- 2) **Instructional Equipment Replacement** — CSU calculates annually the depreciation costs of its instructional equipment inventory. Based on annual depreciation, CSU calculates the cost for replacing and refreshing obsolete and outdated instructional equipment in accordance with state-recognized standards developed for the University of California and CSU. Typically, CSU replacement costs are \$30 million per year based on reports submitted by the 22 campuses.

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- 3) **Libraries** — Structural budget deficiency in CSU libraries occurred as state funding was reduced during the early 1990s economic downturn and as CSU budget funding was no longer determined by formula-based cost standards. CSU calculates that a structural deficiency of 132,000 volumes annually for library books, serials and periodicals currently exists. The cumulative cost of this deficiency since 1990/91 is estimated to approach \$86 million dollars.

Viewed in terms of purchasing power, CSU also calculates a gap of \$19.90 for books and \$64.91 for periodicals based on 1990/91 dollars.

The state invested \$10 million in recognition of this serious funding shortfall and its impact on the quality of students' educational experience. The budget plan for 1999/2000 asks that the state continue this investment to supplement campus efforts to address this critical need

