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MEMORANDUM

DATE: June 8, 2007

TO: Board of Trustees

FROM: Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

SUBJECT: 2005/06 Lottery Revenue Budget Receipts and Expenditures Report

In accordance with lottery policies adopted by the Board of Trustees and as required by Section 24.60 of the 2005/06 Budget Act, attached is a copy of the ***CSU 2005/06 Lottery Revenue Fund Receipts and Expenditures Report***. This report displays the actual 2005/06 receipts and expenditures and planned 2006/07 receipts and expenditures.

Enclosure

RPW: mh

cc: CSU Presidents
Chancellor Reed

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay

Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy

Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego

San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus

2005/06 Lottery Revenue Fund Receipts and Expenditure Report

INTRODUCTION

Pursuant to Section 24.60 of the 2005/06 Budget Act, the following represents the California State University's (CSU) Lottery Report to the Legislature. This report is divided into two sections. The first section contains information regarding budgeted and actual revenues and program expenditures for fiscal year 2005/06. The second section contains the 2006/07 projected revenue and proposed program expenditures.

SECTION I - 2005/06 REVENUES AND EXPENDITURES

Each year the CSU Board of Trustees' adopts a Lottery Revenue Budget. For the 2005/06 fiscal year, the Board adopted a budget totaling \$41.5 million as shown on Table 1. The 2005/06 lottery budget was based on an estimated beginning balance of \$5 million, estimated receipts of \$36 million, interest of \$0.5 million and a systemwide reserve of \$5 million

| | Budgeted | Actual |
|---------------------------------|---------------------|---------------------|
| Beginning Balance | \$5,000,000 | \$22,866,401 |
| Receipts | 36,000,000 | 38,820,011 |
| Interest Income | 500,000 | 856,362 |
| Total Revenue | \$41,500,000 | \$62,542,774 |
| Less: Systemwide Reserve | -5,000,000 | -5,000,000 |
| Allocations/Expenditures | \$36,500,000 | \$57,542,774 |

The CSU conservatively budgeted lottery revenue due to the uncertain nature of this revenue source. While the past six years have shown an increase in lottery receipts, the CSU will continue to budget conservatively for lottery revenue projections and will monitor the actual receipts received and make necessary adjustments as needed.

For 2005/06 the total lottery revenue available including the beginning balance was \$62,542,774. The CSU received \$39.7 million in new lottery generated revenue. This includes both actual lottery revenue (\$38,820,011) as transferred to the CSU by the State Controller's Office (SCO) and the State's Surplus Money Investment Fund Interest Earnings (\$856,362). Actual receipts and interest earnings in 2005/06 are as follows:

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| Table 2. Actual Lottery Receipts and SMIF Interest Earnings | | |
|--|----------------------|------------------------|
| Quarter Earned Ending | Date Received | Amount Received |
| Beginning Balance | | \$22,866,402 |
| June 30, 2005 | October 5, 2005 | 5,555,982 |
| September 30, 2005 | December 31, 2005 | 11,270,307 |
| December 31, 2005 | March 30, 2006 | 11,597,443 |
| March 31, 2006 | June 29, 2006 | 10,396,279 |
| Total Beginning Balance and New Receipts | | \$61,686,413 |
| SMIF Interest Earnings | | |
| Amount Earned 4/1/05 through 6/30/05 | | \$158,192 |
| Amount Earned 7/1/05 through 9/30/05 | | 212,382 |
| Amount Earned 10/1/05 through 12/31/05 | | 231,825 |
| Amount Earned 1/1/06 through 3/31/06 | | 253,963 |
| Total SMIF Interest | | 856,363 |
| Total Lottery Revenue Available | | \$62,542,774 |

Table 3 displays the amounts budgeted and allocated for expenditure for each Lottery program. The reported expenditure allocations include any associated administrative costs.

| Table 3. Lottery Program Budget and Expenditure Allocations | | |
|--|--------------------------------|--|
| Lottery Program | 2005/06 Original Budget | 2005/06 Expenditure Allocations |
| Forgivable Loan/Doctoral Incentive Program | 3,000,000 | 3,000,000 |
| Summer Arts | 1,200,000 | 1,200,000 |
| California Pre-Doctoral Program | 714,000 | 714,000 |
| Systemwide Lottery Program Administration | \$491,000 | \$491,000 |
| Campus-Based Programs | \$31,095,000 | \$44,537,774 |
| 2005/06 Lottery Program Expenditure Allocations | \$36,500,000 | \$49,942,774 |
| Systemwide Reserve | 5,000,000 | 5,000,000 |
| Lottery Revenue Carryforward | | 7,600,000 |
| Total Lottery Budget and Expenditure Allocations | \$41,500,000 | \$62,542,774 |

In 2005/06, the CSU allocated \$5.4 million for four system program costs: the Forgivable Loan Program, the CSU Summer Arts Program, the California Pre-Doctoral Program, and Systemwide Lottery Program Administration. CSU also allocated \$44.5 million for campus-based program expenditures. The following provides detailed descriptions of these program costs.

Forgivable Loan/Doctoral Incentive Program

The CSU Forgivable Loan/Doctoral Incentive Program (FLP) is designed to increase the pool of individuals with the qualifications, motivation, and skills to teach the diverse student body in the CSU. Individuals in the program are sponsored by CSU full time tenure-track faculty to establish early relationships between CSU academic departments, to encourage them during their doctoral studies, and to provide experience that will stimulate interest in a teaching career in the CSU. A major incentive for the program is individuals pursuing full-time doctoral studies are provided loans which are forgiven at a rate of 20 percent for each year of full-time teaching in the CSU, subsequent to completing their doctorate studies.

CSU Summer Arts Program

The CSU Summer Arts program is a multidisciplinary systemwide program offering academic credit, plus a festival in the visual, performing and literary arts. The academic component offers two-to-four-week residency workshops in arts education, creative writing, dance, music, film/video, theater, performance, visual arts, and new technology.

California Pre-Doctoral Program

The California Pre-Doctoral Program, initiated in the 1989/90 academic year, was developed cooperatively by the CSU and the University of California. It is designed to increase the pool of potential faculty by supporting the doctoral aspirations of CSU students who have experienced economic and educational disadvantages. Inculcation of students in the profession is stressed through mentoring by faculty, involvement in formal and informal scholarly and research opportunities, interaction with doctoral-granting institutions, membership in professional associations, and attendance at professional conferences. Students are supported to attend events designed to interest students in graduate study and scholarly careers. A major component of the program is the Summer Research Internship wherein scholars have the opportunity to participate in a structured 8-10 week fully funded research project under the supervision of a professor at prominent doctoral granting institutions throughout the U.S.

The California Pre-Doctoral Program promotes efforts to improve coordination of CSU master's degree programs with the doctoral programs of other institutions, so a better pipeline will develop. As in prior years, a modest amount of faculty travel will be supported so CSU faculty can accompany the selected students visiting Ph.D. granting institutions. This enables the students to learn more about opportunities for doctoral study and to establish ongoing faculty-to-faculty relationships with faculty at the doctoral granting institutions.

A portion of the funding will support the California Graduate Education Forum. The Forum, held for the first time in 1991, brings together promising juniors, seniors, and master's degree students for a series of workshops covering all aspects of doctoral work. In addition, each CSU campus receives a modest amount of funds for supplies and services so that the campus designated Pre-Doctoral Advisor can collect and disseminate information on doctoral study. A systemwide Pre-Doctoral Program Coordinator will coordinate these activities and will participate in and provide leadership for related programs, such as the California Graduate Education Forum.

Systemwide Lottery Program Administration

Funds used for Systemwide Lottery Program Administration are allocated to the Chancellor's Office for accounting, procurement, and other program implementation service costs.

Campus-Based Programs

Campus-Based Programs represent a significant source of funds that permit campuses and the CSU in general to fund instructional activities that lead to the enhancement of the quality of campus life. By using these funds, campus authority and managerial discretion is increased. The use of Campus-Based Program funds allows campuses maximum flexibility in meeting unique campus needs. In keeping with past lottery revenue budgets, such funds are allocated to achieve maximum impact in enhancing instruction. In 2005/06, the \$44.5 million allocation shown on Table 3 was used for support of student instructional and academic programs. The table below summarizes in detail how the 2005/06 allocation was utilized:

Campus-Based Programs:

| | |
|---|---------------------|
| Academic/Remedial/Vocational Instruction | \$13,351,552 |
| Campus Fiscal Operations | 9,192,085 |
| Libraries | 7,344,140 |
| Academic/Instructional/Student Services Technology | 5,696,038 |
| Systemwide Initiatives (<i>EAP, Electronic Library, Academic Support</i>) | 5,261,079 |
| Plant Operations/Public Safety | 1,236,631 |
| Academic Administration | 610,331 |
| Financial Aid/Scholarships | 524,494 |
| Student Support Services | 511,435 |
| Course Development/Academic Personnel Development | 353,900 |
| Community Service and Community Education | 170,460 |
| Counseling and Career Guidance | 112,911 |
| Research and Ancillary Support | 88,609 |
| Public Relations/ Educational Media Services | 84,110 |
| Total, Campus-Based Programs | \$44,537,775 |

In fiscal year 2000/01, campus allocations previously designated for Access and Academic Development, CSU Scholarship Program for Future Scholars, and Teacher Recruitment were consolidated into Campus-Based Program allocations. This change was made in order to give campuses more flexibility and control while maintaining the CSU's efforts to increase outreach and teacher recruitment. It is expected the campuses continue to fund these important activities.

SECTION II – 2006/07 projected REVENUES AND EXPENDITURES /ALLOCATIONS

The Board of Trustees approved the 2006/07 Lottery Budget that included projected revenue comprised of an estimated beginning system reserve balance of \$5 million, additional carryforward of \$7.6 million, new receipts projected to be \$38 million and lottery interest earnings of \$0.4 million. CSU will maintain a \$5 million reserve of 2006/07 projected Lottery revenue to serve as a cushion for economic uncertainties and cash flow variations resulting from fluctuations in lottery receipts, as well as to provide funds for special instructional and academic support projects the Chancellor may determine are necessary during the fiscal year.

Table 4 identifies the projected revenues for 2006/07 and the funds approved for allocation.

| Table 4. 2006/07 Projected Revenues | |
|--|----------------------|
| Beginning Reserve | \$ 5,000,000 |
| Additional Carryforward | 7,600,000 |
| Receipts | 38,000,000 |
| Projected Interest Earnings | 400,000 |
| Total Revenues | \$ 51,000,000 |
| Less Systemwide Reserve | -5,000,000 |
| Total Approved for Allocation | \$46,000,000 |

Planned program expenditures and allocations for 2006/07 total \$46 million as indicated below in Table 5. The planned expenditures of \$46 million match the funds approved for allocation in Table 4.

| Table 5. 2006/07 Planned Expenditures | |
|--|--------------------------------|
| Lottery Program | Fiscal Year 2006/07 |
| Forgivable Loan/Doctoral Incentive | \$3,000,000 |
| California Pre-Doctoral | 714,000 |
| CSU Summer Arts | 1,200,000 |
| Campus-Based Programs | 34,995,000 |
| Systemwide Implementation Costs | 491,000 |
| Planned Carryforward Expenditures | 5,600,000 |
| Total | \$46,000,000 |