



The California State University

2004-05 Budget Presentation
Senate Budget and Fiscal Review, Subcommittee 1
March 8, 2004

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Chancellor

CSU and the California Economy

- **CSU is the country's largest (409,000 students) and most diverse university system (underrepresented enrollment tops 53 percent)**
- **CSU is the academic engine graduating 77,000 students annually to meet employer's demand for an educated and technically trained workforce**
- **A person with a bachelor's degree will earn nearly twice as much over their lifetime as a high school graduate**
- **The United States Department of Labor reports that 85 percent of the jobs in today's economy require a college education.**
- **More educated workers mean higher tax revenues, greater productivity, a stronger high-tech workforce and decreased reliance on government financial support**
- **CSU plays a critical role in the state's economic recovery, sustaining business opportunities, and providing long-term fiscal stability to the state**
- **CSU Sacramento generated \$743.5 million and added 15,946 jobs for the region's economy in 2003**

Narrative: The 2004-05 proposed budget poses many challenges to the CSU, its campuses, students, faculty, and staff – but we recognize that we are not alone. Based on the past three years of reductions to our budget of over \$800 million, we are facing difficult choices about the future of our system and the state of California. We all know the issues before us, given our work together. Today I am going to try and take a different approach – to discuss with you where we are, where we have been, and where we are going that I believe poses a risk for California's future.

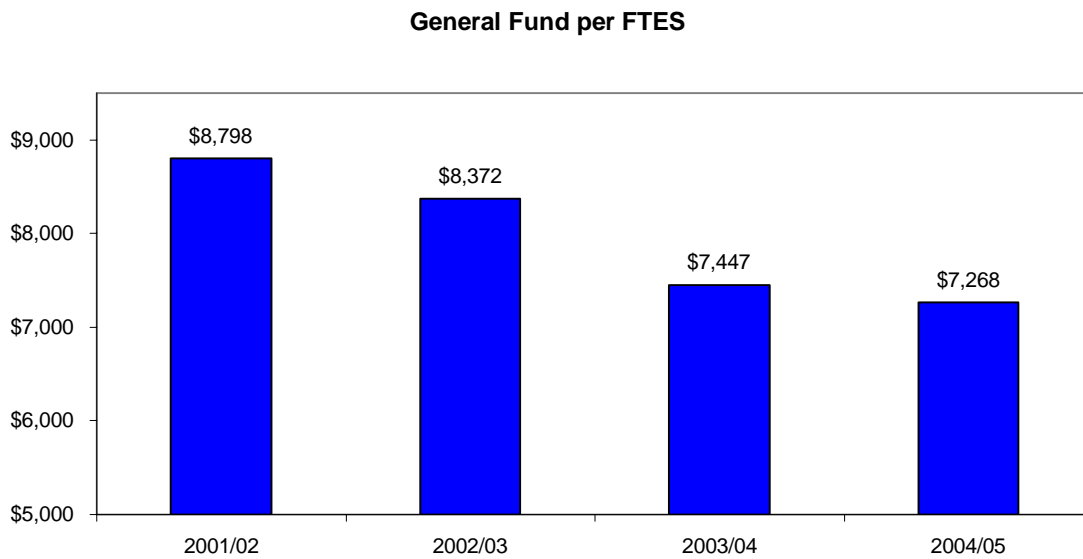
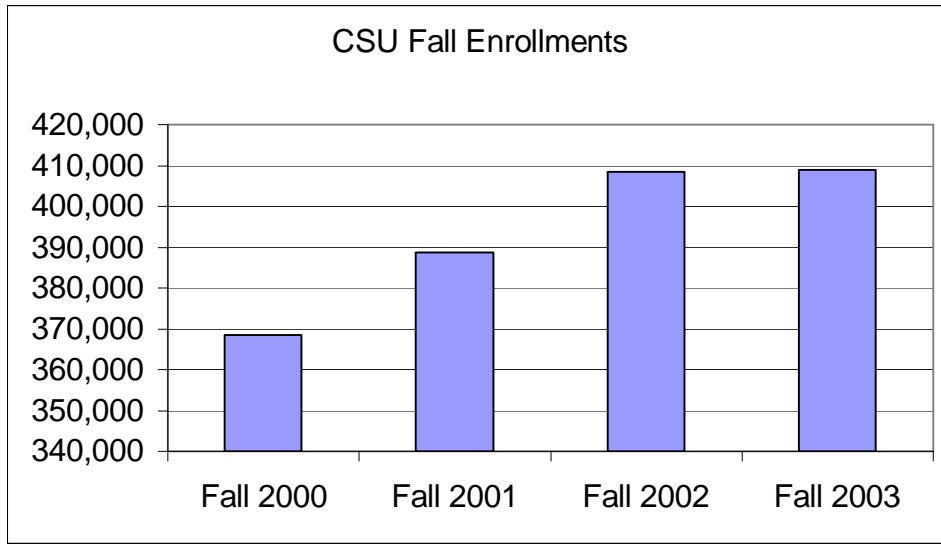
The CSU is the country's largest and most diverse university system. We are the academic engine that graduates 77,000 students annually to meet employers' demand for an educated and technically trained workforce. A person with a bachelor's degree will earn nearly twice as much over his or her lifetime as a high school graduate. The U.S. Department of Labor reports that 85 percent of the jobs in today's economy require a college education. More educated workers mean higher tax revenues, greater productivity, a stronger high-tech workforce and decreased reliance on government financial support. CSU plays a critical role in the state's economic recovery, sustaining business opportunities, and providing long-term fiscal stability to the state. As an example of our economic contribution, CSU Sacramento generated \$743.5 million and added nearly 16,000 jobs to the region's economy in 2003.

CSU's Commitment to Students

- **Provide “authentic access” to students attending the CSU.**
- **Authentic access allows students to get the course sections they need to graduate in a timely fashion.**
- **The State has an obligation under the Master Plan to fund student access; difficult to achieve given the current fiscal crisis.**
- **Support the Administration's call for a long-term fee policy.**
- **Minimize increase in undergraduate fee and protect students seeking a Teaching Credential.**
- **Support needed investments not only in our institutional financial aid program, State University Grant, but also in Cal Grants to assist needy, eligible students.**
- **CSU has set systemwide priorities to maximize enrollment of eligible students.**
- **Informing students of opportunities at the CCC or independent colleges.**

Narrative: Moving from CSU's role in the economy to CSU's commitment to students, we stand ready to fully serve the 409,000 students enrolled at CSU campuses last fall. CSU will continue to serve these students while managing a \$304 million budget reduction and increased mandatory costs. It is our commitment to provide “authentic access” to students attending the CSU. This means students will get the course sections they need to graduate in a timely fashion. However, the state has an obligation to fund access to higher education. The CSU can't be expected to continue taking students while receiving fewer resources, managing mandatory costs, ignoring ongoing shortfalls in our physical and instructional infrastructure, and then raise student fees, and be able to give them the courses, programs and services they need to succeed.

The CSU supports the Administration's call for a long-term fee policy that is consistent with the CSU's efforts that began last fall to revisit our current student fee policy where we've made considerable progress with our students, Academic Senate, and Systemwide Budget Advisory Committee. A long-term fee policy is important but should not be considered a solution to the budget needs of the system. A long-term fee policy gives students and families a reasonable expectation of the cost of their education but also recognizes the investment necessary from the state to maintain the promise. In addition, we believe that such a policy acknowledges that it is likely that CSU will never return to the level of funding support that we once enjoyed, thus we need to ask students and parents to participate more in this investment. We have raised a concern with the Governor relative to the impact of a 40% fee increase for fifth-year teacher credential students given the state's shortage of highly qualified teachers.



CSU Comparison Institutions

Academic Year Resident, Undergraduate, Student Fee Levels

<u>University</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05¹</u>
Rutgers University (Newark, NJ)	7,308	7,927	-
University of Maryland, at Baltimore	6,362	7,388	-
University of Connecticut (Storrs, CT)	5,843	6,844	-
State University of New York, at Albany	5,337	6,343	-
Cleveland State University	5,196	5,916	-
Wayne State University (Detroit, MI)	5,031	5,693	-
Illinois State University	5,037	5,340	-
COMPARISON AVERAGE²	\$ 4,584	\$ 5,272	-
George Mason University (Fairfax, VA)	4,416	5,112	-
University of Wisconsin, at Milwaukee	4,356	5,107	-
North Carolina State University	3,827	4,985	-
University of Texas, at Arlington	4,123	4,423	-
Georgia State University, at Atlanta	3,472	3,920	-
University of Colorado, at Denver	3,238	3,662	-
Arizona State University, at Tempe	2,585	3,595	-
University of Nevada, at Reno	2,622	2,830	-
CALIFORNIA STATE UNIVERSITY³	\$ 2,070	\$ 2,572	\$ 2,800

¹ 2004/05 Comparison institution data unavailable

² Average does not include CSU

³ Includes State University Fee and average campus based fees

State's Investment in the CSU

- **State General Fund investment declining at expense of increasing student fees and Full-Time Equivalent Student (FTES) funding gap**
- **State unable to fund University's normal operating budget including technology equipment, libraries, and deferred maintenance**
- **State has not funded Mandatory Cost obligations such as compensation, health insurance, new space, workers compensation, and energy costs**
- **State subjected CSU to additional program reductions.**

Narrative: CSU was able to recover from the recession of the early 1990s as a result of the state's investment in the later half of the decade. But just as we begin to demonstrate the merits and rate of return on this state General Fund investment, the CSU has had to implement serious budget reductions that threaten our ability to meet the state's demand for a highly trained and academically prepared workforce. Unfortunately, as reflected on the next couple of charts, not only has the state's investment decreased at the expense of increasing student fees, but also the state has been unable to fund the University's normal operating budget.

In addition to not meeting enrollment demand, the state has not been able to fund long-term needs such as technology equipment, libraries, and deferred maintenance or our mandatory costs that include compensation, health insurance, new space, workers' compensation, and increasing energy costs. Now it's true, we can delay equipment purchases, ordering books and periodicals, and some scheduled maintenance and we've done that over the past three years. At some point, however, the University needs to reinvest in its physical and instructional infrastructure to ensure quality for our students. In addition, we have experienced delayed payments for contractual obligations, health insurance, maintaining new space, funding increases for workers' compensation insurance and energy costs. So when you hear a common theme that you can increase student fees only to redirect their fee revenue and financial aid to further cut the CSU budget, please remember that we too face a budget crisis that is unparalleled in our history.

CSU General Fund Shortfall

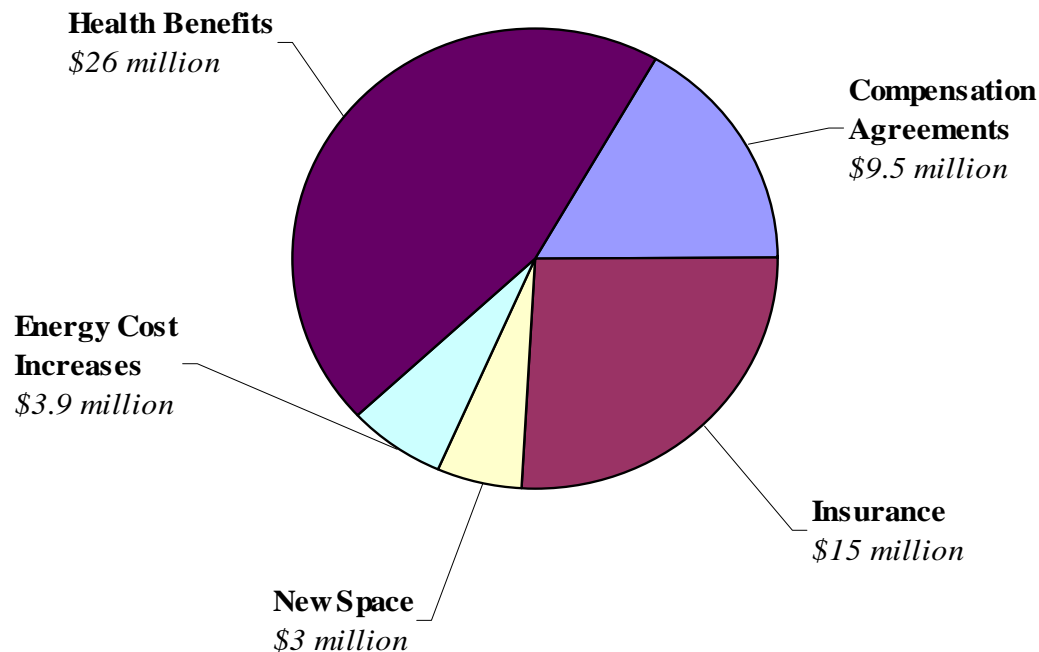
	2001/02	2002/03	2003/04	2004/05	Cumulative Total
Partnership Agreement*	\$201,602,000	\$252,273,000	\$262,516,000	\$239,250,000	\$955,641,000
State Funding	131,441,000	136,433,000	90,880,000		358,754,000
Partnership Funding Shortfall	(\$70,161,000)	(\$115,840,000)	(\$171,636,000)	(\$239,250,000)	(\$596,887,000)
Program Reductions	(\$14,113,000)	(\$57,500,000)	(\$349,421,000)	(\$239,661,000)	(\$660,695,000)
One-Time Program Reduction**		(\$59,600,000)	(23,800,000)		
Additional Unfunded Mandatory Costs***		(\$22,853,000)	(\$17,884,000)		(\$40,737,000)
Total CSU Funding Shortfall	(\$84,274,000)	(\$255,793,000)	(\$562,741,000)	(\$478,911,000)	(\$1,298,319,000)

* Includes anticipated General Fund buyout of fee rate increases.

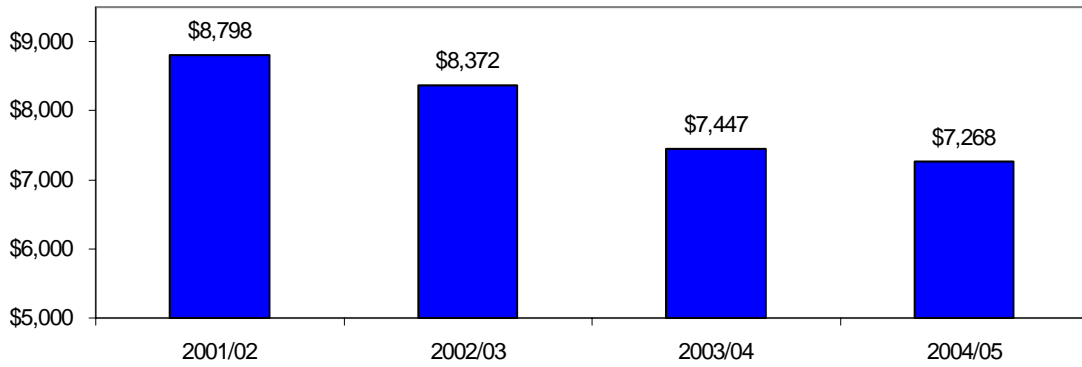
** One-time reductions that are not counted in cumulative total.

*** Additional Health Benefits Costs for January – June 2005 are not known at this time.

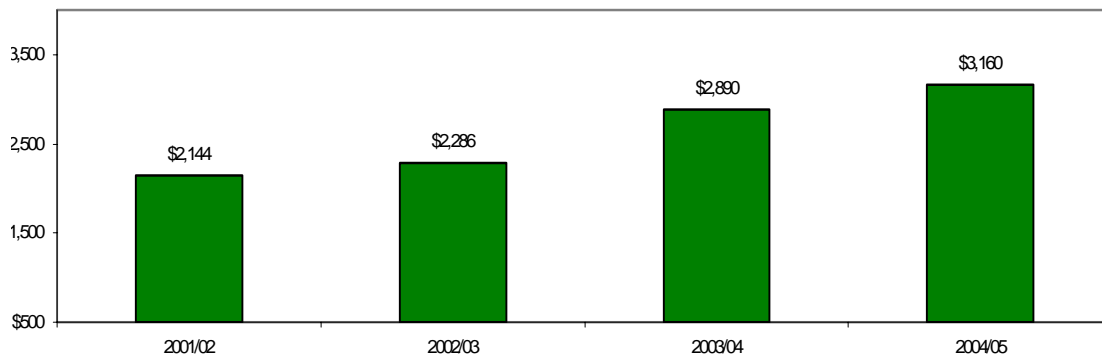
CSU 2004-05 Mandatory Cost Obligations (\$57.4 million)



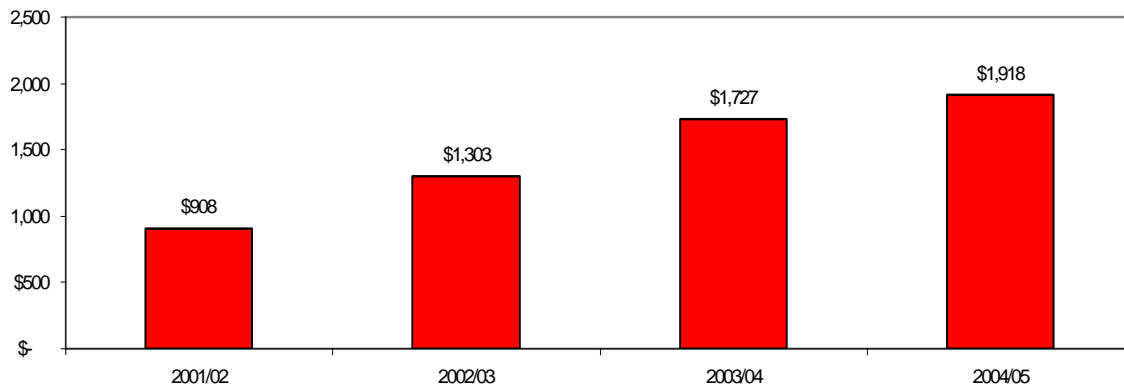
General Fund per FTES



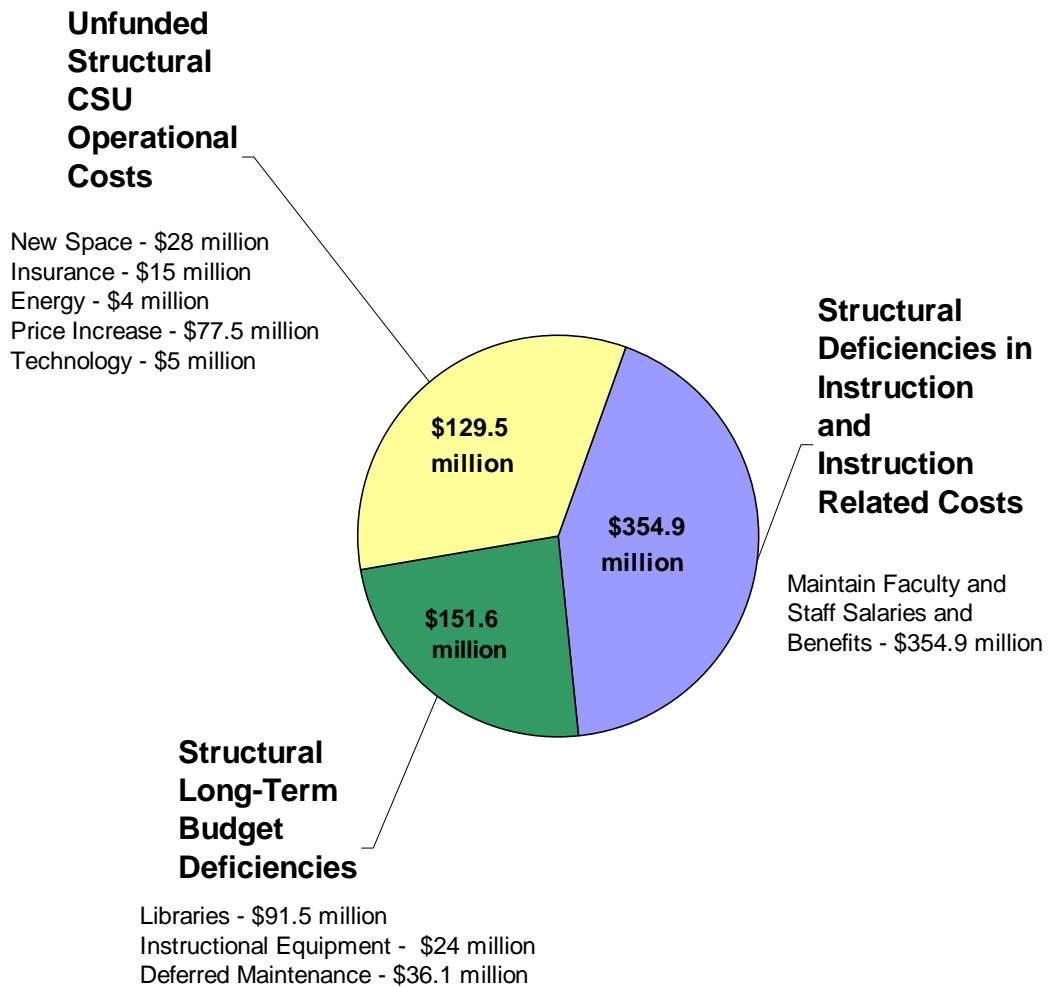
Student Fee Revenue per FTES



Funding Gap per FTES



Structural Funding Gap Affecting Quality Education
Total Budget Deficiency = \$636 million



Challenges for the 2004-05 Fiscal Year and Beyond

- **Challenges to being efficient, effective, and providing higher education**
- **Enrollment management and student access to the CSU.**
- **Delivering institutional financial aid to offset increasing student fees.**
- **Increased student/faculty ratio; consolidated course sections; reduce low participation courses.**
- **Chancellor's Office and campuses continue to hold open significant number of vacant positions; no funding for compensation; eliminated funding for professional development; reduce travel costs; and face potential lay-offs next year.**
- **CSU, as one of the few discretionary parts of the state budget, has two real funding options: student access and student fees.**
- **CSU stands ready to meet the challenge to play a critical role in California's economic recovery.**
- **More educated workers mean higher tax revenues, greater productivity, stronger high-tech workforce and decreased reliance on government financial support.**
- **CSU plays a critical role in the state's economic recovery, sustaining business opportunities, and providing long-term fiscal stability to the state.**

Challenges for the 2004-05 Fiscal Year and Beyond

Narrative: Now, members of the legislature are going to hear from advocates of how the CSU, along with our colleagues in higher education, can be more efficient, more effective, and deliver more in higher education with less money. Let me assure you that the CSU has done everything in its power to manage the \$800 million in reductions and budget shortfalls at the same time doing our best to serve growing enrollments. We have deferred expenditures where we could, we have ignored increasing campus deficits in key areas important to educational quality, have asked our faculty and staff to do more with less, and robbed Peter to Pay Paul. We have done it all. Our options are few, and all are unpleasant.

We've increased our student faculty ratio, consolidated course sections until there is literally no more physical plant space, and reduced low-participation courses, offering them once or twice a year instead of every quarter or semester. We are not filling vacant positions, increasing compensation, or funding professional development. We have reduced our travel funding and are at a point of facing potential lay-offs in the 2004-05 fiscal year.

Recognizing that the budget contains no enrollment growth funding and calls for redirecting students to other educational opportunities, we have developed systemwide enrollment objectives for use by our 23 campuses consistent with the Master Plan, statutes and state policy. First and foremost, our policy gives priority to fully eligible community college transfer students; we will take all of these students in 2004-05. From there, however, we need to set some priorities; thus we have determined that 1) Lower-division transfer students, 2) Student seeking a second Baccalaureate degree, 3) Special Admission Students, and 4) Undeclared Post-Baccalaureate students, will be considered a lower priority. We have discussed these with Community College Chancellor Mark Drummond and we have our staffs working together to ensure eligible students are served.

The CSU has truly made an effort to operate as efficiently as possible, delivering effective instruction to our students who realize the contributions that a higher education can play in their lives. The challenge before the legislature and the University in 2004-05 and beyond contains very few options. Additional budget reductions can only be addressed by reduced student access to the CSU and increased student fees. Although we must keep in mind that it is not in the state's interest to balance the University's budget on the backs of our students.

Many in the legislature will look to the CSU as one of the few discretionary budget areas that can be cut to fund what many might consider higher priority health and human service programs. I would suggest we build for the future of this state by investing in higher education and, by doing so, CSU will meet the challenge and play a critical role in California's economic recovery. How will we accomplish this? Let me bring you back to two of my original comments regarding the CSU and the California economy. The state's investment in the CSU will produce more educated workers and less dependence by Californians on government financial support. Our graduates will generate higher state tax revenue that can assist the state in funding those programs that are for the truly needy in our society. Finally, investing in the CSU allows us to play a critical role in the state's economic recovery, sustaining business opportunities, and providing long-term fiscal stability to the state.

I want to thank you Mr. Chairman and members for the opportunity to meet with you today, and will answer any questions you may have on regarding the CSU budget.