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CODED MEMO B 2016-01

To: CSU Chief Fiscal Officers

From: Ryan Storm, Assistant Vice Chancellor for Budget



Kara Perkins, Executive Budget Director



CC: Timothy P. White, Chancellor
Steve Relyea, Executive Vice Chancellor
Loren J. Blanchard, Executive Vice Chancellor
CSU Presidents, Financial Officers, Financial Aid Directors,
Enrollment Planning and Resource Officers, and Enrollment Managers

Date: March 23, 2016

Re: 2016-17 Preliminary Budget Allocations

Attachments: Coded Memo B 2016-01, Attachments A-D

These preliminary budget allocations have been established for campus financial planning purposes. The governor's January budget includes a \$140.4 million General Fund increase for the CSU consistent with his multi-year funding plan with the expectation that CSU tuition rates will not increase. However, the General Fund increase is \$101.3 million less than the CSU Board of Trustees 2016-17 support budget request of \$241.7 million which was approved at the board's November 2015 meeting. Consequently, and as an example, the preliminary memo includes a one percent systemwide enrollment increase that can be accommodated within the governor's proposal. It is anticipated that final budget allocations for 2016-17 will reflect additional changes in campus General Fund support; however, no campus should receive less than the incremental General Fund increase reflected in this memo.

This memo displays three types of preliminary allocations:

- Revisions to 2015-16 General Fund allocations
- New 2016-17 General Fund allocations
- Projections of 2016-17 tuition and fee revenue (for reference only)

Revisions to the 2015-16 General Fund reflect changes that occurred since the 2015-16 final budget allocation memo dated July 24, 2015. These adjustments include modifications for

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

changes in the California Public Employees' Retirement System (CalPERS) employer-paid contribution rates and adjustments in program funding support between systemwide provisions, programs, and campuses.

The 2016-17 General Fund allocations will support the estimated incremental annualized cost to fund employer-paid health care benefit premiums, the cost of regular operations and maintenance to open scheduled new facilities in 2016-17, one percent funded enrollment growth, two percent employee compensation increase (distributed for non-represented and represented employee groups with salary agreements at this time), and funding for retirement costs and systemwide initiatives (held in systemwide provisions pending further decisions).

The 2016-17 General Fund allocations and systemwide tuition and fee revenue projections are summarized in the following table:

**2016-17 Preliminary Budget Changes in State General Fund Allocations
and Systemwide Tuition and Fee Revenue Estimates**

General Fund Allocations

2015-16 Final Budget Allocations <i>(Coded Memo B 2015-03, Attachment A, Column 4)</i>	\$2,987,063,000
Revisions to 2015-16 General Fund Allocations <i>(2015-16 State-Funded Employer-Paid Retirement Adjustment)</i>	\$20,471,000
2016-17 Lease Revenue Bond Debt Service Adjustment	\$7,865,000
New 2016-17 General Fund Allocations / Funding Increases	
Employer-paid Health Care Premiums	35,080,000
Operations and Maintenance of New Facilities	890,000
Retirement Rate Adjustment Costs above State-Funded	7,000,000
Funded Student Enrollment Growth	20,678,000
Employee Compensation Increases	69,552,000
Systemwide Initiatives	7,206,000
New 2016-17 Subtotal	\$140,406,000
2016-17 Preliminary Budget, General Fund Allocations	\$3,155,805,000

Operating Budget Revenue Projections

2015-16 Campus-Reported Gross Tuition and Fee Revenues <i>(August 2015)</i>	\$2,801,774,000
Changes in Tuition Revenue Projections	
Adjustment based on 2014-15 Change in Mix of Resident Students	(1,945,000)
Adjustment based on 2014-15 Actual Nonresident Student Enrollments <i>(affecting in-state systemwide tuition portion only [i.e. \$5,472])</i>	26,956,000
Adjustments for Funded Student Enrollment Growth	22,505,000
Subtotal	\$47,516,000
State University Grants	
2015-16 Campuses' Base Allowance	(655,706,000)
2016-17 Increase in State University Grant Allowances	(3,895,000)
Subtotal	(\$659,601,000)
2016-17 Net Operating Budget Revenue Projection	\$2,189,689,000

General Fund and tuition and fee revenue changes by campus are included in the attachments to this coded memorandum. Further detailed explanations of budget allocations are provided in the pages that follow.

Questions concerning this memo or its attachments may be directed to Kara Perkins, Chris Canfield, or other System Budget Office staff at (562) 951-4560. Please reference the [Budget Office staff directory](#) for additional contact information and staff areas of assignment.

References

- [CSU 2016-2017 Support Budget](#)
- [State of California, Department of Finance, 2016-17 Governor's Budget](#)
- [CSU Section of the 2016-17 Governor's Budget](#)

RS:KP:CC

Attachments

Preliminary General Fund Allocations, Attachment Descriptions

General Fund Summary and Support Budget Total (Attachment A)

- Attachment A summarizes the CSU 2016-17 total projected General Fund by campus after base budget and new funding adjustments as shown in Attachments B and C. The 2016-17 net tuition and fees from Attachment D are included for reference purposes only, and together with the General Fund summarize the total 2016-17 net support budget.
- Beginning with the 2016-17 budget allocations, there are changes to the programs identified below the campus totals in Attachments A through D.

Newly added is the identification of the Center for California Studies in the budget allocation attachments for improved state reporting purposes. The Center has a separate state General Fund appropriation that in budget allocation attachments in prior years was included with the Sacramento campus General Fund total.

A new Systemwide Programs designation has been established for various systemwide programs and functions that are managed centrally at the Chancellor's Office. Applicable amounts previously shown with the Chancellor's Office were moved to Systemwide Programs. Additionally, International Programs and CalStateTEACH (identified separately in prior years) are now in Systemwide Programs.

Revisions to 2015-16 General Fund Allocations (Attachment B)

- **State-Funded Retirement Adjustment**
Each year CalPERS adjusts employer-paid contribution rates to maintain the actuarial soundness of the system and meet defined benefit pension obligations.

The State adjusts CSU General Fund appropriation for employer-paid contribution rate changes based on the actual CSU 2013-14 pensionable salaries reported by the State Controller's Office.

The 2014-15 to 2015-16 State Miscellaneous First Tier rates increased from 24.280 percent to 25.150 percent and the State Peace Officer / Firefighter rate increased from 36.827 percent to 38.095 percent. The total retirement cost increase to be funded by the state in 2015-16 is \$20.5 million. The distribution of \$20.5 million is based on the 2013-14 frozen pensionable payroll by campus as provided by the State Controller's Office.

The state Department of Finance generally processes the General Fund appropriation adjustment for retirement rate changes in the last quarter of the current fiscal year. The actual distribution of the 2015-16 adjustment of \$20.5 million will occur once the funds are received from the state.

- **Program Funding**

Base budget adjustments for program funding include movement from Systemwide Provisions to the new Systemwide Programs described for Attachment A above, which are for ongoing systemwide information technology systems and initiatives that continue to be managed by the Chancellor's Office (\$47.2 million).

Other base budget adjustments are included to support the Maritime Academy Educational Opportunity Program (\$345,500), CSU Long Beach diving and boating safety (\$115,000), Center for California Studies (\$89,300), and Chancellor's Office (\$4.0 million). There are corresponding offsets from Systemwide Provisions and CSU Sacramento.

New 2016-17 General Fund Allocations (Attachment C)

- **Employer-Paid Health Care Premiums**

Effective January 2016, the estimated annualized cost to fund employer-paid health care benefit premium rate increases is \$35.1 million representing a year over year increase of 7.7 percent. Health care benefit rate increases are determined by the number of CSU employee participants and the difference between the old and new employer-paid contribution rates. The employer-paid health care benefit cost increase is distributed on the basis of the percentage share of campus Financial Information Management System (FIRMS) 2014-15 actual state supported health benefits expenditures. For additional information regarding January 2016 health premium costs, please reference Human Resources Technical Letter, [HR/Benefits 2015-05](#).

- **Operations and Maintenance of New Facilities**

The new General Fund allocations include \$0.9 million to fund regular operations and maintenance of new facilities, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support. In 2016-17, the CSU is scheduled to open a total of 82,519 new square feet. Funding of regular operations and maintenance is provided at the new space rate of \$10.78 per square foot. More information on [campus facilities with new space need](#) is provided online in the 2016-17 Support Budget supplemental documentation.

- **Retirement Costs (above state-funded)**

Beginning with the 2014-15 fiscal year, a limit was placed on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates (reference Section 3.60 of the annual budget act). While the state's obligation to adjust retirement funding based on rate changes continues ([Government Code Section 20814](#)), the salary base applied to the incremental rate change is set to the CSU 2013-14 pensionable payroll level as reported by the State Controller's Office. Funds are retained at the Chancellor's Office to address CSU need to cover annual employer-paid retirement rate adjustment on pensionable payroll above the 2013-14 level that is funded by the state.

- **Lease Revenue Bond**

Related to lease revenue bonds, the state will include a \$7.9 million increase to the CSU General Fund appropriation in 2016-17 to recognize and fulfill capital outlay debt service commitments. Two years ago, when the state shifted capital outlay responsibilities from the state to the CSU, the state committed to increase funding over a three-year period for the annual debt service for CSU projects that were approved by the governor and

legislature but not yet completed. It is anticipated the projects will be completed as planned in 2016-17. This amount represents the second of three planned permanent funding increases for this purpose.

- **Funded Student Enrollment Growth**

The preliminary budget allocations include student access and enrollment growth of one percent above 2015-16 funded enrollment levels equivalent to 3,560 full-time equivalent students (FTES). Funding to support 2016-17 FTES growth is based on the systemwide total of 2015-16 budgeted expenses that sustain direct instruction, academic support, student services, institutional support, and operations and maintenance of plant. The average systemwide cost to educate a full-time equivalent student is \$10,285. It is anticipated that campuses will collect average net tuition of \$4,476 per FTES to support that education, leaving a fixed \$5,809 General Fund allocation per FTES. The average net revenue is based on campus actual 2014-15 FIRMS tuition revenue, State University Grants, and FTES reported.

\$10,285	Average Cost of Education per FTES
<u>(4,476)</u>	Net Tuition Revenue per FTES
\$5,809	General Fund per FTES

Together, campuses are allocated \$20.7 million in General Fund for enrollment growth. The General Fund allocation and the campus estimated \$15.9 million net tuition revenue from enrollment growth provide a combined \$36.6 million increase to cover expenditures for enrollment growth. The 2016-17 Support Budget supplemental documentation includes a section on the [marginal cost of instruction rate by program area](#), which is based on the state Department of Finance budget methodology.

- **Employee Compensation Increases**

The preliminary budget allocation memo includes \$69.6 million to support a two percent compensation pool increase. The faculty share (\$34.6 million) of the two percent compensation pool is held centrally pending the completion of a collective bargaining agreement. The remaining 2016-17 compensation increase (\$35 million) is distributed by campus based on the campus percentage share of 2014-15 CSU state-supported non-faculty salaries. Actual compensation increases for represented employee groups are determined by negotiations between collective bargaining units and CSU Systemwide Human Resources.

- **Systemwide Initiatives**

The budget plan approved by the Board of Trustees contained funding to address several campus financial infrastructure challenges and systemwide initiatives. However, the 2016-17 Governor's Budget level of funding allows minimal effort in these areas with approximately \$7.2 million available after funding augmentations for mandatory costs, one percent enrollment growth, and employee compensation. These funds are held centrally pending additional decisions.

- **State University Grant, General Fund Adjustment**

This continues the recent change in methodology to proportionally adjust campus General Fund allocations while continuing to recognize differences in financial aid need by campus. In this more direct and simplified model, the campus ratio of financial aid need to total headcount determines the estimated number of students that qualify for State University Grants (e.g. 100 FTES enrollment growth * 0.4 ratio = 40 additional

qualifying students). The campus distribution of State University Grant increases from enrollment growth is based on the campus relative share of additional qualifying students. The result is proportional General Fund adjustments by campus that range from an increase of approximately \$63,000 to a reduction of approximately \$67,000.

**Projections of 2016-17 Support Budget Tuition and Fee Revenues Including State University Grants
(Attachment D)
For Reference Only**

The 2016-17 projected changes to support budget tuition revenue that are added to campus 2015-16 final budget tuition and fees reported do not impact the 2016-17 campus General Fund allocations. The combined preliminary 2016-17 net tuition and fees and General Fund are provided to summarize total 2016-17 net support budget resources available (as reflected in Attachment A). Campus tuition and fee revenue adjustments may be further revised by campuses for planning estimation purposes in campus final budget submittals.

- **2014-15 Change in Mix of Actual Resident Students**

Each year campus revenue estimates are adjusted to reflect the most recent past year distribution of students. The change in resident student tuition revenue projections is based on the most recent past year enrollment patterns of student level (undergraduate, graduate, post-baccalaureate) and fee paying status (full-time or part-time). Budget year tuition revenue projections are made after those base adjustments occur.

For 2016-17, campus base tuition revenue projections reflect a minus \$1.9 million adjustment due to change from 2013-14 to 2014-15 actual resident student distribution patterns.

- **2014-15 Actual Nonresident Student Enrollment**

The change in the in-state tuition revenue paid by nonresident students is based on the most recent past year enrollment of nonresident students. For 2016-17, campus base revenue projections have been adjusted by a total of \$27.0 million to reflect the change from 2013-14 to 2014-15 nonresident student distribution.

- **Tuition Adjustment for Changes in 2016-17 Funded Enrollment Growth**

The 2016-17 one percent enrollment growth (or 3,560 FTES) allows for increased unit load and new student access to the university. Tuition revenue projections for this anticipated growth are based on 2014-15 actual campus student enrollment patterns. It is projected that \$22.5 million of new support budget revenue will be generated from 2016-17 budgeted enrollment growth before taking State University Grants into account.

- **2015-16 Base and 2016-17 Increase in State University Grants**

The 2015-16 campus base State University Grants totaled \$655.7 million. The 2016-17 preliminary budget allocations include a \$3.9 million incremental increase in campus State University Grants from funded student enrollment growth. Adjustments to State University Grants are based on the proportion of financial aid need at campuses as well as budgeted FTES growth (as discussed previously). The 2016-17 campus State University Grants total in these preliminary budget allocations is \$659.6 million.

Questions about the State University Grant distribution process may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at dkulju@calstate.edu.