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CODED MEMO B 2016-02

To: CSU Chief Fiscal Officers

From: Ryan Storm, Assistant Vice Chancellor for Budget 
Kara Perkins, Executive Budget Director 

CC: Timothy P. White, Chancellor,
Steven Relyea, Executive Vice Chancellor and Chief Financial Officer,
Loren J. Blanchard, Executive Vice Chancellor for Academic and Student Affairs
Lori Lamb, Vice Chancellor of Human Resources,
CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors,
Enrollment Planning and Resource Officers, and Enrollment Managers

Date: July 14, 2016

Re: 2016-17 Final Base Budget Allocations

Attachments: Coded Memo B 2016-02, Attachments A-D

The Governor signed the Budget Act of 2016 on June 27, 2016 ([Senate Bill 826, Chapter 23](#)). The budget act includes a \$154 million base General Fund increase to the CSU support budget. This coded memo addresses incremental General Fund allocations for the CSU included in the Budget Act of 2016 and systemwide tuition revenue projections.

This memo displays three types of 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)

Due to the volume of one-time funding adjustments included in the Budget Act of 2016 and related legislation, a separate coded memorandum (B 2016-03) will provide information on one-time allocations. It is our hope that two memorandums will provide clarity between base (or ongoing) funding sources and those that are one-time in nature.

In this Coded Memo B 2016-02, 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 changes in the California Public Employees' Retirement System (CalPERS) employer-paid contribution rates and adjustments in program funding

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

support between systemwide provisions, programs, and campuses. Also, the funds held centrally in the preliminary 2016-17 budget allocations for faculty 2015-16 compensation have been distributed.

The 2016-17 General Fund allocations will support the following estimated costs: employer-paid health care benefit premiums, the cost of regular operations and maintenance of 2016-17 new facilities, retirement, funded student enrollment growth, faculty and staff compensation increases, student success and completion initiatives, and other systemwide priorities. This allocation reflects a 1.46 percent enrollment growth for 2016-17 (slightly above the 1.0 percent increase in the preliminary budget allocations) for a total of 5,194 additional full-time equivalent students (FTES).

The final 2016-17 General Fund appropriation with base adjustments and estimated systemwide tuition and fee revenue projections are summarized in the following table:

CSU General Fund Appropriation

2015-16 Final Budget <i>(Coded Memo B 2015-03, Attachment A, Column 4)</i>	\$2,987,063,000
Revisions to 2015-16 General Fund Appropriation (2015-16 State-Funded Employer-Paid Retirement Adjustment)	\$20,471,000
2016-17 Lease Revenue Bond Debt Service Payments Adjustment	\$7,865,000
New 2016-17 General Fund / 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	30,172,000
Employee Compensation Increases	69,554,000
Student Success and Completion Initiatives/Graduation Initiative 2025	10,210,000
Education Insights, CSU Student Success Network	1,100,000
Center for California Studies	20,000
New 2016-17 Subtotal	\$154,026,000
2016-17 Final Budget, General Fund	\$3,169,425,000

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 (instate systemwide tuition portion only [i.e. \$5,472])	26,956,000
Adjustments for Funded Student Enrollment Growth	32,850,000
Subtotal	\$57,861,000
State University Grants	
2015-16 Campuses' Base Allowance	(655,706,000)
2016-17 Increase in State University Grant Allowances	(5,682,000)
Subtotal	(\$661,388,000)
2016-17 Net Operating Budget Revenue Projection	\$2,198,247,000

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

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.

Additional References

- [State 2016-17 Final Budget Summary](#)
- [CSU 2016-17 Support Budget](#)
- [State Department of Finance, 2016-17 Budget](#)

RS:KP:CC

Attachments

Final General Fund Allocations, Attachment Descriptions

General Fund Summary and Support Budget Total (Attachment A)

- Attachment A summarizes the CSU 2016-17 total 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.

A new *Center for California Studies* designation has been established for state reporting purposes. The Center is funded via a unique General Fund appropriation in the annual budget act. Previously, the Center's funding 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 grouped into 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 the 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 38.985 percent. The total retirement cost increase funded by the state in a supplemental 2015-16 General Fund appropriation was \$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.

- **2015-16 Support Budget Faculty Compensation**
The \$33.008 million 2015-16 faculty compensation held in systemwide provisions in the 2015-16 final budget is being permanently distributed to campuses. The distribution is based on campus share of actual faculty 2014-15 Operating Fund compensation in the Financial Information Record Management System (FIRMS). One-time funds held centrally in 2015-16 will be allocated separately in Coded Memo B 2016-03.

- **Program Funding**

Base budget adjustments for program funding include movement from Systemwide Provisions to the new Systemwide Programs as described above. Systemwide Provisions 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), Ocean Studies Institute at CSU Long Beach (\$115,000), Center for California Studies (\$89,300), and ongoing systemwide programs and support managed by the Chancellor's Office (\$4.0 million). There are corresponding offsets from Systemwide Provisions and the Sacramento campus.

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 based on the percentage share of campus 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 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 Rate Adjustment 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 Debt Service Payments Adjustment**

Related to lease revenue bonds, the state included 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 final budget allocations include student access and enrollment growth of 1.46 percent above 2015-16 funded enrollment levels equivalent to 5,194 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>	Average Net Tuition Revenue per FTES
\$5,809	General Fund per FTES

Together, campuses are allocated \$30.2 million in General Fund for enrollment growth. The General Fund allocation and the campus estimated \$27.2 million net tuition revenue from enrollment growth provide a combined \$57.4 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 represents the average cost of education and is based on the state Department of Finance budget methodology.

- **Employee Compensation Increases**

The final budget allocation memo includes \$69.6 million base funding to cover two percent of faculty and staff 2016-17 compensation increases. The 2016-17 support budget cost of each 1 percent compensation increase is determined by campus 2015-16 final budget salaries and salary-related benefits submitted as shown in the [2016-17 support budget documentation](#). The allocation of \$69.6 million compensation is distributed based on campus pro-rata share of FIRMS 2014-15 past-year actual state-support salaries. Actual compensation increases for represented employee groups are determined by collective bargaining agreements. The following table approximates the overall 2016-17 compensation increases by campus:

Estimated 2016-17 Compensation Increase by Campus¹

	(A) One-Time Funding	(B) Base Funding	(C) Base Funding	(D) Campus Obligation	(E)
	Allocation of undistributed 2015-16 2% support budget faculty compensation	Permanent Allocation of 2015-16 2% support budget faculty compensation	Permanent Allocation of 2016-17 2% support budget faculty and staff compensation	Remaining estimated balance to fund 2016-17 cost of faculty and staff compensation ²	Total <i>(Cols. A-D)</i>
Bakersfield	\$577,000	\$577,000	\$1,431,000	\$716,000	\$3,301,000
Channel Islands	482,000	482,000	1,250,000	625,000	2,839,000
Chico	1,335,000	1,335,000	2,671,000	1,335,000	6,676,000
Dominguez Hills	885,000	885,000	1,914,000	957,000	4,641,000
East Bay	985,000	985,000	2,317,000	1,158,000	5,445,000
Fresno	1,774,000	1,774,000	3,407,000	1,704,000	8,659,000
Fullerton	2,647,000	2,647,000	5,159,000	2,580,000	13,033,000
Humboldt	696,000	696,000	1,662,000	831,000	3,885,000
Long Beach	2,650,000	2,650,000	5,331,000	2,666,000	13,297,000
Los Angeles	1,710,000	1,710,000	3,353,000	1,676,000	8,449,000
Maritime Academy	164,000	164,000	463,000	231,000	1,022,000
Monterey Bay	524,000	524,000	1,323,000	662,000	3,033,000
Northridge	2,577,000	2,577,000	5,284,000	2,642,000	13,080,000
Pomona	1,732,000	1,732,000	3,494,000	1,747,000	8,705,000
Sacramento	1,942,000	1,942,000	3,773,000	1,886,000	9,543,000
San Bernardino	1,268,000	1,268,000	2,782,000	1,391,000	6,709,000
San Diego	2,424,000	2,424,000	5,130,000	2,565,000	12,543,000
San Francisco	2,224,000	2,224,000	4,523,000	2,261,000	11,232,000
San Jose	2,247,000	2,247,000	4,238,000	2,119,000	10,851,000
San Luis Obispo	1,975,000	1,975,000	4,045,000	2,022,000	10,017,000
San Marcos	797,000	797,000	1,819,000	910,000	4,323,000
Sonoma	695,000	695,000	1,505,000	752,000	3,647,000
Stanislaus	698,000	698,000	1,402,000	701,000	3,499,000
Chancellor's Office	0	0	1,278,000	639,000	1,917,000
Total	\$33,008,000	\$33,008,000	\$69,554,000	\$34,776,000	\$170,346,000

¹ Campus distribution of above compensation based on pro-rata share of 2014-15 FIRMS PY actual salaries.

² Reflects 2016-17 Support Budget Cost of 1% for all faculty and staff employee groups; although determination for some employee groups are outstanding at this time.

For details on current compensation memorandums of understanding and agreements for represented employee groups, please reference Systemwide Human Resources [collective bargaining updates](#).

- **Student Success and Completion Initiatives/Graduation Initiative 2025**

For 2016-17, \$10.2 million is allocated for Student Success and Completion Initiatives/Graduation Initiative 2025 based on two methodologies also used in 2015-16, which are (1) a total of \$5.1 million to 13 campuses with Pell Grant-eligible populations higher than the 54 percent systemwide average (based on 2014-15 actuals) distributed by campus pro-rata share of Pell student headcount at eligible campuses, and (2) \$5.1 million to campuses based on campus size with larger allocations going to smaller campuses. For the designated 9 small- (less than 11,000 FTES), 7 medium- (between 11,000 to 20,000 FTES), and 7 large campuses (greater than 20,000 FTES) respectively receiving \$310,000, \$210,000, and \$120,000. These funds can be used for campus

priorities related to student success including, but not limited to: tenure track faculty hiring, increasing professional advising staff, high impact practices that improve student outcomes, and other campus specific investments that contribute to increased graduation rates and reduced time to degree.

- **Education Insights Center; Center for California Studies**

The Budget Act of 2016 [SB 826](#) includes a new \$1.1 million General Fund appropriation (Item 6610-003-0001) for the Education Insights Center's "CSU Student Success Network." The Education Insights Center located at the Sacramento campus is tasked with creating the network to help explore new ways to improve outcomes for CSU students and spread effective practices more broadly across the system. The Budget Act of 2016 also includes a \$20,000 increase for the Center for California Studies (Item 6610-002-0001) to augment the Sacramento Semester Program, which will increase the number of scholarships from 10 to 15.

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

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 \$92,000 to a reduction of approximately \$96,000.

Projections of 2016-17 Tuition and Fee Revenues Including State University Grants (Attachment D)

For Reference Only

The 2016-17 projected changes to 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 final 2016-17 net tuition and fees and General Fund are provided to summarize total 2016-17 net support budget resources available (see Attachment A). Campus tuition and fee revenue adjustments may be further revised by campuses for planning purposes in campus final budget submissions.

- **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 \$1.9 million reduction due to changes from 2013-14 to 2014-15 in actual resident student enrollment 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 in nonresident student enrollment.

- **Tuition Adjustment for Changes in 2016-17 Funded Enrollment Growth**
The 2016-17 1.46 percent enrollment growth (or 5,194 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 \$32.9 million of new gross 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 final budget allocations include a \$5.7 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 referenced in Attachment C section). The 2016-17 campus State University Grants total in these final budget allocations is \$661.4 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.