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**CODED MEMO B 2019-01**

**To:** CSU Chief Financial 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  
Evelyn Nazario, Vice Chancellor of Human Resources  
CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors,  
Enrollment Planning and Resource Officers, and Enrollment Managers

**Date:** March 15, 2019

**Re:** 2019-20 Preliminary Budget Allocations

**Attachments:** Coded Memo B 2019-01, Attachments A-E

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This preliminary budget memo provides information for 2019-20. Detailed information by campus can be found on the attached spreadsheets. The Governor's January budget proposed an incremental base General Fund ongoing increase of \$300.25 million for the California State University (CSU). This includes a \$193.0 million base increase for CSU operational cost support (e.g. compensation, benefits, and operations and maintenance of newly-constructed facilities), \$45.0 million for Graduation Initiative 2025, \$62.0 million for enrollment growth, and \$.25 million for Project Rebound. This General Fund increase, along with new tuition revenue of \$32.2 million from two percent enrollment growth, provides a preliminary incremental budget increase of \$332.4 million.

Please be mindful that the Governor's January Budget is a proposal and is not a guaranteed base budget increase. Additionally, year-to-date state revenue collections are lower than forecasted, and the Governor's May Revision proposal will be a critical indicator of the economic condition of the state.

The attachments to the memo display the following preliminary budget adjustments by campus:

- Attachment A: Operating Budget Total
- Attachment B: Revisions to 2018-19 General Fund Allocations
- Attachment C: 2019-20 Expenditure and Revenue Adjustments
- Attachment D: 2019-20 Enrollment and Tuition & Fee Revenue
- Attachment E: 2019-20 Preliminary State University Grants

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**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

The Governor’s preliminary 2019-20 budget also includes \$264.0 million of one-time General Fund augmentations for CSU deferred maintenance (\$247.0 million), basic needs partnerships (\$15.0 million), and funds to study the potential for a new campus (\$2.0 million). Decisions on the allocation of these one-time dollars has not yet been determined. A separate allocation memo will provide additional detail at a later date.

The following table summarizes the preliminary 2019-20 base operating fund budget including General Fund and tuition and fee revenue.

<b>2019-20 Preliminary Budget Allocation Summary</b>	
2018-19 Final Budget, General Fund (Coded Memo B 2018-02)	\$3,627,143,000
2018-19 State-Funded Employer-Paid Retirement Adjustment	22,502,000
2018-19 Total General Fund Budget	\$3,649,645,000
2019-20 Preliminary General Fund Increase	300,250,000
<b>2019-20 Preliminary Total General Fund Budget</b>	<b>\$3,949,895,000</b>
2018-19 Final Budget Gross Tuition & Fees (Campus Reported)	\$3,118,104,000
2019-20 Projected Tuition from 2% Enrollment Growth	32,181,000
<b>2019-20 Preliminary Gross Tuition &amp; Fees</b>	<b>\$3,150,285,000</b>
<b>2019-20 Total Operating Budget</b>	<b>\$7,100,180,000</b>
<b>2019-20 Preliminary Expenditure Increases</b>	
Graduation Initiative 2025	\$45,000,000
Enrollment Funding	94,181,000
Compensation	147,831,000
Mandatory Cost Increases	
Employer-Paid Health Care	7,304,000
Operations and Maintenance of New Facilities	4,748,000
Retirement Above State Funding	26,286,000
Minimum Wage Increase	6,831,000
Project Rebound	250,000
<b>Total Preliminary Expenditure Increases</b>	<b>\$332,431,000</b>

Detailed explanations of ongoing budget allocations are provided in the following pages. General Fund and estimated gross tuition revenue changes from enrollment growth 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

- [CSU 2019-20 Operating Budget](#)
- Budget Bill of 2019, [Senate Bill 73 \(as introduced\)](#)
- [2019-20 Governor's Budget, Department of Finance, State of California](#)
- [CSU Budget Detail in the 2019-20 Governor's Budget](#)

RS: KP: CC

Attachments

## 2019-20 Preliminary Budget Allocations, Attachment Descriptions

### Operating Budget Total - (Attachment A)

Attachment A summarizes the 2019-20 operating budget by campus after revisions to 2018-19 General Fund allocations (Attachment B) and 2019-20 expenditure and revenue adjustments in (Attachment C and D).

### Revisions to 2018-19 General Fund Allocations - (Attachment B)

Revisions to the 2018-19 General Fund allocations reflect changes that occurred since adoption of the Budget Act of 2018 and publication of the 2018-19 final budget allocation memo (B 2018-02). These adjustments include:

- **State-Funded Retirement Adjustment**

Each year CalPERS adjusts employer-paid contribution rates to 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 2017-18 to 2018-19 State Miscellaneous First Tier rates increased from 28.423 percent to 29.396 percent and the State Peace Officer / Firefighter rate increased from 44.245 percent to 45.371 percent. The 2018-19 operating budget base retirement cost increase funded by the state is \$22.5 million. The distribution is based on the 2013-14 pensionable payroll by campus as provided by the State Controller's Office.

### 2019-20 Expenditure and Revenue Adjustments - (Attachment C)

- **Employer-Paid Health Care Premiums**

Effective January 2019, the estimated annualized cost to fund employer-paid health care rate increases is \$7.3 million. The number of CSU employee participants and the difference between the old and new employer-paid contribution rates determine health care benefit cost increases. The distribution is based on the percentage share of campus 2017-18 actual operating fund health benefits expenditures. For additional information regarding January 2019 health premiums, please reference Human Resources Technical Letter, ([HR/Benefits 2018-16](#)).

- **Operations and Maintenance of New Facilities / Other Mandatory Cost Increases**

This allocation includes an increase of \$4.7 million for regular operations and maintenance of new facilities, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support. In 2019-20, the CSU is scheduled to open 404,052 new square feet of space. Funding is provided at the rate of \$11.75 per square foot. More details on campus facilities included in this allocation are provided [online](#).

- **Retirement 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. While the state's obligation to adjust retirement funding continues (Government Code section 20814), the salary base applied to the incremental rate change is frozen at the CSU 2013-14 pensionable payroll level as

reported by the State Controller's Office. The \$26.3 million budget plan covers the 2017-18, 2018-19 and projected 2019-20 unfunded retirement cost for annual CalPERS employer-paid rate adjustments that must be funded by the CSU.

The preliminary budget distributes \$12.9 million to cover the 2017-18 and 2018-19 retirement above state funded costs incurred. The campus distribution is based on pensionable payroll in excess of the 2013-14 level funded by the state in each of those years. The projected 2019-20 unfunded retirement costs is held in systemwide provisions pending the CalPERS board's finalization of the 2019-20 employer-paid retirement rates later this spring.

- **Minimum Wage Increase**

In January 2019, the California minimum wage increased from \$11/hour to \$12/hour. The estimated annualized cost of the increase on CSU campuses is \$6.8 million, which is distributed by campus based on past-year salaries below the new \$12/hour rate. The salaries below this rate were found in the excluded (E99) employee group that includes non-instructional student assistants and casual workers.

- **Compensation**

Budget allocations include \$147.8 million to cover 2019-20 employee compensation increases for faculty and staff as further detailed in Human Resources [Salary Technical letters](#) and [collective bargaining contracts](#).

The distribution of 2019-20 compensation increases is based on the percentage share of campus 2017-18 actual operating fund salaries. The compensation adjustments are distributed for all employee groups with the exception of Public Safety (CBID R08), which does not have a finalized contract for 2019-20.

- **Graduation Initiative 2025**

For [Graduation Initiative 2025](#), an additional \$45.0 million builds upon prior allocations. Graduation Initiative 2025 is the CSU's ambitious initiative to increase graduation rates for all students while eliminating equity gaps, providing California with the graduates it needs to power the economy. The 2019-20 funds are allocated as follows: (1) \$15.0 million for base budget increases of \$625,000 per campus including systemwide provisions for GI 2025 priorities managed centrally at the Chancellor's Office; (2) \$25.0 million allocated to each campus based on the number of students eligible for Pell Grants in 2017-18; and (3) \$5.0 million for progress on leading indicators to close equity gaps, based on average unit load (AUL) increases achieved by underrepresented minority students from fall 2016 to fall 2018.

The allocation methodology acknowledges that while all campuses have ambitious graduation rate targets, differing levels of financial investment will be required in order to eliminate equity gaps. The allocation methodology is not intended to serve as a campus expenditure plan. Each campus may use these funds in support of their graduation initiative goals, including offering additional high-demand course sections to increase average unit load for undergraduate students and additional academic and student support services.

- **Project Rebound**

The governor's budget includes \$250,000 to support Project Rebound, which assists formerly incarcerated individuals earn a bachelor's degree at the California State University. The current

campuses participating in the program are: San Francisco, San Bernardino, Bakersfield, Fullerton, Pomona, Sacramento, Fresno, Los Angeles, and San Diego. The program offers special admissions for men and women who might not normally qualify for university acceptance because of application deadlines and minor academic deficiencies, and offers student support services during their degree program. Pending conversations with participating campuses, these funds are held centrally in the preliminary allocation.

- **Enrollment Funding**

The 2019-20 preliminary budget allocation includes California resident enrollment growth of 7,295 full-time equivalent students (FTES) for a total enrollment growth cost of \$81.6 million. This is equivalent to a two percent increase in funded enrollment. Funding to support 2019-20 FTES growth is based on the 2019-20 published marginal cost (MC) of instruction of \$11,322 per FTES, which is made up of a combination of state general fund and net tuition revenue (reference the [2019-20 MC](#) detail). This memo allocates 6,929 new FTES to campuses, and holds 366 centrally to allocate in the final budget memo in July when better information is available on redirected student enrollment.

The methodology used in this year’s allocation for enrollment growth continues to acknowledge the different tuition collection per FTES at each campus. This ensures that each FTES is fully funded through a combination of tuition and general fund to reach \$11,322.

The 2019-20 methodology uses each campuses’ net tuition, which varies based on each campuses’ State University Grant allocations and mandatory fee waivers (see examples below). This methodology starts with the same \$11,322 marginal cost per FTES, subtracts each campuses’ average net tuition revenue per FTES, and makes up the difference with state general fund. An example is provided below:

<b>Campus X</b>		<b>Campus Y</b>	
\$11,322	Funding per FTES	\$11,322	
<u>(4,500)</u>	<u>Campus Net Tuition per FTES</u>	<u>(5,100)</u>	
\$6,822	General Fund per FTES	\$6,222	

The campus net revenue per FTES calculation is based on campus *actual* 2017-18 FIRMS gross tuition revenue (Object Code 501001) minus State University Grants (Object Code 609002) divided by actual college year FTES.

There is also \$12.6 million of enrollment funding in these preliminary budget allocations to recognize that increasing average unit load (AUL) also increases costs, but does not generate additional tuition revenue. This funding is distributed based on campus pro-rata share of undergraduate AUL improvements from fall 2016 to fall 2018.

**2019-20 Enrollment and Tuition & Fee Revenue - (Attachment D)**

Attachment D includes the tuition and fee revenue reported by campuses in the 2018-19 final budget submissions and the projected revenue from two percent growth in funded resident enrollment targets in 2019-20. The nonresident enrollment has been updated to reflect the most recent past year (2017-18) actual full-time equivalent student figures.

**2019-20 Preliminary State University Grants - (Attachment E)**

The total State University Grant (SUG) program allocation of \$700.9 million in the preliminary 2019-20 operating budget has not changed from 2018-19. This preliminary budget allocation sets a minimum expectation of 95 percent of the campus 2018-19 SUG allocation (reference [Coded Memo B 2018-02](#), Attachment E) by campus. No campus' 2019-20 SUG allocation will be lower than 95 percent of its 2018-19 SUG allocation.

When the 2019-20 final budget allocations are prepared this summer, five percent of the SUG pool held back at this time will be distributed. As changes in student financial aid demand and enrollment shift by campus, some portion of the total SUG pool must also be adjusted to ensure that campuses with the highest proportion of students with financial need have the funds available to provide grants to students. This remaining five percent to be allocated (approximately \$35.0 million) is to address changes in relative share of students on each campus who have an Expected Family Contribution (EFC) of \$0 to \$4,000. If a campus' share of total need is above 95 percent of the past year allocation, that campus will receive a portion of the \$35.0 million distributed in the final budget allocations.

Questions about the SUG distribution process may be directed to the System Budget Office or to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at [dkulju@calstate.edu](mailto:dkulju@calstate.edu).