

# Budget Q&A

May 2025

*(Updated Following the Governor's May Revise Announcement)*

The California State University is dedicated to serving its diverse student body and ensuring that the system remains one of the most affordable, accessible and transformational institutions of higher education in the nation. The entire CSU community must work together to ensure that the university system is able to continue providing a transformative education that helps students achieve greater social mobility and fuels California's workforce and economy.

As the CSU faces difficult budget challenges ahead, it has provided the following answers to frequently asked questions from its community members.

## BUDGET

### **What kind of budget pressure is the CSU facing?**

The CSU has been experiencing rising and unavoidable operational costs – such as health care, compensation for employees, and a variety of inflationary expenses – that have significantly outstripped funding increases from the state.

In the governor's May Revision, he proposed cuts to the CSU of 3% or \$143.8 million of ongoing funding (down from the 7.9% or \$375 million cut initially set forth in the governor's January proposal). Additionally, the 2025-26 CSU ongoing multi-year compact funding (\$252 million) remains deferred until fiscal year 2026-27 to help address the state's budget shortfall.

The governor's May Revision is an encouraging sign, signaling a recognition of the essential role public higher education plays in driving California's economic vitality. Yet the fact remains that the CSU still faces significant fiscal challenges and cannot afford to absorb millions in budget cuts, even at a reduced level.

To put the cut in context, a \$143.8 million cut is equivalent to:

- 1,000 faculty positions, or 5% of the faculty workforce, or
- 1,300 staff positions, or 7% of the staff workforce, or
- 7,700 courses affecting 177,000 seats, or
- The entire operating budget of CSU Channel Islands (In fact, three universities within the CSU have operating budgets of less than \$144 million.)

The CSU is urging alignment with the Legislature's strong budget request, backed by 61 member signatures, to reject cuts to the CSU and protect vital student services, access, and educational quality.

## **What is the funding gap between the CSU's needs and its actual budget?**

According to the Sustainable Financial Model Workgroup's May 2023 report, the CSU requires an additional \$1.5 billion to optimally operate the university system.

Examples include:

- \$313 million for ongoing capital maintenance and renewal; not to eliminate the backlog, but to stop it from growing;
- \$183 million for additional student services;
- \$92 million for additional classes in impacted programs;
- \$82 million for underfunded academic programs (business, engineering, education, etc.) and instructional supplies (faculty travel, equipment, technology)

## **What is the CSU doing to address the system's structural budget issues?**

There are numerous strategies that are being implemented or under consideration, requiring difficult decisions at our universities:

- Reducing hiring, eliminating positions, and conducting layoffs
- Increasing class size
- Reducing courses to reflect student demand
- Reducing part-time faculty/lecturers
- Reducing the service levels provided by staff
- Further deferring capital/maintenance projects
- Consolidating programs
- Restructuring departments
- Reducing travel
- Restricting non-essential purchases

## **Doesn't the CSU have reserves, and why doesn't it use those funds?**

- The CSU's reserves represent the accumulated difference between revenues and expenses over time.
- Reserves are one-time funds, and it would not be responsible or sustainable to use them to meet ongoing expenses such as salaries and benefits.
- These funds are often designated or restricted for specific future needs, multi-year projects, or strategic priorities that align with state law and CSU policy.
- The CSU has prudently managed designated balances and reserves to meet operational and educational goals.

- The CSU maintains investment accounts as part of responsible cash management. These investments don't reduce available funding; rather, they generate additional earnings that have funded capital projects and other important CSU needs.
- CSU investments follow clear guidelines established by the CSU Master Investment Policy and state law. The Board of Trustees receives quarterly reports showing how these investments are performing.

## **What are the CSU's total reserves, and what are the restricted uses?**

As of June 30, 2024, the CSU had \$8 billion in cash and investment accounts, which includes the 23 universities' reserves. More than \$7 billion is restricted or designated for specific purposes and constrained by state law and other legal requirements.

The CSU's reserves and investments include:

- \$2.7 billion of bond proceeds or state funds for capital projects
- \$2.8 billion restricted by statute or prior state budget acts (housing, student body centers, PaCE, parking, state earmarks, etc.)
- \$2.4 billion of operating fund designated balances and reserves, including:
  - o \$1.6 billion designated for short-term obligations (encumbrances, financial aid, and programs under development), capital, and catastrophic events;
  - o \$777 million reserved for economic uncertainty across the system (33 days). This includes \$524 million for the 23 individual universities.
    - Only \$252 million of that is truly a reserve to help support needs across the entire CSU system.
    - This is far below CSU policy and national best practices that stipulate reserves cover at least three to six months to ensure that operations can continue for an academic term when state appropriations are delayed during recessionary periods or when facing unexpected reductions.

## **Why did the CSU increase tuition, and what happened to those dollars?**

The CSU's Board of Trustees voted in September 2023 to increase tuition by 6% (or \$342) per student beginning in academic year 2024-25. Tuition will increase each year by 6% through 2028-29. Prior to 2023, the CSU had only increased tuition once in the past 12 years. At that time (i.e.,

2017-18), tuition was raised by 5% (or \$270). Between 2017-18 and 2023-24, inflation grew by 39% while tuition was held steady.

One-third of the additional revenue from the tuition increase goes to financial aid, ensuring that tuition is fully covered for the vast majority of eligible students.

Furthermore, in the CSU, 72% of financial aid recipients have tuition fully covered, and an additional 16% have tuition partially covered.

### **How have mandatory cost increases impacted the CSU?**

The CSU included \$269 million of mandatory costs in its state budget requests over the five years from 2018-19 to 2022-23. It was only able to fund \$130 million due to limited resources. Most mandatory costs increase annually, at least at the rate of inflation. Without sufficient new resources to cover these costs, the CSU must absorb those costs by finding efficiencies or making reductions in other areas.

### **Won't increased tuition exacerbate declining enrollment?**

The price of tuition is not the only determining factor for a student's ability to pay for attending CSU; students are also affected by the cost of housing and other living expenses, as well as a variety of other factors.

Importantly, 7 of 10 students (72%) who received financial aid paid NO tuition. An additional 16% received partial tuition grants. In other words, almost nine of ten students did not pay any tuition or only paid partial tuition.

Over  $\frac{3}{4}$  (77%) of the tuition grants were awarded to students from families with incomes of \$75,000 or less. Most of these students (88%) paid no tuition at all.

Furthermore, while several CSU campuses have experienced declining enrollment – and each of those universities has been redoubling efforts to attract applicants and increase enrollment – the CSU saw an overall 2% enrollment increase between Fall 2023 and Fall 2024.

### **How will the CSU's new Artificial Intelligence (AI) Initiative be beneficial to faculty and staff?**

The CSU's systemwide Academic Senate, along with key stakeholders and leaders are working together to provide ongoing guidance for the responsible and equitable adoption of AI in the CSU. The CSU's AI Workforce Acceleration Board includes CSU faculty and student representatives who are collectively working to foster innovation and drive interdisciplinary practical applications of AI across the university.

The AI Initiative will:

- Provide CSU faculty and staff with access to AI tools, resources, and training to support transformative new teaching methods and foster groundbreaking research;
- Give CSU faculty, staff and students opportunities to collaborate with leaders in the AI space on “proofs of concept” as identified by the AI Workforce Acceleration Board to develop solutions to some of the state’s most complex, real-world challenges.
- Offer CSU faculty an opportunity to participate in the [AI Educational Innovations Challenge](#) (AIEIC). Faculty are encouraged to submit proposals for projects that will launch in summer 2025 and conclude by spring 2026.

## **How does the CSU demonstrate accountability for its budgets?**

As a California system of higher education, the CSU stands firmly by its responsibility and commitment to be good stewards of the public and private resources it has received in service to its mission.

The CSU maintains ongoing transparency with how dollars are spent. Financial statements, internal audit reports, legislative reports, and information regarding executive compensation and outside employment are all publicly available. (See [CSU Transparency and Accountability](#).)

The CSU’s [Financial Transparency Portal](#) allows the public to view key financial information. Data from the past five years is available and includes total revenues and expenses from all sources as well as designated balances and reserves.

The Chancellor’s Office and the 23 universities have been diligent in efforts to reduce expenses, using a variety of strategies and outside-of-the-box thinking to create greater efficiencies.

## **Why is the Chancellor’s Office budget similar to that of a university?**

The CSU’s Systemwide Operating Budget is \$8.6 billion. The Chancellor’s Office operating budget is \$227 million – 2.6% of the system’s operating budget. The Chancellor’s Office manages and supports the 23 universities directly. Some of these functions include:

- University Counsel, which provides legal services, guidance, and representation
- Audit & Advisory Services, which performs independent audits and investigations
- Systemwide Human Resources, which handles collective bargaining and labor relations for all employee unions
- Financing & Treasury, which handles systemwide debt and cash management
- Oversight of compliance programs such as Title IX and the Native American Graves Protection and Repatriation Act (NAGPRA)
- Centralized technology services, such as:
  - PeopleSoft, the Common Human Resources System (CHRS), and CSUBuy
  - Networking and infrastructure equipment
  - Data storage and internet service

Centralizing these functions ensures consistency, efficiency, and significant cost savings—avoiding the far greater expense of each university managing these services independently. The systemwide budget also includes funding for the university's application system Cal State Apply and dental benefits for all CSU retirees.

## **How much does the CSU spend on management salaries?**

Management, faculty, and staff employees have different but equally important roles.

In 2023-24, 15.8% of the CSU's operating fund salaries were devoted to management personnel and executives (15.4% to MPPs and 0.3% to executives), compared with 49.4% devoted to faculty, 31.9% to staff, and 2.9% to students.

All told, 75% of CSU's operating budget is committed to compensation and benefits.

## **Who would the proposed budget cuts impact the most?**

Unfortunately, students of color and first-generation students, who comprise the majority of CSU's student body, will be disproportionately impacted, making it harder to achieve upward social mobility. Professors, advisors, mental health counselors, and other important individuals upon whom students depend and trust may be negatively impacted.

Furthermore, for every \$1 million cut, approximately 100 course sections could be reduced or eliminated. It will take longer for many students to complete the courses they need to earn their degree.

## **What would be the impact of these potential cuts to California's economy?**

The budget cuts would undermine the CSU's ability to provide the vital pipeline for the diverse and highly educated workforce that powers the state's economy.

- The CSU adds more than 125,000 graduates to the state's workforce every year.
- These skilled learners are teachers, accountants, nurses, first responders, engineers, entrepreneurs, and small business owners.
- Industries where CSU alumni are most employed—including K-12 education, healthcare, manufacturing, finance, insurance and public administration —would face significant setbacks.

- The impact of the budget cuts could result in fewer graduates entering the workforce and undo the progress the CSU has made graduating more Californians.
- At a time when California urgently needs a highly skilled and educated talent pool, the governor's proposed cuts send the wrong message and jeopardize the state's future economy.