

B 09-01

To: CSU Chief Fiscal Officers

From: Robert Turnage, Assistant Vice Chancellor for Budget 
Rodney Rideau, Director of the Budget 

Copy: CSU Financial Officers, Budget Officers, Financial Aid Directors,
Enrollment Planning and Resource Officers, and Enrollment Managers

Date: March 5, 2009

Subject: 2009/10 Preliminary Budget Allocations Memo – 2009/10 Budget Act SBX3 1

Attachments: B 09-01 Preliminary Budget Allocation Attachments A through G

The 2009/10 preliminary budget allocations are provided in this memorandum with attachments for planning purposes. The allocations are based on the budget plan adopted by the CSU Board of Trustees at its November 2008 meeting with adjustments included in the 2009/10 state budget package enacted by the Legislature and signed by the Governor on February 20, 2009. This package includes 2009/10 Budget Act SBX3 1 and revisions to the 2008/09 Budget Act contained in SBX3 2, both from the Legislature's Third Extraordinary Session. The state budget package adjustments significantly impact the CSU budget plan as a result of addressing the state's unprecedented fiscal crisis. As part of the solutions to address the state's fiscal crisis, SBX3 1 avoids new costs by eliminating the CSU's 5 percent increase for 2009/10 basic budget and core instructional support and the 2.5 percent increase in enrollment growth under the Higher Education Compact. The budget package also does the following:

- Incorporates permanently the unallocated \$66.3 million base reduction as indicated in SBX3 2; SBX3 2 revises the 2008/09 Budget Act to make the \$66.3 million reduction operative for the 2008/09 fiscal year.
- Restores the CSU \$31.3 million share of the statewide savings requirement for state operations assumed in the State's 2008/09 enacted budget.
- Includes an additional \$50 million unallocated reduction for CSU subject to restoration contingent on federal stimulus funds.
- Replaces \$255 million of state General Fund with federal funds related to the Governor's veto message in the 2009/10 Budget Act SBX3 1, which will be restored as General Fund in 2010/11.
- Assumes a 10 percent increase in CSU State University Fee (SUF) rates.

The Budget Act's assumption of a 10 percent increase in SUF rates has been incorporated into the CSU 2009/10 preliminary allocations for use to assist with offsetting CSU mandatory cost increases. However, CSU Board of Trustees action is required to increase the 2009/10 SUF rates.

Further, the 2009/10 state budget package assumes implementation of the Lottery Modernization Act that would replace lottery funds with General Fund, which is subject to voter approval in a special election in May.

Although the state budget package puts into place a spending plan for the next 17 months, the Legislature is reserving some issues that were not addressed in the 2009/10 Budget Act for a more thorough review in upcoming budget subcommittee hearings, including the Governor’s Budget proposal for \$3.6 million to fund a new CSU cohort of 340 Bachelor of Science in Nursing students.

The following table compares the CSU Board of Trustees (BOT) 2009/10 General Fund budget request approved at its November 2008 meeting with the 2009/10 state budget package as of February 20, 2009:

	2009/10 BOT Budget Plan	2009/10 State Budget Package
2008/09 CSU General Fund Appropriation (<i>September 2008</i>)	\$2,970,706,000	\$2,970,706,000
2008/09 Retirement Adjustment	(1,350,000)	(1,350,000)
2008/09 Special Session Unallocated Reduction	0	(66,303,000)
Operating Fee Revenue Assessment Increase	0	(242,000)
Lease Bonds / Dental Annuitants Adjustments	0	6,241,000
Lottery Modernization Act	0	49,574,000
2009/10 Workload Adjustments	215,564,000	0
General Fund 10% Fee Revenue Augmentation	86,956,000	0
2009/10 CSU General Fund Appropriation	<u>\$3,271,876,000</u>	<u>\$2,958,626,000</u>

Excluded from the above is the additional CSU \$50 million unallocated reduction that is contingent upon the federal stimulus funds. Under the terms of the 2009/10 state budget package, the additional \$50 million reduction would be rescinded on or before April 1, 2009 if the State Treasurer and the Director of the Department of Finance determine that California will receive by June 30, 2010 at least \$10 billion of federal stimulus funds that can be used to offset state General Fund expenditures. Pending this possible restoration of the \$50 million, this reduction is segregated in Attachment F and is not reflected in the CSU 2009/10 General Fund appropriation summarized above.

Following are references for the February 20, 2009, 2009/10 state budget package:

- (1) 2009/10 Budget Act, SBX3 1
http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb_0001-0050/sbx3_1_bill_20090220_chaptered.html
- (2) Revisions to the 2008/09 Budget Act, SBX3 2
http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb_0001-0050/sbx3_2_bill_20090220_chaptered.html
- (3) Lottery Modernization Act, ABX3 12, Section 1
http://www.leginfo.ca.gov/pub/09-10/bill/asm/ab_0001-0050/abx3_12_bill_20090220_chaptered.html
- (4) State of California, Department of Finance Summary of 2009 Budget Act
http://www.dof.ca.gov/budget/historical/2009-10/documents/Budget_Agreement_Full-Package-w.pdf

Please direct any questions concerning the preliminary budget allocations to Rodney Rideau, Chris Canfield, or a system Budget Analyst at (562) 951-4560 or reference the staff directory at http://www.calstate.edu/budget/staff/staff_directory_assignments.shtml for further contact information.

Attachments A through G

The CSU 2009/10 preliminary budget allocations based on the state 2009/10 budget package and CSU projected revenue adjustments are detailed by campus in Attachments A through G as summarized below.

Attachment A – 2009/10 Preliminary Budget Allocations, Gross Budget Summary

The preliminary budget allocations for 2009/10 are presented as adjustments to campus final budget FIRMS budget submissions for 2008/09. Only two areas of budgeted revenues are affected by these allocations: General Fund and State University Fee (SUF) revenue. All other revenues remain the same as transmitted in the campus FIRMS budget submittal for 2008/09. Campuses will have discretion to adjust the SUF revenue projection and other revenue amounts in the campus 2009/10 budget submission this August. However, any fee revenue change made by the campus for 2009/10 planning purposes will not change the General Fund allocation provided in the final budget allocation memoranda.

Attachment B – 2009/10 Preliminary Budget Allocations, Base Budget Adjustments

Base budget adjustments are changes required to address modifications to the General Fund allocation campuses received in the 2008/09 final budget (reference Coded Memo B 08-03). The CSU 2008/09 General Fund appropriation based on the 2008/09 Budget Act enacted last September totaled \$2,970,706,000. After General Fund adjustments, the revised base budget for CSU is \$2,958,625,649. Base budget adjustments to campuses' allocations tied to these appropriations are comprised of the following:

❖ Retirement Adjustment

Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. Adjustments in 2008/09 CalPERS employer-paid retirement rates of .059 percent decrease in the State Miscellaneous Tier 1 category and .51 percent increase in the State Peace Officer/Firefighter category resulted in an overall decrease of \$1.35 million in CSU employer-paid retirement costs. The State Department of Finance will process the retirement adjustment during the 2008/09 fiscal year. The retirement adjustment amount by campus is based on the change in retirement rates applied to 2008/09 campus FIRMS final budget CSU State Support salaries submitted in August 2008.

❖ Proposed 2008/09 Special Session Unallocated General Fund Reduction

The 2009/10 Budget Act SBX3 1 permanently incorporates the 2008/09 Special Session unallocated base reduction of \$66.3 million to the CSU General Fund support budget. The components of the unallocated base budget reduction are (\$71,000) for Center for California Studies (Fellows Program) at CSU Sacramento with the remaining (\$66.232 million) distributed to campuses, Chancellor's Office and Systemwide Provisions based on a pro-rata share of the revised 2008/09 General Fund base (after retirement adjustment) excluding lease bond payments, deferred maintenance bond payments, other statutory programs, and International Programs, Summer Arts, and CalStateTeach.

The \$66.3 million Special Session reduction together with the CSU's \$31.3 million share of the \$190 million statewide savings requirement for state operations assumed in the 2008/09 enacted State budget results in a total CSU General Fund reduction during 2008/09 of \$97.6 million. Whereas the 2009/10 Governor's budget proposal restored the \$31.3 million to CSU (treating it as a one-time budget action in 2008/09), the Special Session \$66.3 million reduction is permanent.

❖ General Fund Base Adjustments to Cover and Fund New Space Need

Without state General Fund increases to cover new space need, the CSU 2009/10 preliminary budget allocations adjust campus General Fund base budgets to cover \$7.49 million of the total \$10.15 million cost. The \$7.49 million represents the remaining need after utilizing available revenue balances by campus as detailed in Attachment C. The cost distribution of the \$7.49 million adjustments is based on the campus pro-rata share of the revised 2008/09 General Fund base (after retirement adjustment and Special Session reduction). The \$7.49 million funds those campuses without revenue balances to cover the new space need.

❖ General Fund Base Adjustments

Other General Fund base budget adjustments in systemwide provisions consist of an increase of \$5.5 million (\$16,000 in 2008/09 and \$5,495,000 in 2009/10) for lease bond payments and an increase of \$730,000 for dental annuitant premiums.

❖ Operating Fee Revenue Interest Assessment

The total 2009/10 campus operating revenue interest chargeback is \$8.15 million, which represents a \$242,000 adjustment to the 2008/09 \$7.9 million assessment level. The 2009/10 interest assessment is based on the campus operating revenue equivalent to the 2008/09 State University Fee and other fee revenue reported in 2008/09 FIRMS final budget submissions. The total \$8.15 million assessment is distributed by campus on a quarterly payment schedule as identified on Attachment G.

❖ Lottery Modernization Act

The 2009/10 state Budget Act assumes implementation of the Lottery Modernization Act, which is subject to voter approval in a special election to be held on May 19, 2009. Upon voter approval of the Lottery Modernization Act, CSU 2009/10 lottery funding equivalent to \$49.6 million would be replaced by General Fund. This replacement appropriation is in Section 1 of ABX3 12 and would be “triggered” if the voters approve the Lottery Modernization Act (Proposition 1-C). The General Fund dollars would continue to be restricted to purposes identified in the Lottery Act. Pending the outcome of the May special election, the \$49.6 million is held in Systemwide Provisions in these preliminary allocations. Further confirmation will be sought on the expectations regarding the management of these General Fund dollars relative to the CSU Revenue Management Program.

❖ Financial Aid -- State University Grant Set-Aside / Distribution

The 2009/10 preliminary budget allocations include a \$42.5 million augmentation for State University Grants (SUG) equivalent to one-third of the revenue resulting from a proposed 10 percent increase in 2009/10 SUF rates. The \$42.5 million SUG augmentation is distributed based on financial need as described on Attachment E. The difference between how the SUG increase is funded (based on the one-third set-aside of estimated campus SUF revenue growth) and how SUG is distributed (based on estimate of need) results in adjustments to campus General Fund allocations.

Attachment C – 2009/10 Preliminary Budget Uses of 2009/10 State University Fee Revenue Increase

❖ **Mandatory Costs**

Mandatory costs are expenditure obligations the university must pay whether or not funding is received from the state or from student fee revenue. Mandatory cost obligations were identified in the CSU 2009/10 budget plan that was adopted by the CSU Board of Trustees at its November 2008 meeting and

include increases in employer-paid health benefits, dental benefits, and energy costs. Also, the required cost of the 2009/10 faculty Post-Promotion Increase (PPI) program has been included in Attachment C. Without a state General Fund increase, the preliminary budget allocations identify SUF revenue as the only source to cover mandatory costs, which results in campus deficits. The mandatory cost to fund regular maintenance of new space will be covered after considering the costs of health, dental, energy, PPI, and the unallocated reduction as further described below.

➤ Health Benefits

The projected annualized cost to cover the increase in employer-paid health care benefits resulting from January 2009 premium increases is \$8.48 million. Health care cost 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 campus percentage share of the most recently reported past-year actual (2007/08) state support health benefits expenditures.

➤ Dental Benefits

The projected annualized cost to cover the increase in employer-paid dental benefits resulting from January 2009 premium increases is \$2.7 million. Dental cost increases are also determined by the number of CSU employee participants and the difference between the old and new employer-paid contribution rates. The employer-paid dental benefit cost increase is distributed on the basis of the campus percentage share of most recent past-year actual (2007/08) state support dental benefit expenditures reported.

For additional information regarding January 2009 health and dental benefit premium increases, please reference the 2009/10 Support Budget documentation book <http://www.calstate.edu/budget/2009-2010/supportbook2/index.shtml>.

➤ Energy Costs

The 2009/10 CSU budget plan included \$12.2 million to assist with increases in electricity, natural gas, and water/sewer rates occurring at campuses, which would conservatively cover the projected 2009/10 increase. The \$12.2 million has been distributed by campus based on the campus proportional share of custodial square footage included in the 2008/09 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ Faculty Post Promotion Increase (PPI)

The second installment of the faculty PPI program occurs in 2009/10. Since the 2009/10 PPI is not subject to budget contingency language in the California Faculty Association collective bargaining agreement, it must be implemented. The \$7 million systemwide cost is distributed on the basis of campus percentage share of the most recently reported past-year actual (2007/08) faculty state-support salary expenditures. PPI eligibility criteria will be provided by Systemwide Human Resources and actual campus costs incurred will vary. For additional information on the PPI program, reference Systemwide Human Resources 2009-01 Technical Memo regarding year one (2008/09) of the PPI program at: <http://www.calstate.edu/HRAdm/pdf2009/TL-SA2009-01.pdf>.

If a campus has remaining revenue available, it will be used to address new space need that is further described below and other unfunded requirements.

➤ 2009/10 New Space Need

The CSU 2009/10 support budget plan identifies a total cost of \$10.15 million to fund regular maintenance of 2008/09 and 2009/10 new space. The total costs are covered by (1) \$2.66 million of revenue from the proposed 2009/10 State University Fee revenue increase if available at a campus after covering mandatory costs, faculty PPI program, and the 2008/09 Special Session unallocated General Fund reduction and (2) \$7.49 million from campus General Fund base budget adjustments as also shown on Attachment B.

CSU opened 636,895 square feet of new space in 2008/09 and will open 455,808 square feet in 2009/10. Campus facilities with new space need are identified in the 2009/10 Support Budget documentation book <http://www.calstate.edu/budget/2009-2010/supportbook2/index.shtml>. The 2008/09 new space need is funded at \$9.10/square foot and the 2009/10 new space need is funded at \$9.41/square foot.

Attachment D – 2009/10 Preliminary Budget, SUF Revenue Adjustment, Financial Aid Set-Aside, and FTES Target

The 2009/10 SUF revenue increase total of \$134.9 million assumes a 10 percent increase in SUF rates, and includes SUF revenue adjustments from changes in student enrollment patterns and nonresident student FTES. Of the total fee revenue increase, \$42.5 million is set aside for financial aid with the remaining \$92.4 million available to offset 2009/10 mandatory cost increases and requirements as described above.

The 2009/10 “resident” full-time equivalent student (FTES) target is 342,893, which has not changed from 2007/08 resident FTES target due to lack of General Fund increases for enrollment growth. The Higher Education Compact annual 2.5 percent enrollment growth was not funded in 2008/09 and is not funded in the 2009/10 Budget Act SBX3 1.

The 2009/10 “nonresident” FTES is 14,510 based on the most recent past year actual nonresident FTES by campus (2007/08) and represents a 1,353 FTES increase from the prior year.

Although the state budget does not fund the Higher Education Compact that includes the CSU 2009/10 2.5 percent enrollment growth, following is the CSU 2009/10 resident student marginal cost of instruction rate per FTES based on the state administration, Department of Finance (DOF), methodology for your reference:

2009/10 Resident Student Marginal Cost of Instruction Rate Per FTES¹
DOF Methodology

	<u>Student Fees</u>	<u>General Fund</u>	<u>Total</u>
Instruction ²	\$903	\$4,779	\$5,682
Instructional Equipment Replacement	0	111	111
Academic Support	386	897	1,282
Student Services	252	873	1,125
Institutional Support	362	761	1,124
Operation and Maintenance (O&M) of Plant	<u>471</u>	<u>543</u>	<u>1,014</u> ⁴
2009/10 DOF-Marginal Cost Calculation (MCC) Totals	\$2,373 ³	\$7,964	\$10,337

¹In the 2009/10 budget bill, SBX3 1, the H.E. Compact 2.5% enrollment growth is not funded.

²While not included in the DOF marginal cost calculation (MCC) methodology, for informational purposes, the 2009/10 LAO MCC methodology includes average costs per student for faculty (average new hire-Ass't Prof) salary and benefits with student-faculty ratio of 18.9:1 of respectively \$3,452 and \$1,289, and average cost for Teaching Associate salary and benefits with student-TA ratio of 608:1 of \$22

If MC for 2.5% enrollment growth had been included in the 2009/10 Governor's Budget, a portion of MC would be set-aside from student fees for financial aid and from O&M of Plant for new space:

³The set-aside for financial aid would have been equivalent to one-third of the marginal cost student fees' amount (e.g. $\$2,373/3 = \791)

⁴The O&M of Plant set-aside amount to partially support the budget plan cost of "new space" would have been equivalent to the last O&M set-aside for new space funded (e.g. \$425 in 2007/08) multiplied by the Compact growth in general operation (e.g. $\$425 * 1.04 = \442).

Attachment E – 2009/10 Preliminary Budget, State University Grant Adjustments Distributed

State University Grant (SUG) allocations for each campus are shown on Attachment E. The SUG distribution is based on a projected 10 percent increase in the 2009/10 State University Fee (SUF) rates, campus funded enrollment targets, and a recognition of the highest need students, defined as those with a family contribution less than or equal to \$4,000. The campus SUG allocations are calculated after allowances for SUF Waivers and Cal Grant fee awards.

Campus SUG allocations recognize the distribution of financial aid for the highest need students with student family contributions between \$4,001 through \$9,000. While the SUG allocation methodology ensures that the SUF is covered for students with the highest level of need, systemwide financial aid policy enables campuses to make awards to SUG-eligible students with family contributions up through 50 percent of the cost of attendance for a student living off campus (approximately \$9,000) and/or to increase SUG awards to cover the cost of additional education expenses. Questions about the SUG distribution process or campus' SUG allocations may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or dkulju@calstate.edu.

Attachment F – CSU \$50 Million Contingent Reduction

The 2009/10 Budget Act SBX3 1 includes an additional unallocated reduction for CSU of \$50 million that is contingent upon the federal stimulus funds. Under the terms of the budget package, this additional reduction would be rescinded on or before April 1, 2009 if the State Treasurer and the Director of the Department of Finance determine that California will receive by June 30, 2010 at least \$10 billion of federal stimulus funds that can be used to offset state General Fund expenditures. It will take additional analysis and discussion with state officials before there is a clear understanding of what parts of the federal stimulus legislation will actually count toward this threshold and, consequently, the probability that the \$50 million reduction will actually take place or instead be cancelled.

Pending the possible restoration of the \$50 million, this reduction is segregated in Attachment F and does not impact the campus 2009/10 General Fund appropriation summarized in the gross budget summary, Attachment A. On Attachment F, \$48.7 million of the reduction is distributed to campuses based on campus pro-rata share of the 2008/09 General Fund base (after retirement adjustment and Special Session reduction) with the remaining \$1.3 million distributed to the Chancellor's office.

Attachment G – CSU Operating Revenue - 2009/10 Interest Payment Schedule

The campus 2009/10 CSU operating revenue interest payment schedule is included with the 2009/10 preliminary budget allocation memo for informational purposes. The annual interest chargeback requirement was agreed upon to maintain fiscal neutrality for the State General Fund in recognition of the 2006/07 transition of the deposit of fee revenue from the State General Fund to the CSU local trust funds. Further, the CSU annual interest chargeback obligation is included each year in the State of California, Budget Act. The 2009/10 chargeback by campus is based upon campus operating revenue equivalent to the 2008/09 SUF and other fee revenue included in 2008/09 FIRMS final budget submissions. The campus quarterly assessments will be processed by Cash Posting Order to credit systemwide provisions where the state interest earnings debit is held. Questions concerning processing of quarterly interest payments should be directed to Kelly Cox, CSU Systemwide Financial Operations, at (562) 951-4611.