

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

May 14, 2008

CHANNEL ISLANDS

MEMORANDUM

CHICO

DOMINGUEZ HILLS

TO: CSU Board of Trustees
CSU Presidents

EAST BAY

FRESNO

FROM: Charles B. Reed
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: May Revise, 2008-09 CSU Budget

LONG BEACH

Today, Governor Schwarzenegger released his May revision to his proposed 2008-09 State Budget, incorporating updated state revenue and expenditure assumptions. In his budget released in January, the Governor proposed across-the-board reductions approximating 10 percent for all State General Fund programs, due to the State's poor fiscal condition. For the California State University, this included a proposed \$312.9 million reduction from the Higher Education Compact. Measured relative to State General Fund support provided to CSU in the 2007-08 fiscal year, his January proposal constituted a reduction of \$97.6 million.

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

The May Revise estimates a worsened State General Fund problem of approximately \$17 billion. To bridge this gap, the Governor proposes further cuts to many state programs—particularly health and welfare—and proposes to borrow from future lottery revenues up to \$15 billion over the next three years. This change in the use of lottery revenue would be placed before the State's voters in November. The May Revise proposes a contingent one cent increase in the sales tax that would go into effect if the voters reject the proposed lottery borrowing. These various proposals give the Governor the wherewithal to scale back some previously proposed cuts, particularly in education.

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

The Governor's May Revise adds back \$97.6 million to his proposed budget for CSU (and also adds \$98.5 million for the University of California). This would leave State General Fund support for each university system essentially "flat" on a year-to-year basis. The fact that the May Revise restores funds to higher education at the same time that the State's overall fiscal condition has become even more challenging reflects a strong commitment by the Governor to

SAN MARCOS

SONOMA

STANISLAUS

education as a priority for California. On behalf of the California State University, I thank the Governor for this commitment.

At the same time it is important for everyone to understand that the May Revise level of support, even if ultimately approved by the Legislature, would leave CSU still facing great fiscal challenges in 2008-09. For example, CSU faces \$114 million in mandatory cost increases. These include unavoidable increases in the cost of health benefits, energy, the operation and maintenance of new space, and the full-year costs of compensation increases agreed to in 2007-08. These costs are additional expenditures that CSU must make in 2008-09 for which no General Fund resources exist, even under the improved proposal provided by the May Revise.

The Board of Trustees' action today to increase student fees will provide the university with a net increase of approximately \$73 million, after providing for additional financial aid for our neediest students. Thus, even the essential revenue from the fee increase falls short of meeting mandatory costs, let alone meeting the many other needs of our system.

We are in a better position today than we were yesterday. For this, we should not only thank the Governor, but we should recognize what the three segments of public higher education—CSU, UC and the community colleges—have accomplished together in the last few months in advocating the importance of higher education for California's economy, workforce and social well being. This effort is, I think, an unprecedented collaboration not only of the three segments but of students, faculty, staff, business leaders and other education supporters around the state. Within our own system, I am particularly pleased at the tremendous collaboration of everyone involved in the Alliance for the CSU. This effort has accomplished much in the last few months. Much can happen however, between now and when the Legislature and Governor craft a final budget. It is clear that both parties in the Legislature will have serious objections to key parts of the May Revise, and each party will seek other means of balancing the budget. So, we intend to continue our advocacy efforts in a united, collaborative way for the sake of higher education and California's future.

CBR/lje

c: Dr. Gary Reichard, Executive Vice Chancellor and Chief Academic Officer
Mr. Richard West, Executive Vice Chancellor and Chief Financial Officer
Provosts / Vice Presidents, Academic Affairs
Vice Presidents, Finance and Administration