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January 11, 2007

**MEMORANDUM**

TO: Systemwide Budget Advisory Committee  
  
FROM: Patrick J. Lenz, Assistant Vice Chancellor, Budget  
SUBJECT: Governor's Budget Proposal for 2007-08

The Governor announced the proposed 2007-08 budget on Wednesday, January 10, 2007. I would like to give you some overview of the California State University's portion of the budget. In the 2007-08 proposal the CSU will receive an additional \$176.5 million in new state General Fund support and \$123 million in new fee revenue associated with an enrollment increase of 2.5 percent and the Governor's support of a 10 percent increase in student fee rates to fund CSU budget priorities. This represents a 7.4 percent increase over state General Fund and student fee revenue CSU received in the current year. With these increases the total general operating budget for the CSU now will be over \$4.3 billion, with just under \$3 billion coming from the state General Fund and roughly \$1.3 billion from fee revenue. The total Governor's Budget revenue increase for 2007-08 is \$299.5 million.

You may already be aware of the Administration's decision not to augment the CSU budget by \$65.2 million to avoid a 2007-08 increase in undergraduate and graduate student fees. Instead, the Governor Budget includes revenue associated with a 10 percent increase in fees paid by undergraduates, graduates, and students enrolled in teacher credential programs. To achieve the Governor's Budget revenue projection, undergraduate fees would have to increase by \$252 to an academic year rate of \$2,772. Fees for students in teaching credential programs would have to increase by \$294 to an academic year rate of \$3,216. Graduate student fees would have to increase by \$312 to an academic year rate of \$3,414. The total revenue expectation from a 10 percent fee increase is \$97.7 million, with one-third of that amount (\$32.6 million) set aside for financial aid grants.

**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

There will not be a recommendation for the Board to take action on student fees in January; however, the student fee revenue assumption included in the Governor's budget proposal will be discussed.

The Governor's budget also supports, with some modifications, the Trustees approved budget under the Higher Education Compact. The Governor's Budget funds mandatory costs (\$41.9 million), enrollment growth (\$77.9 million), financial aid (\$38.8 million), compensation (\$129.5 million) and long-term need (\$10 million). Enrollment growth is funded at a state General Fund marginal cost rate of \$7,837 per FTES, in accordance with the funding formula developed by the Department of Finance last year. This methodology is different than the methodology used in the 2006-07 Budget Act, and it is anticipated that the Legislature will consult with the Legislative Analyst to review marginal cost enrollment funding during the legislative budget process. Both methodologies under consideration are consistent with discussions that occurred last year between CSU, the University of California, Legislative Analyst and Department of Finance.

We did receive some distressing news that the Administration eliminated \$7 million from the university budget that is associated with campus outreach programs and systemwide academic preparation. This action is consistent with how \$19.3 million in the UC budget, associated with student outreach programs, was treated. While I am concerned about this reduction, I believe outreach and academic preparation programs are a high enough priority with the legislature that funding will be restored in the final budget and we will begin our advocacy to support this effort. In addition, CSU will use this opportunity to also advocate for the \$25 million requested by the Board above Compact funding levels to fund critical student services for disabled students; advising, counseling and tutoring; articulation; and, grants to increase underrepresented and disadvantaged students' higher education access and retention.

We are also disappointed the budget does not include the additional one percent increase for compensation requested above Compact funding levels. This \$27.6 million augmentation would have been a significant fund source to fund the Trustees' multi-year plan to increase CSU employees' salaries to market levels. CSU will advocate during the legislative budget process that this augmentation be included in the final budget enacted for the 2007-08 fiscal year.

The budget includes the augmentation of \$2 million the Board requested above Compact funding levels to increase our efforts to produce more K-12 math and science teachers. However, the \$2.5 million CSU requested for the second year, 163 FTES, enrollment cohort of our Master's-level nursing program and the \$4.3 million requested above Compact funding levels to increase undergraduate nursing programs by 340 FTES was not funded. The university retains flexibility to redirect \$50 million in General Obligation bonds for capital renewal and renovation. This results in the Governor's budget proposing \$396 million from the Higher Education Bond of 2006 and other higher education bonds for 27 capital facilities projects needed for critical infrastructure deficiencies and to meet enrollment and facility renewal needs at CSU campuses.

We anticipate the Legislative Analyst Office will review and release their analysis of the Governor's budget proposal by mid-February and legislative hearings will begin on the California State University budget the first week of March.

# 2007-08 CSU Support Budget Fact Sheet

*Based on Governor's Budget Proposal*

	Governor's Budget	CSU Budget Plan	Difference
<b>2007-08 Support Budget Operating Adjustments</b>			
Base Budget General Fund Adjustment	(\$7,000,000)	\$0	(\$7,000,000)
<b>Budget Year Compact Revenue Adjustments</b>			
General Fund	\$174,507,000	\$241,615,000	(\$67,108,000)
Fee Revenue	122,965,000	25,200,000	97,765,000
<b>Total Compact Revenue Increase</b>	<b>\$297,472,000</b>	<b>\$266,815,000</b>	<b>\$30,657,000</b>
<b>Above Compact Funding</b>	<b>\$2,000,000</b>	<b>\$71,700,000</b>	<b>(\$69,700,000)</b>
<b>Total 2007-08 Budget Increase</b>	<b>\$299,472,000</b>	<b>\$338,515,000</b>	<b>(\$39,043,000)</b>

## CSU 2007-08 Expenditure Plan

CSU Outreach/Academic Preparation Funding	(\$7,000,000)	\$0	(\$7,000,000)
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### 2007-08 CSU Budget Plan

#### Mandatory Costs

Health Benefits Rate Increase	28,034,000	28,034,000	0
New Space	6,000,000	6,000,000	0
Energy Cost Increase	4,000,000	4,000,000	0
Full-Year SSI Compensation Costs	3,921,000	3,934,000	(13,000)

#### Enrollment Growth

2.5% Enrollment Growth	77,927,000	76,679,000	1,248,000
MSN Enrollment Growth	0	2,467,000	(2,467,000)

#### Financial Aid

Enrollment Growth	6,225,000	6,221,000	4,000
10% Fee Rate Increase	32,585,000	0	32,585,000

#### Compensation

3% Increase effective July 1, 2007	82,788,000	82,788,000	0
Funding to Reduce Salary Lags	46,692,000	46,692,000	0

#### Long Term Need

Academic Technology	5,000,000	5,000,000	0
Libraries	2,150,000	2,500,000	(350,000)
Deferred Maintenance	2,150,000	2,500,000	(350,000)

<b>Total Budget Plan Revenue Increase</b>	<b>\$297,472,000</b>	<b>\$266,815,000</b>	<b>\$30,657,000</b>
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#### Above Compact Funding

Applied Research	\$0	\$12,000,000	(\$12,000,000)
Clinical Nursing Support	\$0	\$4,300,000	(\$4,300,000)
<b>Math and Science Teachers</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>	<b>\$0</b>
1% Compensation Supplement	\$0	\$27,600,000	(\$27,600,000)
Special Education Teachers	\$0	\$1,200,000	(\$1,200,000)
Student Services Initiative	\$0	\$24,600,000	(\$24,600,000)