

**California State University
2008-09 CSU Budget, Narrative
(11-13-2007)**

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Thank you Mr. Chairman and Members; today we present for your consideration and approval the 2008-09 CSU Budget.

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We will be providing you the latest information on the state fiscal condition, although the Legislative Analyst Office (LAO) will be releasing their "California Fiscal Forecast" sometime tomorrow that may provide a different view of the fiscal challenges the state will be facing in the coming year. We will present to you the 2008-09 Compact budget revenue assumptions and the Compact budget recommendations. CSU has also identified over \$155 million in budget priorities that we will formally request for consideration and approval by the Governor and the legislature. And finally, we will identify "additional CSU budget issues" we will face in the coming academic year.

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According to the latest DOF monthly fiscal forecast, California's unemployment rate is up to 5.5 percent compared to a national unemployment rate of 4.6 percent. The sale of single family homes is down 28 percent from a year ago and experiencing the 23 month of consecutive decline in sales, even though the home price of single family homes is up 2 percent over 2006. September General Fund revenue is down \$809 million from the projected General Fund resources that were anticipated when the 2007-08 state budget was enacted.

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As we reported to you at your September BOT meeting, the Governor and the legislature approved a 2007-08 state budget that consisted of \$131.5 billion in total spending of which \$102.3 billion is from the state General Fund and \$29.2 billion is from Special Funds. In addition, the state budget included the largest reserve in California's history at \$4.1 billion.

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We also pointed out that there were numerous budget assumptions that may not be realized and thus use up a sizeable portion of the state's General Fund reserve. This include the sale of EdFund to achieve \$1 billion in revenue; \$1 billion needed for two court cases on appeal where the state may not prevail; \$500 million for a CalSTRS court case that the state will not appeal and between \$150 million and \$200 million in interest on this court case that the state is still negotiating; \$400 million for state employee compensation still to be negotiated and \$269 million from Indian Gaming revenue that may not materialize. All told, there are nearly \$3.4 billion in revenue and expenditure

assumptions that will consume most of the state's \$4.1 billion reserve and I'm sure the LAO will identify other General Fund pressures that I may have missed.

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Tomorrow's LAO report will point out some of California's issues that have yet to be resolved, but have major fiscal implications. The Governor and the legislature continue to pursue Health Care Reform with unknown costs and the state is still under a federal receiver with court order mandate costs for California inmates. There's an initiative on the February ballot to provide increased funding for the California Community Colleges, without a designated revenue source, that could mean as much as a \$1 billion less in state General Fund discretionary revenue over the next three years.

The 2007-08 state budget funds \$567 million in K-12 ongoing programs with "one-time" funding that will have to be replaced in 2008-09 in lieu of eliminating the programs. And it's doubtful the legislature will support a second year of not funding a Cost-of-Living Adjustment (COLA) for CalWorks recipients or the aged, blind and disabled. The most recent projections indicate the state may face a \$10 billion budget deficit in 2008-09 that may grow larger with limited economic growth or if we face even a mild recession. In fact, the media reported last week that the DOF has requested a plan from all state agencies to reduce their state General Fund budgets by 10 percent. For the moment, CSU (and UC) have been exempt from this exercise, but 10 percent of CSU's state General Fund revenue equates to approximately \$298 million.

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Despite the state's fiscal condition, CSU has a Compact with the Governor and supported by the legislature that was fully funded in the 2007-08 state budget.

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At this point, we are hoping that the Governor and the legislature will provide \$288.2 million from the state General Fund to continue supporting the Compact and fund:

- ❖ \$117 million for a 4 percent augmentation to CSU's General Operation
- ❖ \$68.8 million to support 2.5 percent enrollment growth to fund 8,572 Full-Time Equivalent Students (FTES) or just over 11,000 new students to the CSU
- ❖ \$29.2 million to fund an additional 1 percent for our Academic Infrastructure
- ❖ \$73.2 million in additional state General Fund to avoid an increase in student fees for the 2008-09 academic year. In addition, even without an increase in student fees, CSU will realize \$34.5 million in student fee revenue based on enrolling an additional 11,000 students in 2008-09. This would bring total Compact funding revenue for the CSU to \$322.7 million

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How would the CSU expend the \$322.7 million within the Compact agreement?

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The 2008-09 CSU budget assumes:

- ❖ \$36 million for CSU mandatory costs
- ❖ \$82.5 million needed to support 2.5 percent enrollment growth
- ❖ \$154.3 million proposed for Compensation
- ❖ \$6.9 million for financial aid strictly associated with enrollment growth and assuming no increase in student fees
- ❖ \$43 million in long term need that includes the 1 percent we have designated for academic infrastructure

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Of the \$36 million for Mandatory Costs:

- ❖ \$21.8 million is for the increase designated by CalPERS for employee health benefits costs in 2008-09
- ❖ \$6 million to support costs associated with new space (668,142 square feet) CSU will open in 2008-09
- ❖ \$4 million for electricity, natural gas, and water/sewer costs
- ❖ \$4.2 million to fund a full year of the Service-based Salary Increase

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The demand for access to the CSU has increased significantly over the past three years and we see this trend continuing in 2008-09. Currently, there is budget bill language that states for every FTES the CSU is short, with leeway based on 418 FTES, CSU must return state General Fund dollars. However, there is no provision to fund additional students at the CSU when we are over our enrollment target. If the budget bill language was fair in rewarding CSU for being over-enrolled as well as penalize us for being under-enrolled CSU would have realized an additional \$16 million in 2005-06 and \$45 million in 2006-07 from the state General Fund to support student access. In the current fiscal year, CSU could be as much as 10,000 FTES over our enrollment target and if that were the case, and the budget bill language was fair, the state would owe us an additional \$77 million. For 2008-09, CSU is requesting \$28 million to support an additional 1 percent for enrollment growth as part of our “above Compact” budget priorities.

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Of the \$154.3 million for CSU compensation, \$91.1 million will fund a 3 percent base salary increase and \$63.2 million will be available for the BOT’s priority to make progress to reducing the salary gap for all CSU employees.

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There will be an increase in State University Grant, financial aid as a result of the anticipated 2.5 percent enrollment growth where CSU will serve an additional 11, 000 students in the 2008-09 academic year. Currently, we provide approximately \$276 million to fund just over 117,000 grant recipients. This \$6.9 million would provide an

additional 2,900 grants and bring our total to nearly \$283 million, serving over 120,000 grant recipients in the 2008-09 academic year.

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The 2008-09 CSU budget proposes funding for Long Term Need that includes \$3 million for library acquisitions; \$6.5 million for deferred maintenance; and \$33.5 million for academic technology.

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In addition to the Compact funding, CSU has prepared formal budget recommendations for those budget priorities that would require additional state General Fund revenue above that assumed in the Compact recommendations.

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The “above Compact” recommendations include:

- ❖ \$42.9 million to increase the ratio of tenured faculty as part of an agreement based on Assembly Concurrent Resolution 73.
- ❖ \$30.4 million to provide an additional 1 percent compensation funding
- ❖ \$27.5 million to fund an additional 1 percent enrollment growth
- ❖ \$24.6 million for CSU’s student services initiative
- ❖ \$12 million for applied research
- ❖ \$10 million to fund the statutory requirements for Teacher Performance Assessment
- ❖ \$7.8 million for the second year cohort of our MSN and BSN programs

The state General Fund would need to provide CSU with \$155.2 million in “above Compact” support to fund these specific recommendations.

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The \$42.9 million in funding to increase the ratio of tenured faculty includes:

- ❖ \$9.7 million to improve currently faculty tenure
- ❖ \$13.5 million to increase the percentage of tenure/tenure track faculty
- ❖ \$19.5 million to reduce CSU’s current student faculty ratio from 20.7 to 1 to 20.4 to 1. The goal is to eventually bring this down to 18.7 to 1.

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The additional 1 percent compensation funding above the funding provided in the Compact would support the BOT commitment for reducing the salary gap for all CSU employees; Allow CSU to be more competitive to attract a highly motivated and qualified workforce; and ensure recruitment and retention of highly qualified faculty, staff, and management.

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In a previous slide, we indicated the overall demand for student access to the CSU. This slide gives you an indication, based on actual enrollment of first time freshman, of the success that the Board and Chancellor Reed have had on outreach and academic preparation for underrepresented students. As you can see, CSU has increased the “take rate” of first-time freshman for African American, American Indian, Asian American, and Latino students at a double digit enrollment pace.

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Based on the fall 2007 to fall 2008 applications, there is no letting up on the demand for a CSU education by underrepresented students. While more progress needs to be made with American Indian students, African American application are up nearly 21 percent; Latino student applications up by nearly 39 percent, and Asian students up by nearly 14 percent. Overall, CSU applications are up by nearly 22 percent and all this data merely reflects what we know as of the first week of November!

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The \$24.6 million Student Services Initiative is identical to the one we proposed in the 2007-08 CSU budget. Of this amount, \$16 million is directly related to the BOT initiative for facilitating graduation with \$7.5 million to improve advising for undergraduate degree majors; \$1.5 million to strengthen new student orientation programs; \$4.5 million for learning, tutoring and student skills help centers; and \$2.5 million for articulation staff to work with the CCC’s on transfer. In addition, the Student Services Initiative seeks \$8.6 million to provide “authentic access” to student with disabilities to ensure they have access to interpreters in the classroom and advising; classroom books and materials; and online access to web-based materials and information.

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CSU has identified a need for funding to support Applied Research in the areas of Agriculture - \$5 million; Biotechnology - \$3 million; Marine Studies - \$3 million; and Fresh Water - \$1 million. This request is nearly identical to the one we proposed in the 2007-08 CSU budget.

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In 1998, Senator Dede Alpert carried SB 2042 to enact the Teacher Performance Assessment requirements that would implement a the TPA measure of accountability but recognize that full implementation of TPA would be subject of funding provided in the annual Budget Act. Subsequent to Senator Alpert’s legislation, many pilot programs were established through private grants and federal funding, but no state funding has been included in the annual budget. In 2006, Senator Jack Scott carried SB 1209 that required full implementation of the TPA for all teacher credential candidates starting in 2008. Senator Scott’s legislation also depends on funding the TPA in the annual Budget Act and this \$10 million is designated for that purpose.

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One of the “above Compact” areas of success for funding from the Governor and the legislature is in CSU’s nursing programs. In the 2006-07 state budget, CSU received additional funding and recognition of the Entry-Level Masters program as a high cost program funded at above marginal costs FTES. In this year’s budget, CSU received additional funding above our 2.5 percent enrollment growth and \$10,600 per FTES in marginal cost support to expand the Baccalaureate Nursing programs. This is the first time we have been afford “high costs funding” for our BSN programs. In addition, CSU may be pursuing the statutory authority to offer the doctoral degree in nursing given the state’s overwhelming demand for nursing faculty and managerial positions. This \$519,000 would allow for the development of such programs at 3 CSU campuses.

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CSU will continue to absorb additional costs projected in the 2008-09 budget for salary and health benefits negotiated this past year as part of our collective bargaining agreements. The cost impact for the 2008-09 CSU budget is \$22.9 million.

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As I’ve mentioned before, CSU may have unfunded enrollment cost of \$77 million. We have identified \$15 million in potential costs to fund mitigation agreements based on the City of Marina court case. We’ve requested this funding in our capital budget to be funded out of the next state General Obligation bond, but neither the Department of Finance nor the legislature as begun to address this issue. Finally, we are anticipating some municipal facility capital costs associated with Assembly Bill 2951 of 2006, but have yet to full assess the impact of these costs.

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In conclusion Mr. Chairman and members; we all recognize it’s going to be one of the most fiscally challenging years given California’s current economic outlook. Higher Education is going to face many competing interest for a limited pot of state General Fund dollars. We will need to remind policy makers that the CSU is the economic engine for California. CSU is facing an unprecedented demand for student access, particularly among underrepresented students. Fully funding the Compact will remain our number one priority to ensure student access; meet our collective bargaining agreements, and improve the quality education we provide our students.

This concludes my presentation on the 2008-09 CSU budget Mr. Chairman and I will be happy to answer any questions or respond to any concerns you may have on the budget.