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## **MEMORANDUM**

**DATE:** January 6, 2009

**TO:** CSU Trustees  
CSU Presidents

**FROM:** Benjamin F. Quillian   
Vice Chancellor  
Administration and Finance

**SUBJECT:** Governor's Budget Proposal for Fiscal Year 2009-10

The Governor released details of his 2009-10 budget proposal on December 31, 2008, a departure from previous years when such budget details were released several days into January. This early notification underscores the urgent nature of the state's fiscal downturn and the necessity for immediate action by the Governor and legislature to shore up the state's finances to preserve adequate cash flow for statewide operations.

The 2009-10 budget details identify a \$14.8 billion revenue shortfall in 2008-09 that grows to \$41.6 billion by the end of 2009-10 if solutions are not adopted by the legislature. The Governor has proposed a combination of temporary and permanent solutions to address the state's budget challenges, and he has identified the following goals in developing the 2009-10 budget plan:

- Bring spending and revenues back in line with historic levels by proposing spending for 2009-10 that is in line with California's population growth and inflation; resulting in average spending growth of 4.7% and revenue growth of 4.8%
- Adjust budgeted expenditures and revenues to reflect Special Session final actions

The Governor's budget proposal for 2009-10 reflects \$14.3 billion in revenue adjustments, \$17.4 billion in spending cuts, and \$10 billion in warrants and borrowing to achieve a balanced budget over the next 18 months that leaves a \$2 billion reserve. For the CSU, the following budget actions have been proposed:

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**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

**2009-10 Governor's Budget Proposal for the CSU**

	Operating Budget Impact			
	Neutral* Impact General Fund Adjustments	General Fund Base Budget Reductions	State General Fund Increases or Reductions	CSU Fee Revenue Increases
				Total 2008/09 through 2009/10 Budget Changes
Special Session Reduction		(66,303,000)		
Interest Payment Increase to General Fund		(242,000)		
Retirement Rate Decrease	(1,350,000)			
Lease Bond Payments Increase	5,511,000			
Annuitants Dental Premium Increase	730,000			
2009-10 Compact Workload Funding Increase			217,269,000	
Suspension of 2009-10 Compact Funding Increase			(217,269,000)	
BSN Nursing Program Cohort Increase (340 FTEs)			3,600,000	
Replace Lottery Funding Related to Securitization	49,574,000			1,140,000
BSN Enrollment Growth Fee Revenue Increase				130,434,000
Base Enrollment 10% Fee Increase Gross Revenue				
<b>Total Change in Funds</b>	<b>\$54,465,000</b>	<b>(\$66,545,000)</b>	<b>\$3,600,000</b>	<b>\$131,574,000</b>
				<b>\$68,629,000</b>

\* Neutral means these dollars cannot be used to fund or increase funding for CSU general operating budget programs. These General Fund adjustments are pass-through items that fund PERS retirement and benefits costs, remain with in the State Treasury for debt service payments on CSU capital bonds, or are restricted for Lottery related program expenses only.

**CSU 2009-10 Expenditure Plan - Operating Budget Impact**

<b>Mandatory Costs</b>	
CSU Employee Health Benefits	8,484,000
CSU Employee Dental Benefits	2,713,000
New Space	10,152,000
Energy	12,200,000
<b>Total CSU Mandatory Costs</b>	<b>\$33,549,000</b>
Enrollment Growth and Fee Revenue Funding Adjustment	\$7,092,000
Financial Aid	\$43,780,000
<b>Total Expenditure Plan</b>	<b>\$84,421,000</b>
<b>NET REDUCTION IN GENERAL FUND AVAILABILITY</b>	<b>(\$15,792,000)</b>

The budget proposal for 2009-10 restores the \$31.3 million budget reduction CSU received in 2008-09 (treating it as a one-time budget action); however, it permanently cuts the University's budget by \$66.3 million to reflect special session budget reductions.

Compact funding of \$217.3 million for operating costs and 2.5% enrollment growth was not funded. The suspension of enrollment support for the second year in a row reaffirms CSU's decision that all campuses make a strong and sustained effort to manage to the 2008-09 funded enrollment targets. New General Fund support to increase BSN nursing enrollments by 340 FTES would be provided at the 2006-07 nursing funding rate of \$10,600 per FTES.

The Governor's budget assumes CSU will increase student fee rates for all students by 10%, which it projects will achieve \$130 million in gross revenue. The budget also assumes one-third of this increase will be set aside for student financial aid.

The net result of these aforementioned budget changes is a \$68.6 million increase in revenue support over 18 months (January 2009 through June 2010). However, mandatory costs, enrollment funding, and financial aid costs required for 2009-10 total \$84.4 million, \$15.8 million more than available revenue. If the budget proposal is adopted, this means CSU will face funding shortfalls during the budget year despite the proposed 10 percent increase in student fee rates.

The Governor's budget would replace CSU Lottery funding with General Fund support, with the stipulation that these General Fund dollars be restricted to purposes identified in the Lottery Act. CSU is currently confirming the expectations regarding the management of these General Fund dollars relative to the CSU Revenue Management Program.

The implications of the budget changes will vary subject to interpretation and how the Lottery Fund shift is counted. Excluding the Lottery budget change proposal, CSU General Fund operating support decreases roughly 2 percent below the 2008-09 Final Budget appropriation enacted in September 2008. If legislative special session reductions are applied to the University's base funding, then budgeted operating expenses will remain relatively flat between 2008-09 and 2009-10 (increasing by .33%). To put these changes in perspective, CSU's share of total State spending in the 2008-09 enacted budget was roughly 3 percent (2.87%). CSU's share of proposed State expenditures for 2009-10 would be 3.1 percent (including its General Fund adjustment for Lottery).

### **Capital Outlay Funding**

The administration has not yet released details of its capital budget proposal for 2009-10. It is anticipated that Lease Revenue Bond funds will be proposed to fund six projects totaling \$324.9M, and General Obligation Bond funds will fund equipment of \$16.1 million for six buildings. This totals \$341.1 million for capital outlay funding. We hope to have more information on the Governor's proposed plan for capital funding by the end of this week.

## Cal-Grant Financial Aid

The Governor's budget proposal for 2009-10 would adjust the State's Cal-Grant program in a number of ways:

- Freeze the income ceilings for grant recipients
- Reduce the maximum award at independent institutions
- Eliminate new Competitive Cal Grant program awards, which is estimated to result in a \$7.3 million impact at CSU
- Partially decouple awards to public institutions from fee rate increases, which is estimated to result in a \$7.65 million impact at CSU
- Decentralize Cal Grant program administration to the campuses

It is currently estimated that the total impact of these changes could result in the loss of \$15 million in State financial aid grant assistance to CSU students. Although award reductions at private institutions will not impact CSU, we are not certain what impact freezing income ceilings will have at this time. We are currently calculating the impact of all Cal Grant changes in terms of increased costs to the CSU State University Grant program and/or non-grant assistance CSU students would have to take on in order to address the Cal Grant budget adjustments. The University supports the decentralization of Cal Grant program administration.

Once the actual detail of the Governor's budget is released at the end of the week we will provide you with any additional information or funding assumptions that may be different from budget assumption provided in this memorandum. Campus detail on allocations associated with the Governor's Budget proposal should be out in mid-to-late February. If you have questions concerning the governor's proposal, please contact Robert Turnage, Assistant Vice Chancellor for Budget, or me directly.

c: Charles B. Reed, Chancellor  
CSU Vice Chancellors  
Vice Presidents, Academic Affairs/Provosts  
Vice Presidents, Business/Administration  
Vice Presidents for Student Affairs  
Associate Vice Presidents, Business/Administration  
Financial Aid Officers  
Budget Team