

Coded Memo B 2011-02

Campus FIRMS Budget Submissions Due by: August 16, 2011

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: July 14, 2011

Subject: 2011/12 Final Budget Allocations

Attachments: Coded Memo 2011-02, Attachments A-G

The CSU 2011/12 Budget Act allocations are provided in this memorandum with attachments. The state Budget Act of 2011 was chaptered on June 30, 2011, SB 87, Chapter 33. This memorandum updates the Spring 2011/12 Budget Allocations, Coded Memo B 2011-01. As indicated in the spring allocations, the 2011/12 budget bill SB 69 replaced one-time federal funds that CSU received in 2010/11 with a \$106 million permanent General Fund (GF) base budget increase and permanently funds 2010/11 CalPERS employer-paid retirement adjustments. The final budget allocations include a \$650 million CSU GF reduction representing a \$150 million further cut from the Governor's January budget proposal, which drops the CSU's level of state support to just under \$2.2 billion (equivalent to a 23 percent year-to-year change in state support). The budget reductions, which are a component of the statewide plan to address the structural budget deficit, will have significant impacts on the CSU.

The governor's budget assumed a \$500 million cut to CSU and 10 percent increase in CSU 2011/12 tuition rates (approved by the Board of Trustees last November). The \$500 million reduction plan required a 2.4 percent reduction in the system's enrollment target. The additional \$150 million reduction to CSU in the state Budget Act of 2011 required the Board of Trustees to revisit tuition fee rates for 2011/12 to avert devastating and lasting damage to student access, student services, and program quality. On July 12, 2011, the BOT approved an additional 12 percent increase in 2011/12 tuition rates effective in the Fall term that is above the 10 percent increase approved last November in order to generate net revenue (after financial aid set-aside) of approximately \$150 million.

In addition, the enacted state budget package includes trigger language for further GF budget reductions (AB 121) that will be determined by the Director of the Department of Finance by mid December 2011 based on whether, and to what extent, state revenues fall short of budget act assumptions. This could result in an additional cut of \$100 million to CSU. A \$100 million trigger reduction would bring CSU 27 percent below the 2010/11 GF appropriation, a level equivalent to the GF support CSU received in 1997 that considers neither inflation nor the fact that the CSU is serving about 90,000 more students. Chancellor Reed will be reviewing with the presidents further options to address this possible mid-year cut.

The following table illustrates the CSU 2011/12 GF appropriation in the Budget Act of 2011:

CSU 2011/12 General Fund Actions

2010/11 Budget Act General Fund Appropriation	\$2,617,435,000
<i>Retirement Adjustment</i>	75,235,000
<i>(-\$30.4 million state retirement savings pending)</i>	
<i>2010/11 Lease Bond Payment Adjustment</i>	(9,961,000)
2010/11 Revised General Fund	\$2,682,709,000
Restoration of 2010/11 One-Time Federal Funds	106,000,000
Deferred Maintenance Debt Retirement	(2,309,000)
Annuitants' Dental Insurance Adjustment	977,000
State Interest Payment Adjustment	3,714,000
2011/12 Lease Bond Payments Adjustment	182,000
2011/12 General Fund After Base Adjustments	\$2,791,273,000
CSU 2011/12 Budget Plan Requests	0
2011/12 General Fund Reduction	(650,000,000)
2011/12 General Fund Appropriation	\$2,141,273,000

The budget adjustments in this coded memorandum also include a \$452.4 million increase in gross 2011/12 tuition fee revenue (\$299.0 million net of financial aid) above 2010/11 tuition fee revenue. The 2011/12 tuition adjustments are related to change in enrollment patterns, base enrollment changes, the full-year effect of the spring 2011 mid-year tuition fee increase, and the 10 plus 12 percent tuition fee rate increases. This memorandum also allocates a \$153.4 million increase in State University Grants (SUG), which is funded from the one-third set-aside of 2011/12 marginal cost revenue from campuses' baseline enrollment growth (\$1,061 per FTES) and from fee revenue projected for tuition rate increases.

Following are references to the 2011/12 budget bill and trigger reduction trailer bill:

1. 2011/12 Budget Bill SB 87: http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb_0051-0100/sb_87_bill_20110630_chaptered.html
2. Budget Trailer Bill, Trigger Reductions: http://www.leginfo.ca.gov/pub/11-12/bill/asm/ab_0101-0150/ab_121_bill_20110630_chaptered.html

Please direct questions concerning this memorandum to Rodney Rideau, Director of the Budget; Chris Canfield, Associate Budget Director, or a system Budget Analyst at (562) 951-4560. Reference the staff directory for additional contact information <http://www.calstate.edu/budget/about/staff-directory.shtml>.

RT:RR:CC

Attachments

Following are summary descriptions of Attachments A through G.

Attachment A – 2011/12 Final Budget Allocations, Gross Budget Summary

The 2011/12 Final Budget Allocations are presented as adjustments to the 2010/11 Final Budget allocation base. The adjustments include budget actions specified on Attachments B, C, and D. The 2011/12 allocations on Attachment A may be further revised by campuses to reflect fee revenue adjustments.

Attachment B – 2011/12 Final Budget Allocation Base Adjustments and Mandatory Cost Projections

Base budget adjustments address modifications to the GF allocation that campuses received in the 2010/11 final budget (reference Coded Memo B 10-04). The CSU 2010/11 GF appropriation for the 2010/11 Final Budget enacted last October totaled \$2,617,435,000 (which does not include the \$106 million CSU received in one-time federal funds). After allocation of permanent adjustments to the 2010/11 GF base, the revised GF base for 2011/12 becomes \$2,791,273,000. The Attachment B base budget adjustments are comprised of the following:

❖ Retirement Adjustment

This base adjustment is to permanently fund 2010/11 CalPERS employer-paid retirement adjustments. Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. The CSU received a supplemental \$44.8 million GF appropriation to cover 2010/11 retirement adjustment costs at year-end, which was distributed to campuses by SWAT 10-052 on June 15, 2011. The amounts by campus changed slightly since spring budget allocations due to a minor adjustment in the salary base used to calculate the retirement adjustment. Also, retirement for salaries held in systemwide provisions related to enrollment growth were shifted to campuses as applicable. The 2010/11 campus SWAT allocations are reflected as base budget retirement adjustments. For additional information on employer-paid and employee retirement, please reference the 2011/12 Support Budget supplemental documentation at <http://www.calstate.edu/budget/fybudget/2011-2012/documentation/8-employer-paid-retirement-adjustment.shtml> and HR technical memos at <http://www.calstate.edu/HRAdm/pdf2010/TL-BEN2010-06.pdf> and <http://www.calstate.edu/HRAdm/pdf2011/TL-BEN2011-01.pdf>.

❖ General Fund Base Adjustments

GF base budget adjustments include an adjustment to the interest assessment for operating fee revenue (\$3,714,000) in Systemwide Provisions (SWP); permanent transfers from SWPs to CSU Bakersfield for the Lancaster off-campus center (\$85,000) and Maritime Academy for ship fuel (\$1,500,000); SWP lease revenue bonds adjustments (-\$9,961,000 in 2010/11 and \$182,000 in 2011/12), an annuitants' dental premium funding adjustment (\$977,000), and deferred maintenance debt retirement (-\$2,309,000).

❖ One-Time Funding Adjustment

A -\$106.6 million adjustment is made to remove the allocation of 2010/11 one-time federal American Recovery and Reinvestment Act State Fiscal Stabilization Funds that were included in the B 10-04 GF allocation base.

❖ GF Restoration / Funded FTES Adjustments

The \$106 million GF restoration to replace one-time federal funds received in 2010/11 permits permanent funding allocations for changes in CSU resident student enrollment from a baseline of 326,290 FTES in 2010/11 to a 331,716 FTES baseline for 2011/12. The enrollment adjustments are funded at the 2010/11 marginal cost rate of \$7,305 per FTES and total \$39.6 million. The remaining \$66.4 million is held in SWP to reflect a 2.4 percent CSU resident enrollment loss associated with the \$500 million reduction requirement included in Attachment C.

❖ Mandatory Costs Projections

Mandatory costs are identified in this allocation memo for information and campus planning purposes only. Attachment B indicates CSU projections for mandatory cost increases related to changes in health and dental premiums, energy rates, and new space operations.

➤ Health Benefits

Projected annualized cost of funding employer-paid health care benefit premium rate increases effective in January 2011 is \$36.4 million. Health care benefit rate 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 percentage share of campus FIRMS 2009/10 actual state support health benefits expenditures. For additional information regarding January 2011 health adjustments, please reference the 2011/12 Support Budget supplemental documentation at <http://www.calstate.edu/budget/fybudget/2011%2D2012/documentation/> and HR technical memorandums <http://www.calstate.edu/HRAdm/pdf2010/TL-BEN2010-10.pdf>, <http://www.calstate.edu/HRAdm/pdf2010/TL-BEN2010-09.pdf>.

➤ Dental Benefits

Projected annualized cost of funding employer-paid dental benefit premium rate increases effective in January 2011 is \$3.2 million. Dental benefit 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 percentage share of campus FIRMS 2009/10 actual state support dental benefits expenditures. Additional information regarding January 2011 dental premium increases can also be found in the HR technical memorandum <http://www.calstate.edu/HRAdm/pdf2010/TL-BEN2010-10.pdf>.

➤ Energy

The 2011/12 support budget request included \$5.5 million for campus cost increases in electricity, natural gas, and water/sewer rates occurring. The \$5.5 million has been distributed by campus based on the campuses' proportional share of custodial square footage included in the 2010/11 Capital Planning Design and Construction facility database for main campus and off-campus sites.

➤ New Space

The 2011/12 support budget included \$3.8 million to fund regular maintenance of 388,880 square feet of new space at \$9.80 per square foot. More information on campus facilities with new space need is provided in the 2011/12 Support Budget supplemental documentation: <http://www.calstate.edu/budget/fybudget/2011-2012/documentation/3-new-space-table.shtml>.

Attachment C -2011/12 Final Budget Allocation Expenditure Adjustments

The Final allocation adjustments presented in Attachment C of this memorandum include campus distributions of the CSU \$650 million reduction and adjustments for State University Grants associated with changes in student fee revenue.

❖ Governor's Budget \$650 Million Reduction

The distribution of the CSU \$650 million GF reduction reflects the following:

- \$26.6 million net full-year Spring 2011 fee increase offset, which is the calculation of revenue from the full-year Fall 2011 impact of the Spring 2011 mid-year tuition increase in 2010/11. The full-year

impact of the fee increase is based on 2011/12 enrollment targets and reflects the change in student mix.

- \$114.7 million and \$150.0 million from respective 10 and 12 percent tuition fee increases, which are also based on 2011/12 resident FTES enrollment targets and the adjustments for changes in student mix identified above.

The above amounts applied toward the CSU \$650 million reduction are equivalent to the applicable campus fee revenue increases net of financial aid.

- \$358.7 million remaining adjustments, which includes \$291.4 million distributed based on a campus/CO prorated percentage share of 2010/11 GF allocations after reductions to acknowledge a \$20 million fixed cost funding need for campus start-up operations and to remove 2010/11 GF allocations for SUG (as distributed in Budget Office Coded Memo B 10-04). The remaining adjustment of \$67.3 million is related to resident FTES enrollments below 2010/11 state-funded levels, other enrollment-related campus base adjustments, and CO adjustments to address small campus budget needs.

❖ Financial Aid -- State University Grant (SUG) Set-Aside / Distribution

The SUG set-aside from current 2011/12 revenue adjustments is \$153.4 million. This SUG augmentation is distributed based on financial need and funded enrollment targets. The difference between how the SUG increase is funded (based on one-third set-aside of estimated campus tuition revenue adjustments) and how SUG is distributed (based on estimate of need and funded enrollment targets) results in adjustments to campus GF allocations.

Attachment D -2011/12 Final Budget Allocations, Tuition Fee Revenue Adjustments

This coded memo includes tuition fee revenue adjustments related to changes in enrollment patterns, full-year effect of 2010/11 tuition fee rate, base enrollment changes, and the 10 and 12 percent increases in tuition fee rates approved by the Board of Trustees for the 2011/12 academic year. The applicable resulting changes in financial aid related to the revenue adjustments are also displayed in Attachment D. For purposes of tuition fee revenue projections in this coded memo, the resident FTES is 331,716 FTES.

The following table summarizes the provisional 2011/12 tuition fee revenue adjustments as shown in Attachment D:

	Gross Tuition Fee Revenue Adjustments	Financial Aid Set-Aside	2011/12 Net Tuition Fee Revenue Adjustment
B 2011-02 2011/12 Tuition Fee Revenue Adjustments			
Change in Student Enrollment Patterns	(\$20,301,000)	\$0	(\$20,301,000)
Full-Year Effect of Mid-Year 2010/11 Tuition Fee Rate Increase	40,097,000	(13,321,000)	26,776,000
Resident Student Enrollment Base Change from 326,290 to 331,716 FTES	28,581,000	(5,853,000)	22,728,000
2010/11 Tuition Fee Rate Change Applied to Lagging Summer Term	3,323,000	(1,036,000)	2,287,000
2011/12 Tuition Fee Revenue from 10 Percent Rate Increase	172,509,000	(57,331,000)	115,178,000
2011/12 Tuition Fee Revenue from 12 Percent Rate Increase	228,217,000	(75,842,000)	152,375,000
Total 2011/12 Tuition Fee Revenue Adjustments	\$452,426,000	(\$153,383,000)	\$299,043,000

Following is a summary of the 2011/12 academic year tuition fee rates after the 10 and 12 percent rate increases:

Tuition Academic Year Rates	2011/12
Undergraduate Programs	
6.1 or more	\$5,472
0 to 6.0	\$3,174
Credential Programs	
6.1 or more	\$6,348
0 to 6.0	\$3,684
Graduate and Other Post-Baccalaureate Programs	
6.1 or more	\$6,738
0 to 6.0	\$3,906

Additional details on tuition fee rates are available at: <http://www.calstate.edu/budget/student-fees/mandatory-fees/1112-feeschedules.shtml>.

Attachment E – 2011/12 Final Budget Allocations Enrollment

Baseline enrollment target changes by campus from 2010/11 to 2011/12 are provided on Attachment E. The 2011/12 resident FTES target is 331,716 and nonresidents are presumed to be maintained at 14,509 FTES for a total target of 346,225 FTES. For those campuses with 2011 self-support summer, summer-term resident FTES was moved to the academic year and summer term nonresident FTES actuals were eliminated for purposes of tuition revenue calculations.

Following are the CSU 2010/11 and 2011/12 resident student marginal cost of instruction (MCC) rates per FTES by program area based on the DOF methodology. The 2010/11 MCC is used to calculate GF allocations for enrollment growth to 331,716 resident FTES. This rate is used because CSU did not receive any additional GF support from the state for enrollment above the 2010/11 level and because the enrollment growth to 331,716 resident FTES remains within the previously funded state enrollment target for 2010/11.

2010/11 Marginal Cost Calculation

	Student Fees	General Fund	Total
Instruction	\$1,656	\$3,910	\$5,566
Instructional Equipment Replacement	39	91	130
Academic Support	425	1,005	1,430
Student Services	319	753	1,072
Institutional Support	334	789	1,123
Operation and Maintenance (O&M) of Plant	320	757	1,077
2010/11 Marginal Cost Calculation Totals	\$3,093¹	\$7,305	\$10,398

¹ The student fees amount net of financial aid is \$2,062; the remaining \$1,031 (one-third) is set-aside for financial aid.

The 2011/12 MCC for tuition fee revenue is used to calculate the one-third set-aside for the State University Grant pool because it is a more accurate reflection of tuition fee revenue resources that will be available to campuses for enrollment growth. The 2011/12 tuition fee marginal cost rate is based on campus-reported revenue projections for 2010/11 and follows the marginal cost methodology established by the State Department of Finance for funding enrollment growth.

2011/12 Marginal Cost Calculation

	Student Fees	General Fund	Total
Instruction	\$1,277	\$4,359	\$5,636
Instructional Equipment Replacement	0	99	99
Academic Support	488	859	1,347
Student Services	365	777	1,142
Institutional Support	471	728	1,199
Operation and Maintenance (O&M) of Plant	580	516	1,096
2011/12 Marginal Cost Calculation Totals	\$3,181¹	\$7,338	\$10,519

¹ The student fees amount net of financial aid is \$2,120; the remaining \$1,061 (one-third) is set-aside for financial aid.

Attachment F – 2011/12 Final Budget Allocations, State University Grant (SUG) Adjustment

Total SUG allocations and the campus distribution of the 2011/12 SUG increase of \$153.4 million are shown on Attachment F. The SUG distribution by campus is based on 2011/12 tuition revenue adjustments, campus funded enrollment targets, and a recognition of the highest need students, defined as those with an expected family contribution, computed for a nine-month academic year, of less than or equal to \$4,000. The campus SUG allocations are calculated after allowances for tuition waivers and Cal Grant fee awards.

Campus SUG allocations recognize the distribution of financial need for both the highest need students and those with expected family contributions between \$4,001 through \$11,000. While the SUG allocation methodology ensures that tuition 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 \$11,000) 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 email at dkulju@calstate.edu.

Attachment G – CSU Operating Revenue - 2011/12 Interest Payment Schedule

The campus 2011/12 CSU operating revenue interest payment schedule is included with the budget allocations for informational purposes. The total 2011/12 campus operating revenue interest chargeback is \$3.526 million, which represents a \$3.714 million reduction from \$7.240 million assessed in 2010/11. The 2011/12 interest assessment is based on the campus operating revenue equivalent to the 2010/11 tuition and other fee revenue reported in 2010/11 FIRMS final budget submissions.

The annual interest chargeback requirement was agreed upon to maintain fiscal neutrality for the state GF in recognition of the 2006/07 transition of the deposit of fee revenue from the state GF 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 campus quarterly assessments will be processed by Cash Posting Order to credit systemwide provisions. Questions concerning processing of quarterly interest payments should be directed to Kelly Cox, Associate Director for Financial Services, Accounting, at (562) 951-4611 or email at kcox@calstate.edu.