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CODED MEMO B 2015-01

To: CSU Chief Fiscal Officers

From: Ryan Storm, Assistant Vice Chancellor for Budget 
Chris Canfield, Associate Budget Director 

CC: Steve Relyea, Executive Vice Chancellor, Ephraim Smith, Executive Vice Chancellor, CSU Presidents, Financial Officers, Financial Aid Directors, Enrollment Planning and Resource Officers, and Enrollment Managers

Date: May 13, 2015

Re: 2015-16 Preliminary Support Budget Allocations

Attachments: Coded Memo B 2015-01, Attachments A-D

This memo addresses incremental allocations based on state General Fund and systemwide tuition fee revenue projections for CSU included in the proposed 2015-16 Governor's Budget. These *preliminary* budget allocations have been established for campus enrollment and financial planning purposes. These allocations are consistent with initial recommendations of the Task Force on a Sustainable Financial Model for the California State University. The task force has investigated for many months several interrelated elements that influence the acquisition and distribution of state and CSU resources. The memo also reflects presidential feedback on this topic provided at the Council of Presidents meeting on April 21-22, 2015.

The Governor's January Budget includes a proposed \$119.5 million General Fund increase to the CSU support budget and the expectation that CSU tuition fee rates will not increase. The memo also reflects one percent systemwide enrollment levels that can be accommodated within the Governor's proposal. It is anticipated that *final* budget allocations for 2015-16 will reflect additional changes in campus General Fund support; however, no campus should receive less than the incremental General Fund increase reflected in this memo.

Also, there is a purposeful attempt to foster greater clarity and predictability in this memo. In particular, this memo reduces variability in tuition fee discount allocations (i.e., State University Grant) and provides details on a revised tuition fee discount allocation methodology that takes into account incremental enrollment growth. This methodology is fully consistent with Board of Trustees policy and statute regarding tuition fee discounts. Additionally, the memo provides appropriate incentives for campuses to generate and utilize revenue in the areas of new student enrollments, mix of students (e.g., undergraduate versus graduate) and non-resident students. Additional details are described later in the memo.

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

Projections of 2015-16 changes in systemwide tuition fee revenue are informational items only and generally do not interact with or offset General Fund allocations, as had been past practice. Instead, these projections reflect changes in systemwide tuition fee revenue that will be helpful to campuses, the state, and external groups for planning and information purposes.

The practices of annually adjusting General Fund allocations for “change in enrollment mix” and assessing over enrollment financial penalties have been discontinued. One reason for this change is to replace an allocation process that was difficult for campuses to anticipate with a more predictable and transparent one. As a consequence of this change, resources that typically were centrally collected and redistributed for campus-specific and systemwide purposes are no longer available. To account for this, the memo includes a minimal General Fund assessment by campus that totals \$4 million, which is equivalent to 0.11 percent (.0011) of campus 2014-15 final budget General Fund and net state university tuition fees.

This memo makes three types of preliminary allocations:

- Revisions to 2014-15 General Fund allocations
- New 2015-16 General Fund allocations
- Projections of 2015-16 tuition and fee revenues (for reference only)

General Fund adjustments to 2014-15 reflect changes that occurred after the 2014-15 final budget allocation memo was circulated on August 28, 2014 (see Coded Memo B 2014-03, Attachment A, Column 8). These adjustments reflect modifications for changes in the California Public Employees’ Retirement System (CalPERS) employer-paid contribution rates, adjustments in funding support for CSU Desert Studies and CSU Palliative Care ancillary instructional programs, and adjustments for changes in Chancellor’s Office operations.

Preliminary, incremental increases in 2015-16 General Fund allocations will support the estimated incremental annualized cost to fund employer-paid health care benefit premiums, the cost of regular operations and maintenance to open approximately 474,000 square feet of scheduled new space in 2015-16, funded enrollment growth, currently bargained employee compensation increases, and funding for retirement costs and systemwide initiatives (pending).

The 2015-16 changes in General Fund allocations and systemwide tuition and fee revenue projections are summarized in Table 1.

Questions concerning this memo or its attachments may be directed to Chris Canfield or other System Budget Office staff at (562) 951-4560. Please reference the [Budget Office staff directory](#) for additional contact information and staff areas of assignment.

References

- [CSU 2015-2016 Support Budget](#)
- [State of California, Department of Finance, 2015-16 Governor’s Budget](#)
- [CSU Section of the 2015-16 Governor’s Budget](#)
- [Task Force on a Sustainable Financial Model](#)

TABLE 1

**2015-16 Preliminary Changes in State General Fund Allocations
and Systemwide Tuition Fee and Fee Revenue Estimates**

General Fund Allocations

2014-15 Final Budget Allocations (*B 2014-03, Attachment A, Column 8*) **\$2,695,755,000**

Revisions to 2014-15 General Fund Allocations

Employer-Paid Retirement Costs	66,263,000
Lease Revenue Bond Debt Service	7,268,000
Subtotal	\$73,531,000

New 2015-16 General Fund Allocations / Funding Increases

Employer-paid Health Care Premiums	11,040,000
Operations and Maintenance of New Space	5,037,000
Retirement Costs above the 2013-14 Base	7,000,000
Funded Student Enrollment Growth	16,288,000
Employee Compensation Increases	65,528,000
Systemwide Initiatives	14,574,000
Subtotal	\$119,467,000

2015-16 Preliminary General Fund Allocations **\$2,888,753,000**

Operating Budget Revenue Projections

2014-15 Campus-Reported Gross Revenues (*September 2014*) **\$2,689,464,600**

Changes in Tuition Fee Revenue Projections

Adjustment based on Change in 2013-14 Mix of Resident Students	(12,872,000)
Adjustment based on 2013-14 Actual Nonresident Student Enrollments [affecting in-state systemwide tuition fee portion only (i.e. \$5,472)]	20,757,000
Adjustments for Funded Student Enrollment Growth	21,698,000
Subtotal	\$29,583,000

Tuition Fee Discounts (i.e., State University Grant)

2014-15 Campuses' Base Allowance	(644,328,800)
2015-16 Increase in Tuition Fee Discount Allowances	(3,765,700)
Subtotal	(\$648,094,500)

2015-16 Net Operating Budget Revenue Projection **\$2,070,953,100**

These General Fund and tuition fee revenue changes are identified by campus on Attachments B, C and D, respectively of this coded memorandum. The following will provide a more detailed explanation of the preliminary changes in budget allocations.

Preliminary General Fund Allocations

Revisions to 2014-15 General Fund Allocations (Attachment B)

- State Funded Retirement Adjustment

Each year CalPERS adjusts employer-paid contribution rates to maintain the actuarial soundness of the system and meet defined benefit pension obligations.

Beginning with 2014-15, the State limited its adjustment to CSU employer-paid contribution rates to the actual CSU Operating Fund pensionable salaries for 2013-14 as reported by the State Controller's Office. Ninety percent of the funding is distributed at this time; the balance will be allocated upon receipt of campus specific payroll data from the State Controller's Office.

The 2013-14 to 2014-15 State Miscellaneous First Tier rates increased from 21.203 percent to 24.280 percent and the State Peace Officer / Firefighter rate increased from 31.320 percent to 36.827 percent. The total retirement cost increase funded by the state in 2014-15 is \$66.3 million. The state Department of Finance is expected to process the 2014-15 state appropriation related to the retirement adjustment by the end of May. The distribution of \$66.3 million to campuses will occur as soon as possible once the state appropriation is received.

- Campus / Chancellor's Office (CO) Programs

Other General Fund adjustments above final budget allocations are for increased Chancellor's Office-managed systemwide costs, increased costs associated with campuses' ancillary support programs in desert studies and palliative care, and increased lease revenue bond debt service costs for state-supported capital projects.

New 2015-16 General Fund Allocations (Attachment C)

- Employer-Paid Health Care Premiums

Effective January 2015, the estimated annualized cost to fund employer-paid health care benefit premium rate increases is \$11.0 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 Financial Information Management System (FIRMS) 2013-14 actual state supported health benefits expenditures. For additional information regarding January 2015 health premium costs, please reference [Human Resources Technical Letter, HR/Benefits 2014-07](#).

- Operations and Maintenance of New Space

The new General Fund allocations include \$5.0 million to fund regular operations and maintenance of new space, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support. In 2015-16, the CSU is scheduled to open a total of 473,837 square feet. Funding of regular operations and maintenance is provided at the new space rate of \$10.63 per square foot. More information on campus facilities with new space need is provided online in [2015-16 Support Budget supplemental documentation](#).

- Retirement Costs (new CSU obligation)

State funding of CSU employer-paid retirement costs has changed, as explained in Section 3.60 of the Budget Act of 2013. Per Government Code Section 20814, the state’s obligation to adjust retirement funding based on annual rates set by CalPERS will continue, the salary base used for application of the incremental rate changes is the CSU’s actual 2013-14 General Fund pensionable payroll as determined by the State Controller’s Office. The impact of this change on the CSU 2015-16 operating budget has not been determined and funds are being retained centrally to address potential CSU need.

- Funded Student Enrollment Growth

Initial planning for student access and enrollment growth is based on a one percent increase above 2014-15 funded enrollment targets equivalent to 3,442 full-time equivalent students (FTES). Funding to support 2015-16 FTES growth is based on the systemwide total of 2014-15 budgeted expenses that sustain direct instruction, academic support, student services, institutional support and operations and maintenance of campus plant (i.e., the average cost of education—formerly known as the marginal cost of instruction). The average systemwide cost to educate a full-time equivalent student is \$9,942. It is anticipated that campuses will collect average net tuition fees of \$5,210 per FTES to support that education, leaving a fixed \$4,732 General Fund allocation per FTES.

\$9,942	Average Cost of Education per FTES
<u>-5,210</u>	Net Tuition Fee Revenue per FTES
\$4,732	General Fund per FTES

Campuses have been allocated \$16.3 million in General Fund for enrollment growth in the preliminary budget allocations. This General Fund and campuses’ net tuition fee revenue of \$17.9 million will total \$34.2 million for funded enrollment. Information on the 2015-16 marginal cost of instruction rate by program area based on the state Department of Finance budget methodology is provided in [2015-16 Support Budget supplemental documentation](#).

- Employee Compensation Increases

The preliminary budget allocates approximately \$65.5 million to support a two percent increase to the compensation pool. The non-faculty bargaining unit share of the two percent compensation pool allocation is distributed by campus based on the campus percentage share of 2013-14 CSU state-supported staff salaries. The faculty bargaining share of the two percent compensation pool is being held centrally pending collective bargaining. Actual compensation increases for represented employee groups are determined by negotiations between collective bargaining units and CSU Systemwide Human Resources.

- Systemwide Initiatives

The budget plan approved by the Board of Trustees contained funding to address several campus financial infrastructure challenges and several systemwide initiatives. However, that level of expenditure increase exceeds funds available in the Governor's January budget proposal for 2015-16. Therefore, funds are being retained pending enactment of the state budget for 2015-16 to determine which CSU initiatives can be appropriately supported in the new fiscal year.

- GF Adjustment in Lieu of Enrollment Penalties / Change in Mix Tuition Fee Revenue

As provided in the introduction to this coded memorandum, the discontinuation of use of change in mix tuition fee revenue and enrollment penalties reduces the central resources that were typically available to cover support budget expenditure increases and to redistribute to campus-specific and systemwide programs. To account for this change, these allocations include a minimal General Fund assessment by campus that totals \$4 million, which is equivalent to 0.11 percent (.0011) of campus 2014-15 final budget General Fund and net tuition fees and ranges from approximately \$30,000 to \$300,000 by campus.

- Tuition Fee Discount, General Fund Adjustment

This represents a change in methodology from past budget allocations to proportionally adjust campus General Fund allocations while continuing to recognize differences in financial aid student need by campus. In this more direct and simplified model, the campus ratio of tuition fee discount need to total headcount determines the estimated number of students that qualify for the tuition fee discounts (e.g., 100 FTES enrollment growth * 0.4 ratio = 40 additional qualifying students). The campus distribution of the preliminary increase in tuition fee discounts from enrollment growth is based on the campus relative share of additional qualifying students. The result is proportional General Fund adjustments by campus that range from an increase of approximately \$50,000 to a reduction of approximately \$56,000.

**Projections of 2015-16 Tuition and Fee Revenues including Tuition Fee Discounts
For Reference Only
(Attachment D)**

As previously discussed, the 2015-16 projections of changes in systemwide tuition fee revenue are for reference only. Generally, these projections have not impacted campuses' preliminary General Fund allocations and will not impact final General Fund allocations. In other words, General Fund allocations to campuses will not be reduced as campuses collect additional tuition fee revenue or as other revenue sources grow. This is a change from past allocation practices.

- Change in 2013-14 Mix of Actual Resident Students

Each year campus base revenue estimates are adjusted to reflect the most recent past year distributions of students. The change in resident student tuition fee revenue projections is based on the most recent past year enrollment patterns of student classification (undergraduate, graduate/post-baccalaureate) and fee status (regular, full-time, or limited part-time). Budget year tuition fee revenue projections are made after those base adjustments occur.

For 2015-16, campus base tuition fee revenue projections have been adjusted by a total of -\$12.9 million to reflect the change from 2012-13 to 2013-14 in actual resident student distribution patterns.

- 2013-14 Actual Nonresident Student Enrollment

The change in the in-state, state university tuition fee revenue paid by nonresident students is based on the most recent past year enrollment of nonresident students. For 2015-16 campus base revenue projections have been adjusted by a total of \$20.8 million to reflect the change from 2012-13 to 2013-14 nonresident student distribution.

- Tuition Fee Adjustment for Changes in 2015-16 Funded Enrollment Growth

It is anticipated that campus FTES enrollments will grow by one percent (or 3,442 FTES) in 2015-16 allowing for increased unit load and new student access to the university. Tuition fee revenue for this anticipated growth is based on 2013-14 actual campus student enrollment patterns.

It is anticipated that campuses will collect average net tuition fees of \$5,210 per FTES to support the enrollment growth (on a headcount basis, \$5,472 systemwide tuition fee less \$1,094 set aside for tuition fee discounts). Systemwide, it is projected that \$17.9 million of net new revenue will be collected in 2015-16 from the target enrollment growth.

- 2014-15 Base and 2015-16 Increase in Tuition Fee Discounts

Campus tuition fee discount allowances for 2014-15 totaled \$644.3 million. The preliminary budget allocations assume campus base allowances will change only due to funded enrollment increases for 2015-16.

Using a more direct, simplified model, the 2015-16 preliminary budget allocations include a \$3.8 million incremental increase in campus tuition fee discount allowances in recognition of funded student enrollment growth. Adjustments to tuition fee discounts are based on the proportion of tuition fee discount need at campuses as well as budgeted FTES growth.

It is expected that campus tuition fee discounts will minimally include the 2014-15 allowances of \$644.3 million in addition to the \$3.8 million growth based on CSU financial aid policy.

Questions about the tuition fee discount distribution process and allocations may be directed to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at dkulju@calstate.edu.

RS:CC

Attachments