

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:00 a.m., Thursday, October 27, 2005
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Carol R. Chandler
Moctesuma Esparza
Bob Foster
Ricardo F. Icaza
Corey Jackson
A. Robert Linscheid
Craig R. Smith

Discussion Items

1. Report on 2006-2007 Trustees' Support Budget and State University Fee Increase, *Action*
2. 2006-2007 Lottery Revenue Budget, *Action*
3. 2006 through 2010 California State University Multi-Year Revenue and Expenditure Plan, *Information*

COMMITTEE ON FINANCE

Report on the 2006-2007 Trustees' Support Budget and State University Fee Increase

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The Board of Trustees will be presented with an information overview of California's Economic Outlook and an action item on the 2006-07 CSU budget, which will include an increase in State University Fee rates. The budget presentation will identify the state General Fund and student fee revenue assumptions, CSU funding recommendations under the second year of the Compact Agreement with the Governor and a brief discussion of the budget challenges at the CSU. The student fee recommendation will include a report on financial aid assumptions for the CSU State University Grant program and an overview of total mandatory student fees in relation to CSU's public comparison institutions.

2006-07 CSU Support Budget

The 2006-07 budget recommendations are based on revenue and expenditure assumptions consistent with second year funding in the Compact for Higher Education. The Compact revenue projections are based on a 3 percent increase in CSU's state General Fund appropriation (\$75.8 million) and an increase in General Fund support for a 2.5 percent increase in systemwide enrollment (\$52.7 million) that is projected to serve an additional 10,000 students in the 2006-07 academic year. The budget also proposes to increase the systemwide mandatory fee for undergraduate and certificate students by 8 percent, along with a 10 percent increase in the fee paid by all other post-baccalaureate and graduate students. The proposed student fee increase will generate \$79.5 million and fee revenue from 2.5 percent enrollment growth will provide an additional \$27.5 million. Therefore, new revenue from the state General Fund (\$128.5 million) and student fees (\$107.0 million) in 2006-07 is estimated to increase CSU budget support by \$235.5 million.

The proposed 2006-07 CSU expenditure plan looks very similar to the 2005-06 budget approved by the Trustees in the fall of 2004. Mandatory costs are estimated to be \$33.6 million to fund increases in health benefits, new space, the full-year cost of Service-based Salary Increases (SSI) for certain employee groups, and higher energy costs. Funding at \$65.1 million is budgeted to support 2.5 percent enrollment growth (8,306 FTES), which will serve over 10,000 new students at the CSU. While student fees are proposed to increase, the University will set-aside 33 percent of the student fee revenue to provide \$32.7 million in additional revenue for the State University Grant (SUG) financial aid program. This will not only cover the fee increase for needy students who have previously been designated to receive financial aid grants, but allows the CSU to increase by 5,100 the number of SUGs received by needy students.

The recommended budget plan provides a 3 percent compensation pool at a cost of \$77.4 million. In addition, the 2006-07 budget includes \$16.5 million to begin the first year of a multi-year strategic plan to close employee salary lags. The 2006-07 budget recommendations also include \$10 million for long term need to support funding for technology (\$5 million), libraries (\$2.5 million) and deferred maintenance (\$2.5 million).

The Compact for Higher Education has provided significant funding stability to the CSU that is critical in the planning process and the delivery of quality education to our students. The Compact funding guarantees:

- Student access to higher education
- Moderate, predictable, and affordable increases in student fees
- Significant investment in financial aid through State University Grants
- Base compensation increases for CSU employees
- Addressing mandatory costs and long-term needs

However, there are additional budget challenges that are a result of over \$500 million in budget reductions in previous years, demands to enhance the quality of education and time-to-degree for CSU students, and meeting state public policy priorities for additional K-12 math and science teachers, K-12 special education teachers, and additional nurses at both the baccalaureate and masters level. Nearly \$200 million in additional revenue above the Compact Agreement would be needed to begin funding these additional budget challenges. Given California's current fiscal deficit projected at \$6 billion for the 2006-07 fiscal year, it's unlikely that state General Fund will be able to meet all the funding required for the first year costs of these additional budget challenges.

The following resolution is recommended for adoption:

State Appropriated 2006-2007 Support Budget

RESOLVED, By the Board of Trustees of the California State University, that the 2006-2007 Support Budget is approved as submitted by the chancellor; and be it further

RESOLVED, That the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that such changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, That the chancellor is authorized to comply with requests of the Department of Finance and the legislature regarding establishment of priorities within this budget; and be it further

RESOLVED, That copies of this resolution be transmitted to the California Postsecondary Education Commission, to the governor, to the director of finance and to the legislature.

State University Fee Increase

The board has the authority to establish, adjust, and abolish systemwide fees. The Compact agreement proposes fee increases for CSU undergraduate students that will average 10 percent over a three-year period beginning in 2004-05. Undergraduate student fees were increased by 14 percent in 2004-05 and 8 percent in 2005-06. For 2006-07, they are proposed to increase by 8 percent for an average increase of 10 percent during this three-year period.

For graduate and postbaccalaureate teacher credential candidates, fees also would increase by 8 percent. For all other graduate and postbaccalaureate students, fees would increase by 10 percent in 2006-07. These increases follow similar increases in 2005-06. The Compact recognizes that CSU graduate student fees may eventually reach levels that make them 50 percent higher than undergraduate fees, in recognition of the cost of these programs and the expected higher earnings these students will make once they have entered the workforce.

The proposed student fee increase will generate \$79.5 million and fee revenue from the 2.5 percent enrollment growth will provide an additional \$27.5 million (a total of \$107.0 million). One-third of this revenue or \$32,700,000 will be used to increase the State University Grant pool. This pool is administered centrally and is allocated to campuses based on student need.

Assuming proposed 2006-07 undergraduate fees of \$2,724 and including the 2005-06 average campus-based fees of \$644, the total annual undergraduate fee of \$3,368 would be \$98 more than the lowest CSU public comparison institution's 2005-06 fee rate and \$2,764 less than the average 2005-06 fee for all CSU public comparison institutions. Comparison institution fee data for 2006-07 is not currently available.

**CSU Comparison Institution
 Academic year Resident Undergraduate, Student Fee Levels**

University	2004/05	2005/06	2006/07 ²
Rutgers University (Newark, NJ)	\$8,869	\$9,221	
University of Maryland, Baltimore County	8,020	8,520	
University of Connecticut (Storrs, CT)	7,490	7,912	
Cleveland State University	6,618	7,158	
Wayne State University (Detroit, MI)	5,819	6,898	
Illinois State University (Normal, IL)	5,588	6,801	
State University of New York at Albany	6,383	6,604	
University of Wisconsin at Milwaukee	5,835	6,224	
Comparison Average¹	5,670	6,132	
George Mason University (Fairfax, VA)	5,448	5,880	
University of Texas at Arlington	5,300	5,693	
University of Colorado at Denver	4,160	4,611	
Georgia State University at Atlanta	4,154	4,464	
Arizona State University at Tempe	4,066	4,408	
North Carolina State University	4,260	4,318	
University of Nevada at Reno	3,034	3,270	
California State University	2,916	3,164	3,368

¹ Average does not include CSU

² 2006/07 data for comparable institutions not available

The recommendation before the Board is to increase state university fee rates for undergraduates by \$204 (8% increase), qualified credential program participants by \$234 (8% increase) and all other post-baccalaureate and graduate students by \$312 (10% percent) for the 2006-07 academic year. One-third of the revenue from these fee increases will be set aside for State University Grant financial aid.

The following resolution is recommended for adoption:

2006-07 State University Fee Level

RESOLVED, By the Board of Trustees of the California State University, that the following schedule for the State University Fee, which incorporates an 8 percent increase for undergraduate, 8 percent increase for qualified credential program participants, and 10 percent increase for other post-baccalaureate and graduate students, for the 2006-07 academic year, effective fall term 2006 is approved until further amended:

2006-07 State University Fee Schedule (Effective Fall 2006)

All Campuses, except California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Per Quarter</u>	<u>Per Academic Year</u>
Undergraduate			
6.1 or more	\$1,362	\$908	\$2,724
0 to 6.0	\$789	\$526	\$1,578
Credential Program Participants			
6.1 or more	\$1,578	\$1,052	\$3,156
0 to 6.0	\$915	\$610	\$1,830
Graduate			
6.1 or more	\$1,707	\$1,138	\$3,414
0 to 6.0	\$990	\$660	\$1,980

California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Winter Term</u>	<u>Per Academic Year</u>
Undergraduate			
6.1 or more	\$1,240	\$240	\$2,724
0 to 6.0	\$667	\$240	\$1,578
Credential Program Participants			
6.1 or more	\$1,438	\$280	\$3,156
0 to 6.0	\$775	\$280	\$1,830
Graduate			
6.1 or more	\$1,558	\$298	\$3,414
0 to 6.0	\$841	\$298	\$1,980

And, be it further

RESOLVED, That the chancellor may approve individual campus State University Fee rates that do not exceed the maximum fee rates established by this fee schedule, and be it further

RESOLVED, The chancellor is delegated authority to further adopt, amend, or repeal the State University Fee rate increase if such action is required by the budget act approved for 2006-07, and that such changes made by the chancellor are communicated promptly to the trustees.

COMMITTEE ON FINANCE

2006-2007 Lottery Revenue Budget

Presentation By

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

2006-2007 Lottery Revenue Budget

Over the past several years CSU lottery revenue receipts have been strong. Due to this recent trend and the introduction of a new multi-state lottery game, a modest increase in the estimate of revenue is appropriate as the CSU plans for fiscal year 2006-07. The lottery revenue that will be allocated to the California State University in 2006-07 is estimated to be \$51 million. After providing for a \$5.0 million systemwide reserve, the amount available for allocation is \$46 million. The \$5.0 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. The increased estimate of lottery revenue will be used to increase allocations for campus-based programs.

The lottery budget proposed for fiscal year 2006-07 is as follows:

2006/07 Proposed Lottery Revenue Budget

	2005/06 Approved Budget	2006/07 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Additional Carryforward		7,600,000
Receipts	36,000,000	38,000,000
Projected Interest Earnings	500,000	400,000
Total Revenues	\$ 41,500,000	\$ 51,000,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 36,500,000	\$ 46,000,000
Uses of Funds		
<i>System Programs</i>		
Forgivable Loan/Doctoral Incentive Program	\$ 3,000,000	\$ 3,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Systemwide Implementation Costs	491,000	491,000
	\$ 5,405,000	\$ 5,405,000
<i>Campus Based Programs</i>		
Campus/CO Programs	\$ 30,595,000	\$ 34,595,000
Campus/CO Interest	\$ 500,000	\$ 400,000
	\$ 31,095,000	\$ 34,995,000
<i>Planned Carryforward Expenditures</i>		\$ 5,600,000
Total Uses of Funds	\$ 36,500,000	\$ 46,000,000

The following resolution is recommended for adoption:

RESOLVED, By the Board of Trustees of the California State University, that the 2006-07 Lottery Revenue budget totaling \$46 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the Lottery Revenue budget and to phase expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, That the chancellor is hereby granted authority to adjust the 2005-06 Lottery Revenue budget approved by the Board of Trustees to the extent of receipt of greater or lesser revenue than budgeted in 2006-07 to respond to opportunities or exigencies; and be it further

RESOLVED, That a report of the Lottery Revenue budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

2006 through 2010 California State University Multi-Year Revenue and Expenditure Plan

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The Board will be presented with an overview of future CSU revenue and expenditure assumptions based on the current Governor's Compact for Higher Education, CSU Budget Challenges, and the potential for state General Fund revenues to address funding shortfalls. This presentation will outline a 5-year strategic plan indicating CSU's ability to meet budget priorities within the Compact Agreement state funding and what the university will need to generate in student fee revenue. The findings of the Special Trustees' Committee on Employee Compensation also will be presented.

2006-2010 CSU Multi-Year Revenue and Expenditure Plan

The CSU budget has always been subject to changes based on the fiscal condition of the state General Fund. This was particularly true in the early 1990's when California was facing a \$14 billion budget deficit. As a result, CSU's budget was cut dramatically, and student fees leaped from a 10 percent to a 40 percent increase in one year. In the late 1990's, California's economic recovery allowed the University to benefit from not only an earlier version of the Governor's Compact funding agreement, but funding over and above the Compact in the state's best revenue years. This increase in General Fund revenue funded additional student access, augmented the CSU compensation pool, and even "bought out" proposed increases in student fees.

The era of budget reductions and dramatic fee increases repeated itself beginning in the 2001-02 fiscal year. Over the three years of 2001-2004 the impact of the state's General Fund reductions resulted in the loss of over \$500 million in the University's base budget. This loss occurred even as student fees again jumped dramatically to replace a portion of the loss in General Fund support. In response, CSU was forced to reduce previously funded levels of student access and

cut non-instructional programs, absorbed mandatory costs, and was unable to provide any compensation increases to its employees.

In May 2004, Governor Schwarzenegger entered into a Compact Agreement with the CSU and University of California to provide long term funding to ensure the stability that the universities will need to serve students in the future. This agreement provides funding in the University's 2006-07 budget that will fully restore student access to its historic levels, fund some compensation increases, student financial aid, mandatory costs and assumes a modest and predictable increase in student fees. However, the funding provided in the 2006-07 budget falls short of meeting total deficits that amount to close to \$1 billion.

The Compact provides fiscal stability to the University at a time when California continues to face considerable fiscal problems. The state anticipates it will be short \$6 billion in General Fund revenues to meet all the funding commitments in the 2006-07 budget. Barring an opportune jump in the economy or even a major tax windfall, it's clear given California's current fiscal condition the state will be hard pressed to meet the needs of the CSU above the Compact funding levels.

The Board of Trustees will be presented with a set of budget assumptions identifying the funding issues associated with the 2006-2010 CSU Multi-Year Revenue and Expenditure Plan. The findings of the Special Trustees' Committee on Employee Compensation will be presented so that the need for salary increases for all employees can be considered as a priority within the multi-year plan as Trustees directed at the September 2005 Board meeting. It should be recognized that the multi-year plan are revenue and expenditure estimates and, along with the funding assumptions, need to be reviewed during the annual budget process consistent with the Board of Trustee budget priorities.