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May 15, 2018

The Honorable Jerry Brown
Governor of the State of California
State Capitol
Sacramento, CA 95814

The Honorable Anthony Rendon
Speaker of the Assembly
State Capitol, Room 219
Sacramento, CA 94249

The Honorable Toni G. Atkins
Senate President Pro Tempore
State Capitol, Room 205
Sacramento, CA 95814

**California State University Report: Lottery Revenue Fund Receipts and Expenditures
Fiscal Year 2016-17**

In accordance with lottery policies adopted by the California State University Board of Trustees and as required by section 24.60 of the 2015-2016 Budget Act, "each state entity receiving lottery funds shall annually report to the Governor and the Legislature on or before May 15th the amount of lottery funds that the entity received and the purposes for which those funds were expended in the prior fiscal year, including administrative costs.", the CSU's 2016-17 Lottery Revenue Fund Receipts and Expenditures Report has been posted to www.calstate.edu/budget/fybudget/legislative-reports/. This report displays the actual 2016-2017 receipts and expenditures and planned 2017-2018 receipts and expenditures for the CSU System.

Should you have any questions about this report, please contact Ryan Storm, Assistant Vice Chancellor for Budget, at (562) 951-4560 or rstorm@calstate.edu.

Sincerely,



Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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2016-17 Lottery Revenue Fund Receipts and Expenditure Report

May 2018

INTRODUCTION

Each year, pursuant to Section 24.60 of the Budget Act, the California State University (CSU) must report on lottery receipts and expenditures for the prior fiscal year to the Governor and the Legislature. This report satisfies the statutory requirement and is divided into two sections. The first section contains information regarding budgeted and actual revenues and program expenditures for fiscal year 2016-17. The second section contains projected revenues and proposed program expenditures for fiscal year 2017-18.

SECTION I – 2016-17 REVENUES AND EXPENDITURES

The CSU Board of Trustees traditionally adopts the lottery budget each November. In fiscal year 2016-17, the Board of Trustees approved a budget of \$49.2 million. The CSU takes a cautious approach when budgeting lottery funds and will continue to budget that way based on the inconsistent nature of lottery receipts. Table 1 below shows the budgeted and actual revenues and expenditures.

The budget includes a lottery reserve of \$5 million. Since fiscal year 2010-11, the Board of Trustees has voted to maintain a reserve to manage the distribution of lottery revenue to campuses pending quarterly receipts from the State Controller’s Office and to address unforeseen budgetary challenges that require immediate action. Allowing for a systemwide reserve of \$5 million, the approved lottery budget available for allocation for various campuses and systemwide programs is \$44.2 million.

Table 1: Approved and Actual Lottery Revenues and Expenditures for FY 2016-17

	Approved	Actual
Lottery Reserve	\$5,000,000	\$5,000,000
Receipts Available for Allocation	44,163,000	59,241,000
Total Revenues	\$49,163,000	\$64,241,000
Lottery Reserve	5,000,000	5,000,000
Campus-based Programs	31,542,000	39,577,000
Forgivable Loan/Doctoral Incentive Program	2,000,000	-
California Pre-Doctoral Program	814,000	844,000
CSU Summer Arts	1,200,000	1,056,000
Early Start Program - Financial Aid	8,000,000	6,943,000
DREAM Loan Program	-	602,000
Lottery Programs Administration	607,000	631,000
Total Expenditures	\$49,163,000	\$54,653,000

Actual revenues in fiscal year 2016-17 totaled \$64.2 million, which includes \$5 million in carryforward funds for the lottery reserve and \$59.2 million in receipts from the state. The latter represents an increase of \$15.1 million due to higher than anticipated lottery receipts.

As shown in Table 1, the CSU expended a total of \$54.7 million (including \$5 million for the reserve), about \$5.5 million above the approved expenditures. Additionally, the Chancellor's Office and campuses used carryforward balances from FY 2015-16 to support several systemwide and campus programs, such as library services, Early Assessment Program support, technology initiatives, and other academic programs.

All programs funded with lottery receipts follow the CSU lottery guidelines which are consistent with the California Lottery Act. Detailed program information is provided below.

Forgivable Loan/Doctoral Incentive Program

The Forgivable Loan/Doctoral Incentive Program provides financial assistance to graduate students and is designed to increase the pool of individuals who show promise of becoming strong candidates for CSU instructional faculty positions. It is a highly competitive program directed by the CSU, open to applicants who will be new or continuing full-time students in doctoral programs at accredited universities anywhere in the United States. Individuals in the program, however, must be sponsored by CSU full-time tenure-track faculty for a number of reasons: one, to establish early relationships between doctoral students and CSU academic departments; two, to encourage students during their doctoral studies; and three, to provide experience that will stimulate interest in a teaching career in the CSU. A major incentive for participants in the program is the opportunity to pursue full-time doctoral studies underwritten by loans that can be forgiven at a rate of 20% for each year of full-time teaching at the CSU after completing their doctoral studies.

Although this forgivable loan program has been historically funded through lottery allocations, in recent years, a number of doctoral students who received loans through the program have not completed their doctoral studies or defaulted on loans, resulting in the collection of original loan dollars. Those collected dollars have been held in trust, which has successfully funded the forgivable loan program in subsequent years. Unless the trust is fully exhausted, lottery funding will serve to supplement available funds in trust on an as-needed basis. The Board of Trustees remains committed to maintaining the availability of the full \$2 million program fund allocation each year, in case the trust is ever exhausted.

California Pre-Doctoral Program

Beginning in 1989-90, the California Pre-Doctoral Program was developed cooperatively by the CSU and the University of California. It is designed to increase the pool of potential CSU and UC faculty by supporting the doctoral aspirations of CSU students who have experienced economic and educational disadvantages. The plan is tailored to the specific goals and career objectives of the student. Students are motivated to enter the profession through mentoring by faculty, involvement in formal and informal scholarly and research opportunities, interaction with doctoral-granting institutions, membership in professional associations, and attendance at professional conferences.

Each of the applicants selected is designated as a "Sally Casanova Pre-Doctoral Scholar" as a tribute to Dr. Sally Casanova, for whom the Pre-Doctoral scholarship is named. The scholars work closely with California State University faculty sponsors to develop an overall plan which leads ultimately to enrollment in a doctoral program. Students are supported to attend events designed to interest them in graduate study and scholarly careers. A major component of the program is the summer research experience wherein scholars have the opportunity to participate in a structured 8-10 week fully funded research project under the supervision of a professor at a prominent doctoral granting institution.

The California Pre-Doctoral Program is designed to improve coordination between CSU master's degree programs and participating doctoral institutions, so that a better pipeline of potential academic talent will develop. As in prior years, a modest amount of faculty travel was supported so that CSU faculty could accompany the selected students visiting Ph.D. granting institutions. This enables the students to learn more about opportunities for doctoral study and to establish ongoing relationships with faculty at the doctoral granting institutions.

In fiscal year 2016-17, the program had 73 scholars. Of these scholars, 34 are currently enrolled in doctoral programs throughout the United States, including 16 of them in the UC system.

CSU Summer Arts Program

CSU Summer Arts began in 1986 as a dance program housed on the campus of CSU Long Beach and has since developed into a multidisciplinary systemwide program offering academic credit, plus a festival in the visual, performing, and literary arts. The academic component offers two-to-four week residency workshops in arts education, creative writing, dance, music, film/video, theater, performance, visual arts, and new technology. Students from throughout the California State University system, as well as from other colleges and universities throughout the nation, are encouraged to apply, as are practicing teachers, arts professionals, and serious amateurs in various arts areas. Scholarships are available to those who qualify. All courses are coordinated by members of the CSU faculty and are taught by guest artists at the top of their fields. The CSU Summer Arts Program gives students the opportunity to come together and share what they have in common-creative expression.

The CSU Summer Arts Program is currently held at Fresno State.

Campus-based Programs

At \$39.6 million, about 72% of the lottery expenditures in 2015-16 supported campus-based programs. These funds support new and replacement instructional equipment, curriculum development, scholarships, library materials and subscriptions, and other instructionally-related items.

Prior to fiscal year 2000-01, campuses designated specific funding levels for Access and Academic Development, CSU Scholarship Program for Future Scholars, and Teacher Diversity and Recruitment. Subsequently, campus-based program funding became mostly undesignated to allow campuses maximum flexibility to meet unique campus needs while maintaining the CSU's efforts to increase outreach and teacher recruitment. This also provides discretionary authority for resource managers to respond quickly to changes in campus needs.

Early Start Program—Financial Aid

In May 2009, the Board of Trustees adopted a resolution authorizing the development of an Early Start Program (ESP). The program serves first-time freshmen students who are deficient in math and/or English skills through remedial instruction during the summer term prior to matriculation at any of the CSU campuses. The program successfully launched in summer 2012 by Executive Order 1048. The Board of Trustees authorized the use of \$5 million in lottery funds for the summer 2014 program to provide financial aid to students demonstrating need who enroll in the ESP. For the summer 2016 program, 16,188 waivers were awarded, totaling \$6.9 million.

DREAM Loan Program

In 2014, SB 1210 was signed into law, creating the California DREAM Loan Program. This program provides loans to undergraduate students who satisfy specified academic, enrollment, and high school graduation requirements. An eligible student can borrow up to \$4,000 per year, with maximum aggregate limit of \$20,000 at any one institution. Interest does not accrue while the student is enrolled at least half-time, has an approved deferment, or during the six month grace period before repayment begins.

SECTION II – 2017-18 PROJECTED REVENUES AND EXPENDITURES/ALLOCATIONS

In November 2016, the Board of Trustees approved the 2017-18 lottery budget of \$50.6 million, which includes a budgetary reserve of \$5 million for economic uncertainties and cash flow variations that might result from fluctuations in lottery receipts. The reserve is also available for special instructionally-related projects the Chancellor may determine are necessary during the fiscal year. Thus, the amount available for allocation and expenditure is \$45.6 million.

Table 2 below identifies the projected revenues for 2017-18 and the total approved for allocation.

Table 2: 2017-18 Approved Lottery Revenue Budget	
Lottery Reserve	\$5,000,000
Receipts Available for Allocation	45,565,000
Total Revenues	\$50,565,000

Table 3 below identifies the 2017-18 Board of Trustees approved expenditure plan of \$50.6 million, which matches the revenue budget approved in Table 2.

Table 3: 2017-18 Approved Lottery Expenditure Plan	
Lottery Reserve	\$5,000,000
Campus-based Programs	31,644,000
Early Start Program - Financial Aid	8,000,000
Forgivable Loan/Doctoral Incentive Program	2,000,000
CSU Summer Arts Program	1,500,000
DREAM Loan Program	1,000,000
California Pre-Doctoral Program	814,000
Lottery Fund and System Programs Administration	607,000
Total Planned Expenditures	\$50,565,000

The 2017-18 lottery budget is an increase of \$1.4 million above the 2016-17 lottery budget. Most of this increase is attributed to the inclusion of the DREAM Loan Program in the budget, though this program had been previously funded through the lottery budget. The CSU Summer Arts Program budget was increased by \$300,000 for expenditures related to relocation (from Monterey Bay to Fresno State in 2017), increasing enrollment and course offerings, and expanding innovative initiatives.