MEMORANDUM

To: Members, California State Legislature

From: Karen Y. Zamarripa, Assistant Vice Chancellor
Advocacy & State Relations

Robert Turnage, Assistant Vice Chancellor
Budget

RE: CSU Budget -- July Budget Update

We are writing to update you on the implementation of the California State University 2012-13 budget. While we appreciate that the budget adopted by the Legislature and the Governor keeps the CSU’s budget essentially flat, we are very concerned about the looming $250 million trigger cut should the Governor’s November tax initiative fail. The trigger cut, compounded with past cuts to the system, would equate to a 39 percent loss of our annual state support since 2007-08.

The choices to manage our budget are very difficult. The Board of Trustees (BOT) will consider strategies to address the budget problem at the July 17 meeting, and they will take formal action in September. As the Chancellor and his leadership team develop options, we have also reached out to faculty, staff, students, alumni and others to seek their ideas. Together, we must face what we can do with the resources we have to protect quality and access for students.

Understanding the CSU Budget Problem

Since the 2007-08 economic downturn began, state funding for the CSU, like other state funded entities, has significantly decreased. The CSU has properly managed a budget gap that exceeded $500 million. This gap was the net impact of nearly $1 billion in state budget cuts and increases in health care premiums and other required, but unfunded, expenditures ($135 million). Despite tuition fee revenue increasing by $593 million over the same period, state cuts and mandated costs far outweighed these increases, creating the half-billion dollar gap.

Since 2007-08 campuses and the Chancellor’s Office have engaged in a wide range of cost-reduction actions to close the budget gap, including reducing enrollments by close to 20,000 students and eliminating more than 3,000 faculty, staff and administrative jobs. While these actions have allowed the CSU to decrease our expenditures, several of our efforts have not
provided long-term budget solutions (e.g. furloughs, delaying equipment purchases, etc.). The gap that remains to be closed with permanent solutions—the university’s structural deficit—is currently more than $130 million. This means that additional ongoing reductions in spending of this amount must be found, even if the tax measure passes in November. Clearly, if the $250 million trigger is pulled, it would exacerbate the problem dramatically.

We are now at a point where we must make exceedingly difficult decisions about how to align our financial resources with fulfilling our mission to provide a quality education for the benefit of students and the state. This will require permanent solutions that will necessitate additional shared sacrifices by all.

The Consultation Process
The CSU has engaged in a systemwide conversation about budget options and their trade-offs over the past several months. A presentation at the May 2012 BOT meeting outlined possible cost reduction and revenue enhancement strategies to address the steep decline in state funding. At the meeting, Trustees clearly stated that the system must ensure that all CSU stakeholders have the ability to participate in the budget discussion.

There have been two systemwide webcasts regarding budget options and seeking input from the campus communities. On May 24, the Systemwide Budget Advisory Committee (SBAC), which is comprised of faculty members, staff, union representatives, students and administrators, held a meeting to discuss the various budget options that were presented to the BOT. This meeting was webcast throughout the system to ensure that all interested individuals had the opportunity to be informed. The second webcast conducted in June allowed participants to directly ask questions or make comments to CSU executives. Roughly 2,000 students, faculty and staff members participated in the webcasts and they have been downloaded more than 2,600 times from the CSU website. Finally, the CSU has posted on our website detailed written answers to questions that were asked during the webcasts or that have been submitted throughout this process (www.calstate.edu/budget/fybudget/presentations-communications/budget-strategies/).

July Board of Trustees Meeting
At the July 17 BOT meeting, Trustees and the public will hear an information item regarding strategies to address the budget problem. The presentation will include staff recommendations about specific approaches to address the CSU budget. Given the magnitude of the CSU budget challenge, no single option will allow us to cope with these historic budget reductions. Similarly, options have been crafted in order to avoid placing an inequitable burden on students, employees or even the state.

Two scenarios for addressing the $250 million trigger cut will be presented for discussion. One scenario, entitled “Shared Responsibility for Access and Quality,” includes a “trigger on the trigger” if the Governor’s tax initiative fails. This scenario increases student fees in Spring 2013 by $150 per semester and also includes a 2.5 percent systemwide reduction in pay and benefits for all employees from the chancellor to presidents to faculty to staff. The alternative scenario, does not include a mid-year tuition fee increase, but instead would reduce enrollment and eliminate related faculty, staff and administrative positions as well as reduce pay and benefits for
all employees by 5.25 percent. Other options contained in both scenarios include a tuition pricing structure designed to get more students through the system in a timely manner, with fewer extra units and making room for students who need classes to complete their degrees. In addition, we propose using one-time funds from our Continuing Education Revenue Fund (CERF) in both scenarios, using emergency authority granted in the recently enacted budget act.

Finally, the delayed tuition fee buyout that emerged in the last week of budget negotiations adds additional complexity for the CSU. Although the $125 million appropriation in 2013-14 would cover about 95 percent of the ongoing loss from a BOT decision to reset rates to 2011-12 levels, it would not address the one-time $132 million tuition revenue shortfall that would result in the current year. Campus budgets, course schedules and related operating decisions have already been finalized based on that revenue, and many students have already registered and paid for the Fall term. We will need legislative help in August to amend the budget act language regarding a one-time transfer of balances from the Continuing Education Revenue Fund, so that option would be available to address roughly half of the one-time $132 million shortfall in the event the Governor’s tax initiative is passed and a tuition fee roll-back is approved.

We understand that meaningful and long-term budget solutions will require shared responsibility from all. None of the choices are easy and we expect everyone will be unhappy for one reason or another. Unfortunately, at this point we have few real options left to consider if we are going to keep the promise we have made as a state to our current and future students. The detailed agenda for the budget strategies discussion can be found at www.calstate.edu/bot/agendas/Jul12/ under the Committee on Finance (agenda item 3).

We expect the board to a take final action at their September 16-17 meeting. In addition to the information item on budget strategies, the Trustees will also consider an action item in regard to the Governor’s tax initiative proposal. The detailed agenda can be found at www.calstate.edu/bot/agendas/Jul12/ under the Committee on Governmental Relations.

As a state leader, we want to make sure that we are providing you with the same budget information that we are providing to our system leaders and campus communities. At this fiscally dire time, we hope that we can work together to ensure that we can provide the best education possible for our students. Please do not hesitate to contact us if you have any questions.