

Coded Memo B 2011-01

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: April 14, 2011

Subject: 2011/12 April Budget Allocations

Attachments: Coded Memo 2011-01, Attachments A-G

The state Senate and Assembly passed a 2011/12 budget bill (SB 69) and an education budget trailer bill (SB 70) on March 17, 2011. However, at this point, the budget bill has not been forwarded to the governor pending further developments related to the budget including whether or not there will be any tax extension measures placed before the voters. The governor announced a couple of weeks ago that he had ended discussions with republican members of the legislature regarding the authorization of a June special election. The governor and legislature's next steps are unclear at this point. The education trailer bill SB 70 was signed by the governor and chaptered (Chapter 7) on March 24, 2011. Of most significance to the CSU in SB 70 is Section 60 that lays out a process for the university to report to the legislature and governor on implementation of the budget reductions by June 1, 2011.

The CSU 2011/12 April budget allocations are provided in Coded Memorandum B 2011-01 with attachments. The CSU funding adjustments in these allocations are based on SB 69 and SB 70 that incorporate the Governor's January budget adjustments for CSU. While these budget allocations are provided for planning purposes, it should be understood that allocations are subject to the possibility of major additional reductions in state support for 2011/12. We will continue to keep you informed of further developments.

The 2011/12 budget bill SB 69 replaces the one-time federal funds that CSU received in 2010/11 with a \$106 million permanent General Fund base budget increase and permanently funds a \$75 million projected 2010/11 CalPERS employer-paid retirement adjustments. The April budget allocations also include the \$500 million CSU General Fund reduction recommended in the Governor's January budget proposal for 2011/12 and included in SB 69, which drops the CSU's level of state support to just under \$2.3 billion. This budget reduction, which is one component of a statewide plan to address the structural budget deficit, will have a significant impact on CSU instruction programs and educational services. The April state budget also assumes the 10 percent increase in CSU 2011/12 tuition rates approved by the Board of Trustees last November.

The following table illustrates the 2011/12 State General Fund (GF) budget at this time:

2010/11 Budget Act General Fund Appropriation	\$2,617,435,000
<i>Retirement Adjustment</i>	75,235,000
<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	(500,000,000)
2011/12 General Fund Appropriation	\$2,291,273,000

The budget adjustments in this coded memorandum also include a \$224.2 million increase in gross 2011/12 tuition fee revenue (\$146.7 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 percent tuition fee rate increase. This memorandum allocates a \$77.5 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. Further BOT adjustments in 2011/12 tuition fee rates could later be necessitated by legislative actions and, if this occurs, tuition revenue and SUG will be updated in final budget allocations.

Following are references to the 2011/12 budget bill and tax extension measures:

1. 2011/12 Budget Bill SB 69: http://www.leginfo.ca.gov/pub/11-12/bill/sen/sb_0051-0100/sb_69_bill_20110318_enrolled.html
2. Education Budget Trailer Bill: http://info.sen.ca.gov/pub/11-12/bill/sen/sb_0051-0100/sb_70_bill_20110324_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 is a narrative brief of Attachments A through G.

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

The 2011/12 April 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 April 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

Each year CalPERS adjusts employer-paid contribution rates in order to meet defined benefit pension obligations. In 2010/11, there are two sets of CalPERS employer-paid retirement rates and the adjustments by campus included in these allocations are based on a composite of the rates. The July 1 through December 31, 2010 and January 1 through June 30, 2011 rates respectively increased the State Miscellaneous Tier 1 category by 3.005 / .611 and in the State Peace Officer/Firefighter category by 3.039 / 2.708 percents. The retirement adjustments are based on the change in retirement rates applied to the campus 2010/11 FIRMS final budget CSU State Support salaries submitted in November 2010. Before adjusting for the January 1, 2011 change in rates, the increase in CSU employer-paid retirement costs is \$75.3 million, whereas a composite of the two sets of rates reduces the annual cost increase to \$45.5 million. The potential retirement savings of \$29.7 million is held in systemwide provisions. The state Department of Finance will process the 2010/11 GF appropriation retirement adjustment before the end of the 2010/11 fiscal year. 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/HRAAdm/pdf2010/TL-BEN2010-06.pdf> and <http://www.calstate.edu/HRAAdm/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); a permanent transfer from SWPs to CSU Bakersfield for the Lancaster off-campus center (\$85,000); 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 provided in these allocations for information only. Attachment B identifies 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 April Budget Allocation Expenditure Adjustments

The April allocation adjustments presented in Attachment C of this memorandum include campus distributions of the CSU \$500 million reduction and adjustments for State University Grants associated with changes in student fee revenue.

❖ Governor’s Budget \$500 Million Reduction

The distribution of the CSU \$500 million GF reduction reflects the following:

- (1) \$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.
- (2) \$114.7 million net 10 percent fee increase offset, which is also based on 2011/12 resident FTES enrollment targets and the adjustments for changes in student mix identified above.

Both the \$26.6 million and \$114.7 million amounts applied toward the CSU \$500 million reduction are equivalent to the applicable campus fee revenue increases net of financial aid.

- (3) \$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 \$77.5 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 April 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 percent tuition fee rate increase 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 2011-01 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
Total 2011/12 Tuition Fee Revenue Adjustments	\$224,209,000	(\$77,541,000)	\$146,668,000

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

Tuition Fee Academic Year Rates	2011/12
Undergraduate Programs	
6.1 or more	\$4,884
0 to 6.0	\$2,832
Credential Programs	
6.1 or more	\$5,670
0 to 6.0	\$3,288
Graduate and Other Post-Baccalaureate Programs	
6.1 or more	\$6,018
0 to 6.0	\$3,492

Attachment E – 2011/12 April 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	\$3,093 ¹	\$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	\$3,181 ¹	\$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 April Budget Allocations, State University Grant (SUG) Adjustment

Total SUG allocations and the campus distribution of the 2011/12 SUG increase of \$77.5 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 a family contribution 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 student 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, CSU Financial Services, Accounting, at (562) 951-4611 or email at kcox@calstate.edu.