

Coded Memo B 2014-02
Campus Final Budget Submittals Due:
August 15, 2014

To: CSU Chief Fiscal Officers

From: Ryan Storm, Interim Assistant Vice Chancellor for Budget
Rodney Rideau, Acting Deputy Assistant Vice Chancellor for Budget

Copy: CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors, Enrollment Planning and Resource Officers, and Enrollment Managers

Date: July 28, 2014

Subject: 2014/15 Final Budget Allocations

Attachments: Coded Memo B 2014-02, Attachments A-E



The Governor signed the state Budget Act of 2014 [*Senate Bill 852, Chapter 25*] on June 20, 2014. The allocations reflected in this memorandum include important revisions to the initial planning allocations provided in March 2014 (**B 14-01**). CSU appropriations in the enacted budget are consistent with the Governor's January budget. The final budget includes a \$142.2 million General Fund (GF) increase consistent with the governor's multi-year funding plan; however, it is less than the CSU Board of Trustees (BOT) 2014/15 support budget request approved at the board's November 2013 meeting that requested a \$237.6 million GF appropriation increase. The BOT- approved budget plan has been adjusted based on the \$142.2M GF appropriation increase and the adjustments were reviewed at the July 22, 2014 BOT meeting. This memo makes final budget allocations to campuses based on the revised plan. These allocations are reported in attachments A through E of this coded memorandum.

A major change in the CSU budget appropriation is the inclusion of state General Obligation (GO) bond debt service expense (\$197.2M) to the CSU main appropriation and moving CSU lease revenue bonds debt service (LRB) from a separately identified appropriations item to the CSU main appropriation item (\$99.1M).

The Budget Act of 2014 also includes one-time award availability for innovations in higher education that are available to fund local assistance proposals from any of the three California higher education segments for programs that promote increased graduation rates, decreased time to degree, or improved Community College transfer.

The budget bill requires CSU to develop a three-year budget plan for academic years 2015/16 through 2017/18 based on resource availability assumptions provided by the Department of Finance (DOF).

CSU is also impacted by the Omnibus Higher Education Trailer Bill, SB 860, included in the budget package. The trailer bill establishes new CSU financing flexibility related to GO bond debt service, Lease Revenue Bonds (LRB), and CSU deferred maintenance and critical need financing. Several sections of California code have been added or amended to give CSU the authority to use the GF support appropriation (and other CSU revenues) for capital expenditures and capital outlay projects, such as construction, repair, and maintenance of academic facilities and the construction of energy conservation projects and cogeneration facilities. Additionally, CSU is exempted beginning with 2014/15 from the state Budget Act Section 6.00 that places a \$100,000 limit on GF appropriations that may be used for capital expenditures without Department of Finance approval.

The trailer bill also clarifies statute that requires CSU and UC to report on a list of performance measures for the preceding academic year by March 15.

Related to student success fees, [Section 89712](#) has been added to the California Education Code and requires the chancellor to conduct a review of the CSU student fee policy during 2014/15 related to student success fees and to recommend applicable changes to the BOT. The CSU is restricted from approving any new student success fees before 2016.

Also of interest to CSU are clarifications in statute of The Middle Class Scholarship (MCS) administered by the California Student Aid Commission (CSAC), which begins in 2014/15. The scholarship provides undergraduate students with family incomes up to \$150,000 a scholarship to cover a portion of the tuition fees at CSU. It is estimated that CSU students will receive approximately \$91M from the MCS in 2014/15, growing to over \$200M by 2017/18 as the program is phased in. CSAC is also expected to award an additional \$13M in Cal Grants in 2014/15 to CSU students due to a modest increase in Cal Grant B awards.

Following are references to the 2014/15 Final Budget:

- Budget Act of 2014 ([SB 852](#)) chaptered on June 20, 2014, Chapter Number 25
- Omnibus Higher Education Trailer Bill, [SB 860](#) (includes statute on middle class scholarship, March performance measures report, student success fees, and new statutory authority related to the use of GF support appropriation for capital expenditures and capital outlay projects)
- State of California, Department of Finance, 2014/15 Budget Links
 - [2014/15 Enacted Budget](#)
 - [CSU Detail of 2014/15 Governor's Budget](#)

Campus Enacted Budget Allocations Overview

The following table summarizes the CSU 2014/15 GF support appropriation in the Budget Act of 2014, Senate Bill (SB) 852:

2013/14 Budget Act GF Support Appropriation	\$2,330,500,000
Supplemental GF Appropriation for Adjustment in 2013/14 Retirement Rates	15,632,000
2013/14 Revised GF Support Appropriation	\$2,346,132,000
Lease Revenue Bond Debt Service Adjustments	8,543,000
State Interest Payment Adjustment	1,179,000
Fold In of CSU GO Bond Debt Service into CSU Main GF Appropriation	197,237,000
2013/14 GF Support Appropriation After Base Adjustments	\$2,553,091,000
2014/15 Programmatic GF Support Increase	142,222,000
2014/15 Center for California Studies GF Increase	442,000
2014/15 Final Budget GF Support Appropriation	\$2,695,755,000

The CSU final budget allocations also include a projected \$52.6 million increase in gross tuition fee revenue from increased FTES growth. After recognizing tuition fee discounts in the amount of \$11 million, the 2014/15 net projected tuition fee increase is \$41.6 million.

Additional adjustments in estimated tuition fee revenue have been made for year-to-year changes in nonresident student enrollment growth and reported student enrollment patterns (\$11.3 million) and for permanent recognition of 2013/14 enrollment target adjustments (\$7.3 million). The CSU systemwide resident enrollment target for 2014/15 is 346,050 FTES and campuses are expected to serve 15,568 nonresident FTES. The estimated 2014/15 net tuition fee revenue totals approximately \$1.6 billion which reflects minimum tuition fee discounts of \$644.3 million.

Permanent campus GF base budget adjustments shown on Attachment B are related to 2013/14 employer-paid retirement costs, 2013/14 compensation increases (e.g., faculty equity salary and full-year compensation cost adjustments), improving student success, CSU interest payments to the state, and changes in campuses' student financial aid based on systemwide relative need.

Budget year GF adjustments identified on Attachment C include campus distributions for enrollment growth, mandatory costs, and compensation. These allocations have been made to support campus mandatory costs obligations for employer health benefit costs for employees, the opening of new campus facility space, instructional growth for 8,339 current and new FTES, a 3% employee compensation pool increase, and expansion of student success and completion initiatives. An allocation has also been made to support systemwide debt service financing that will address CSU deferred maintenance and critical infrastructure needs.

As initially authorized in Section 3.60 of the Budget Act of 2013, state funding of CSU GF employer-paid retirement costs has changed. While the state's obligation per [Government Code Section 20814](#) to adjust retirement funding based on annual rates set by CalPERS is retained, the salary base used for application of the incremental rate changes will be fixed going forward to the CSU actual 2013/14 GF pensionable payroll as determined by the state this fall. This change is expected to have minimal impact to the CSU 2014/15 operating budget, and will be assessed further as future variables are updated.

Further descriptions of campus 2014/15 final budget allocations detailed in Attachments A through E are included in the Appendix A of this coded memorandum.

Questions concerning this memorandum and attachments can be directed to System Budget Office staff at (562) 951-4560. Reference the [staff directory](#) for additional contact information and areas of staff focus.

RS:RR:CC

Attachments

APPENDIX A

Attachment A – 2014/15 Final Budget Allocations, Gross Budget Summary

Attachment A summarizes the 2014/15 support budget adjustments specified on remaining attachments and includes the CSU 2014/15 total GF appropriation and tuition fee revenues. Campus tuition fee revenue adjustments as shown on Attachment A may be further revised by campuses for planning estimation purposes and the other fee revenue is expected to be updated in campus final budget submittals.

Attachment B – 2014/15 Final Budget Allocations, General Fund Base Adjustments

Base budget adjustments address modifications to the GF allocation that campuses received in the 2013/14 final budget (reference Coded Memo B 2013-02). The CSU GF appropriation in the 2013/14 Final Budget enacted last June totaled \$2,330,500,000. After GF base adjustments, the revised GF base for 2014/15 is \$2,553,091,000, which includes \$197.2 million of general obligation bond debt service shifted from statewide expenditures to the CSU main GF appropriation. This is before CSU 2014/15 GF adjustments. The GF base adjustments are further described below.

❖ Retirement Adjustment

Each year CalPERS adjusts employer-paid contribution rates to maintain the actuarial soundness of the system and meet defined benefit pension obligations. The distribution of the 2013/14 \$15.6 million retirement adjustment by campus is based on the changes in CalPERS employer-paid retirement rates from 2012/13 to 2013/14 applied to the campus actual 2nd quarter, CSU Operating Fund pensionable salaries (annualized) as submitted monthly by campuses to the System Budget Office, Employee Salary Projection system. The allocations may be adjusted further after reconciliation with the state on the full-year 2013/14 pensionable payroll amount, which is expected in fall 2014. The 2012/13 to 2013/14 State Miscellaneous First Tier rates increased from 20.503 percent to 21.203 percent and the State Peace Officer / Firefighter rate increased from 30.297 percent to 31.320 percent (CSU covers the additional 8 percent employee contribution rate for traditional Unit 8 members).

The 2014/15 State Miscellaneous First Tier rate is 24.280 percent and State Peace Officer / Firefighter rate is 36.827. The state Department of Finance will process a 2014/15 GF appropriation retirement adjustment before the end of the 2014/15 fiscal year and related allocations will occur at that time. The future state funding of CSU GF employer-paid retirement costs has changed slightly as initially reflected in Section 3.60 of the Budget Act of 2013. While the state's obligation per [Government Code Section 20814](#) to adjust retirement funding based on annual rates set by CalPERS is retained, the salary base used for application of the incremental rate changes will be fixed going forward to the CSU actual 2013/14 GF pensionable payroll as determined by the state this fall. This change is expected to have minimal impact to the CSU 2014/15 operating budget, and will be assessed as future variables are updated.

❖ 2013/14 Compensation Base Adjustments (Faculty Equity Salary Adjustment, 1.34 Percent Compensation Increase Pool, Full-Year Compensation Adjustments)

The 2014/15 final budget allocations make permanent the \$1.3M 2013/14 faculty equity compensation increase, \$38M 2013/14 1.34 percent compensation pool, and 2013/14 full-year compensation cost adjustments. One-time allocations occurred during the 2013/14 fiscal year for these compensation increases and become permanent base in the 2014/15 budget allocations.

❖ Improving Student Success / Reduction of Bottleneck Courses Adjustments

The 2014/15 budget allocations make permanent the \$7.2 million 2013/14 funding for improving student success awarded by the Chancellor's Office (C.O.) in July 2013 following a request for proposal process. One-time allocations occurred in the fall and become permanent base in the 2014/15 budget allocations. The distribution of funds for approved initiatives to reduce bottleneck courses will continue to be determined through the request for proposal process managed by the C.O. Academic Affairs division and related funding is moved from Systemwide Provisions (SWP) to the C.O.

❖ Other Base Adjustments

Other base budget adjustments include base adjustments from SWP to the C.O. (\$2.6 million) and to fund 2013/14 base enrollment adjustments (\$5.8 million) for three campuses (i.e. Channel Islands, Maritime, and San Bernardino). Also shown here is the base adjustment in the 2014/15 Final Budget to move \$197.2 million of general obligation bond debt service for statewide capital expenditures to the CSU main GF appropriation and to increase lease revenue bond debt service adjustments by \$8.5 million.

❖ Campus Operating Revenue Interest Assessment

Campuses reimburse CSU system operations for interest earning distributions assessed by the state on student fee revenue held in trust. The total CSU 2014/15 operating revenue interest assessed (\$1.804 million) is \$1.179 million less than the 2013/14 assessment of \$2.983 million representing a return to the CSU. The interest assessment has occurred since 2006/07 when CSU higher education fee revenue moved from a state fund to the CSU local Trust Fund. The CSU interest payment obligation is in budget statute and is meant to keep the state whole for interest earned on student fee revenue held in trust. The distribution by campus is based on the campus operating revenue that includes tuition and other fee revenue reported in 2013/14 FIRMS final budget submissions. The interest cost is calculated using the most recent Surplus Money Investment Fund (SMIF) interest rates.

❖ Tuition Fee Discounts, GF Adjustments based on Campus Relative Student Need

The difference between tuition fee discount increases (i.e. Attachment D: 2014/15 enrollment growth marginal cost financial aid of \$1,318 per FTES) and the updated total tuition fee discounts distribution based on student financial aid need and enrollment targets (Attachment E) results in GF allocation adjustments by campus.

Attachment C – 2014/15 Final Budget Allocations, CSU General Fund Adjustments

The CSU expenditure adjustments on Attachment C include campus distributions for enrollment growth, mandatory costs, and approximately half of the compensation increase. The 2014/15 Final Budget allocation includes funding that will be held centrally for deferred maintenance / critical need financing (\$10M) and student access, success, and completion initiatives (\$17M). The \$10M for deferred maintenance will be dedicated to pay the debt service on bonds for approximately \$130M of the university's most pressing facility repairs. Campus allocations for student access, success, and completion initiatives will be determined after an RFP process by the Chancellor and the Executive Vice Chancellor / Chief Academic Officer. CSU priorities are funded with both GF and tuition fee revenue increases from enrollment growth and changes in student enrollment patterns that CSU expects during the fiscal year.

❖ Enrollment Growth Funding

The 2014/15 final budget allocations assume 8,339 resident FTES growth (2.47 percent), bringing the 2014/15 systemwide resident FTES target to 346,050. Distribution of enrollment targets by campus is based on consultation with campus presidents. The 2014-15 budget allocates \$61M in additional resources to support opportunities that will increase campuses' enrollment for roughly 10,000 current and new students. The 2014/15 marginal cost rate is \$9,737 per FTES (GF and tuition fees). Campuses may use this systemwide rate in determining

resource allocations that satisfy enrollment growth projections for fiscal year 2014/15, as necessary.

The 2014/15 resident student Marginal Cost of Instruction rate by program area is detailed in the following table:

2014/15 Support Budget, Marginal Cost of Instruction (MC)

Program	2014/15 General Fund MC Factor Per FTES	2014/15 Net¹ Tuition Fees MC Factor Per FTES	2014/15 Total² MC Factor Per FTES
Instruction	\$4,329	\$1,192	\$5,521
Research	0	0	0
Public Service	0	0	0
Academic Support	793	382	1,175
Student Services	661	309	970
Institutional Support	739	337	1,076
Operation and Maintenance of Plant	486	416	902
Student Financial Aid	0	0	0
Net MC Totals	\$7,008	\$2,636	\$9,644
Instructional Equipment (I.E.)	93	0	93
Totals with I.E.	\$7,101	\$2,636	\$9,737
2014/15 Total Marginal Cost of Instruction			\$11,055
Less: MC Financial Aid (Tuition Fee Discounts)			(\$1,318)
2014/15 Total Marginal Cost of Instruction without MC Financial			\$9,737
Net MC Tuition Fee Revenue			(\$2,636)
MC General Fund Support			\$7,101

¹ MC tuition fees support net of forgone financial aid; 2014/15 budget allocations incorporate projected campus NET revenue from enrollment growth.

² Based on most-recent budget year MC expenditures increased by 2.1 percent CA-CPI.

❖ **Mandatory Costs Increases**

Attachment C includes adjustments for increases in CSU mandatory costs related to changes in health premiums and operations and maintenance of new space.

➤ **Health Benefits**

The estimated annualized cost to fund employer-paid health care benefit premium rate increases effective in January 2014 is \$12.1 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) 2012/13 actual state support health benefits expenditures. For additional information regarding January 2014 health premium costs, please reference Human Resources benefits technical letter [2013-09](#).

➤ New Space

The 2014/15 budget allocations include \$1.6 million to fund regular operations and maintenance of 2014/15 new space. Regular operations and maintenance of new space include the cost of utilities, building maintenance, custodial, landscape, and administrative support. The CSU is scheduled to open a total of 152,864 square feet in 2014/15. Funding of regular operations and maintenance is provided at the new space rate of \$10.45 per square foot in 2014/15. More information on campus facilities with new space need is provided in [2014/15 Support Budget supplemental documentation](#).

❖ 2014/15 Compensation Increase Pool

At this time, approximately \$46M of the \$92.6M (3 percent) 2014/15 compensation increase pool is distributed by campus based on the percentage share of the most recent past year actual (currently 2012/13) CSU state-support salaries reported. The balance is held centrally pending outcomes of 2014/15 collective bargaining at which time the campus final 2014/15 compensation allocations will occur. Actual compensation increases for represented employee groups are determined by negotiations between collective bargaining units and CSU Systemwide Human Resources.

❖ Tuition Fee Revenue Offsets

When budget allocations include both GF and tuition fee revenue increases to cover CSU budget plan adjustments, then the incremental tuition fee revenue is applied first to offset the gross need and the balance is covered by GF available. Attachment C incorporates both the 2014/15 net tuition fee revenue increase from 2014/15 enrollment growth and tuition fee revenue from the changes in student enrollment patterns.

Attachment D – 2014/15 Final Budget Allocations, Tuition Fee Revenue Adjustments

This coded memo includes tuition fee revenue adjustments related to changes in student enrollment patterns and 8,339 FTES resident growth systemwide. The enrollment included in budget plan tuition fee revenue projections encompasses the 2014/15 budgeted resident enrollment target of 346,050 FTES along with 15,568 nonresident FTES for a total of 361,618 FTES. Nonresident FTES is based on the most recent past-year actual (2012/13).

The following table summarizes the projected 2014/15 tuition fee revenue adjustments as shown in Attachment D. In addition to tuition fee revenue increases from enrollment growth, adjustments in estimated tuition fee revenue result from year-to-year changes in nonresident students' enrollment (1,240 FTES growth) and reported student enrollment patterns, as well as 2013/14 base resident FTES target adjustments.

	Gross Tuition Fee Revenue Adjustments	Tuition Fee Discounts / Financial Aid Set-Aside	2014/15 Net Tuition Fee Revenue Adjustments
2014/15 Tuition Fee Revenue Adjustments			
Change in Student Enrollment Patterns	\$11,252,000		\$11,252,000
2013/14 Base FTES Target Adjustments	7,256,000		7,256,000
2014/15 Enrollment Growth	52,622,000	(10,991,000)	41,631,000
Total 2014/15 Tuition Fee Revenue Adjustments	\$71,130,000	(\$10,991,000)	\$60,139,000

Following is a summary of the 2014/15 academic year tuition fee rates that are the same as 2011/12 tuition fee levels:

Tuition Fee Academic Year Rates	2014/15
Undergraduate Programs	
6.1 or more	\$5,472
0 to 6.0	\$3,174
Credential Programs	
6.1 or more	\$6,348
0 to 6.0	\$3,684
Graduate and Other Post-Baccalaureate Programs	
6.1 or more	\$6,738
0 to 6.0	\$3,906

Attachment E – 2014/15 Final Budget Allocations, Tuition Fee Discount Adjustments

Attachment E provides the total 2014/15 tuition fee discount allocations by campus with an approximate \$11 million increase related to 2014/15 enrollment growth as shown in the 2014/15 tuition fee revenue adjustments in Attachment D. The tuition fee discount distribution by campus is based on 2014/15 tuition fee levels, campus 2014/15 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 tuition fee discounts allocations are calculated after allowances for tuition fee waivers and Cal Grant fee awards.

Campus tuition fee discount allocations recognize the distribution of financial need for both the highest need students and students with family contributions between \$4,001 through \$11,500. While the allocation methodology aims to cover tuition fees for students with the highest level of need, systemwide financial aid policy enables campuses to make awards to eligible students with family contributions up to 50 percent of the cost of attendance for a student living off campus (approximately \$11,500). Questions about the tuition fee discounts 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.