



CSU The California State University



2012 - 2013
**SUPPORT
BUDGET**



Approved by the CSU Board of Trustees on November 16, 2011

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California and the nation remain in the midst of the most enduring and deep economic crisis since the Great Depression, and the ability of the state to adequately fund higher education and other public programs has diminished greatly. The California State University is in its fourth year of fiscal crisis, with annual state support down by \$868 million from the peak level of 2007/08 and the university facing the possibility in December 2011 of another \$100 million “trigger” cut. If the “trigger” cut occurs, state support of the CSU will have declined by one-third.

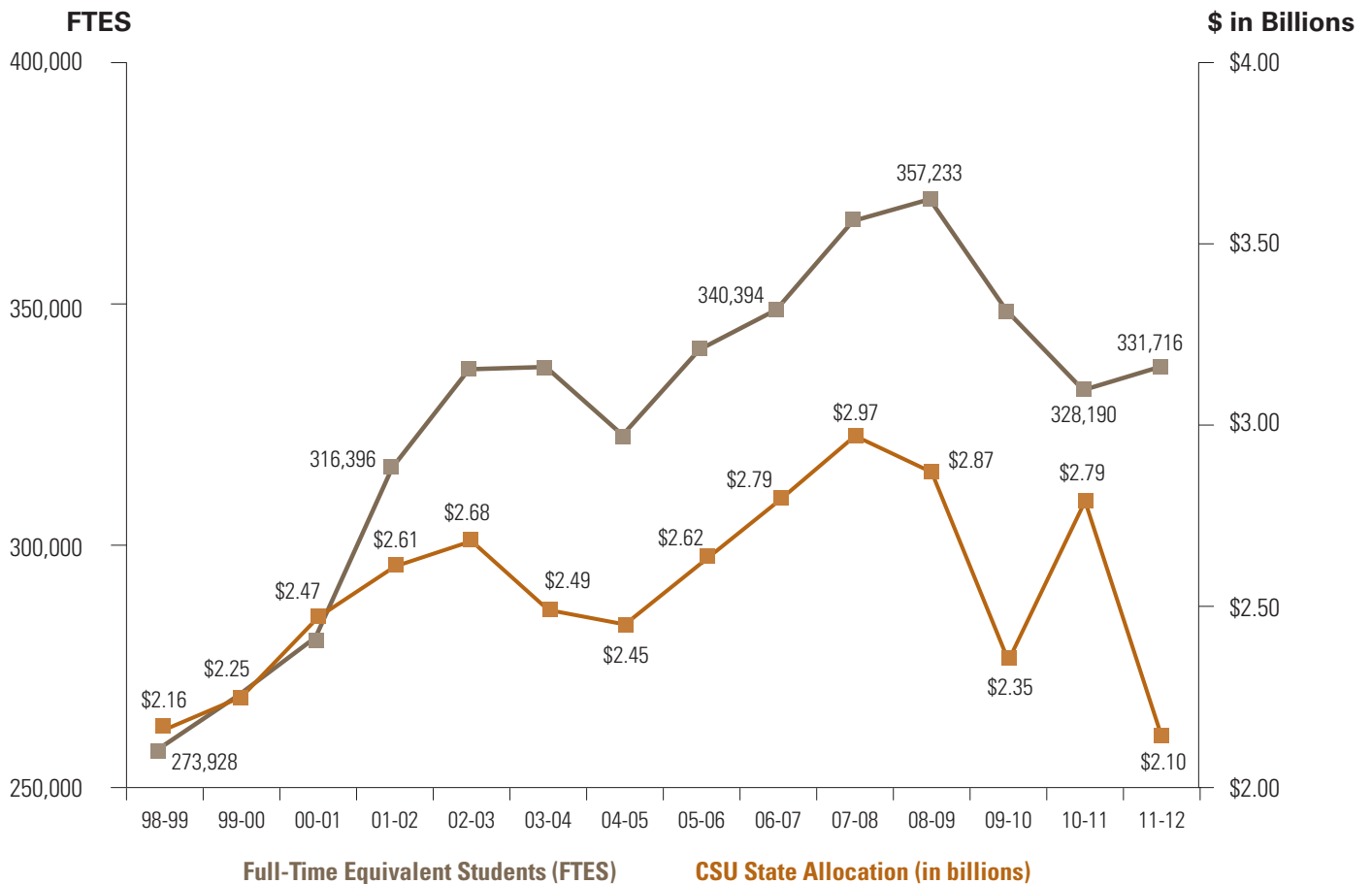
With these unprecedented challenges, our efforts remain focused on maintaining the quality of instruction and services to students. We know that the state will continue to face fiscal challenges in 2012/13. California’s economic recovery and its longer-term economic and social future, however, depend on the state reinvesting in its people through higher education. This support budget request for 2012/13 is an important statement by the CSU Board of Trustees of what the university needs to fulfill its mission to the people of California during a time of fiscal challenge. The CSU graduated 98,895 students in 2010/11, addressing workforce needs in critical sectors such as agriculture, engineering, technology, media and computer science. There is a pressing demand for student access to the CSU, including a great need to accommodate growing numbers of community college transfers. All of this—access to education and the preparation of the state’s future workforce—depends on the state reinvesting in this great “university of the people.” This budget request is the next necessary step in this process of reinvestment.

Charles B. Reed
Chancellor
California State University

California’s near-term and long-run prospects for economic recovery and prosperity, and for social cohesion and harmony, depend on the ability of its higher education institutions to sharply boost the numbers of Californians attaining higher education degrees. Despite the state’s fiscal condition, the CSU has legitimate funding needs in order to carry out its critically important missions for California. The 2012/13 support budget is tempered by recognition of the state’s ongoing fiscal challenge, yet represents a credible statement of the university’s key funding needs.

The 2011/12 Budget Act cut the CSU General Fund appropriation by \$650 million to a level of \$2.10 billion. This funding level could fall further to \$2.0 billion if a mid-year \$100 million “trigger” reduction occurs. The 2011/12 level of funding is similar to 1998/99 (13 years earlier) when the CSU General Fund appropriation was \$2.16 billion. However, this comparison makes no adjustment for inflation. Moreover, in 2011/12, the CSU is teaching 58,000 more California resident, full-time equivalent students (FTES).

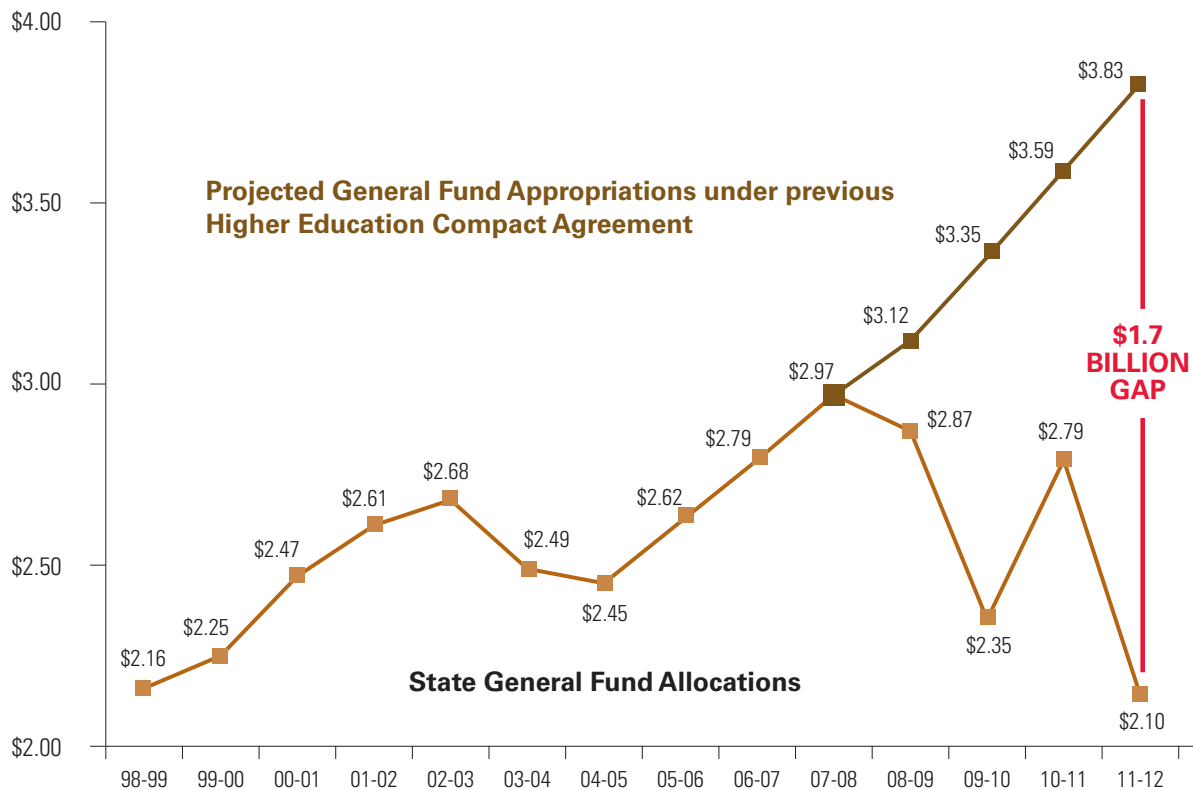
STATE APPROPRIATION AND FTES FROM 1998/99 TO 2011/12



The 2005/06 through 2010/11 Higher Education Compact between the governor, the University of California and the California State University was not fulfilled in the last three years of the compact. This results in a \$1.7 billion gap in state funding for the CSU projected out to 2011/12 compared to the needs and funding levels envisioned in that compact.

CSU STATE SUPPORT VERSUS HIGHER EDUCATION COMPACT FUNDING AGREEMENT

\$s in Billions



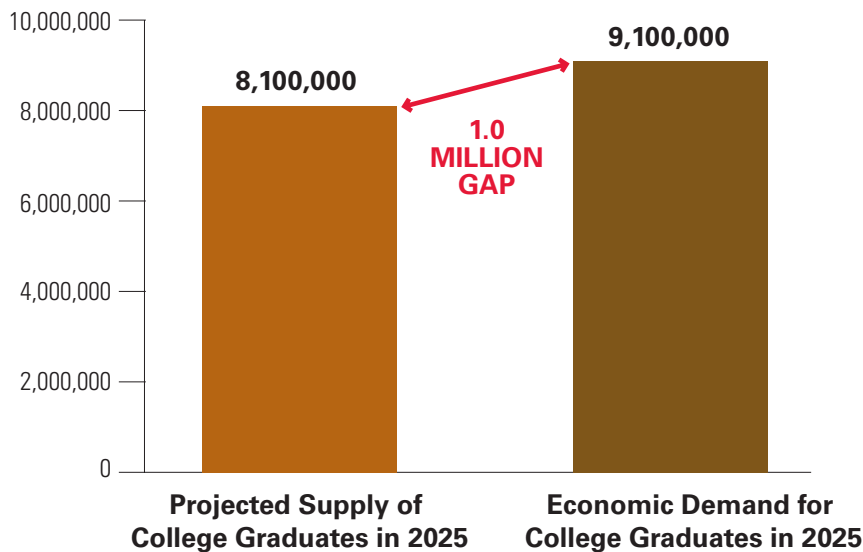
The prolonged funding crisis has forced the CSU into an increasing reliance on tuition fees. However, increased tuition fee revenues have not fully covered state funding losses. For example, increased tuition fee revenues offset less than half of the \$650 million state funding cut for 2011/12.

CSU campuses and the Chancellor's Office have responded to the fiscal crisis with a wide range of efficiencies and cost-cutting measures, including enhanced use of technology and shared services. For example, implementation of a common financial system is saving about \$1 million annually by eliminating duplicative technology upgrades and maintenance at 23 different locations. The CSU has recently started collaborative procurement systems and consortia, partnering with universities in California and other states, to leverage the combined buying power and secure better prices on a wide range of products. San José State University has converted its emergency dispatch/communication center into one shared operation with the California Maritime Academy and two local community colleges, at considerable annual savings. Similar savings are being achieved at CSU San Bernardino by sharing dispatch operations with three local community colleges. Throughout the system, campuses are reprioritizing faculty "release" time in order to allocate more faculty hours to instruction. These are just a few examples of appropriate steps being taken to do more with less.

In many cases, however, the measures that have been taken to reduce spending cannot be sustained indefinitely without negative impacts to the quality of instruction and services to students. This budget plan is based on continuing those cost-reduction strategies that are sustainable, while restoring resources where they are most needed to provide access and quality programs and services to students.

Studies by the Public Policy Institute of California (PPIC) have projected that California will face a shortage of approximately one million college-educated workers by 2025 unless very strong initiatives are undertaken to boost the production of college graduates. A 2009 PPIC report finds that "...colleges and universities in California would need to increase the production of baccalaureates by almost 60,000 per year (about 40 percent above current levels) to meet projected economic demand by 2025." Any hope of addressing this urgent problem depends on the CSU, which currently awards almost one-half of all baccalaureate degrees in the state and almost one-third of all master's degrees. The PPIC reports identify the critical economic need for state investment in higher education. As the 2009 PPIC reports observed, "as the state's economy has become increasingly reliant on highly skilled workers, a confluence of trends—the retirement of baby boomers, and demographic shifts toward groups with historically low rates of college attendance—makes these investments all the more crucial to the state's continued economic success."

PUBLIC POLICY INSTITUTE OF CALIFORNIA 2009 REPORT ON CLOSING THE GAP: MEETING CALIFORNIA'S NEED FOR COLLEGE GRADUATES



THREE-YEAR BUDGET SUMMARY AND HIGHLIGHTS

	2010/11 Actuals	2011/12 Final Budget (Adjusted)	2012/13 Request
CSU General Fund Appropriations ¹	\$2,577,638,000	\$2,102,751,000	\$2,435,621,000
2010/11 One-Time Shift from GF to Federal Funds ¹	106,553,000	0	0
Tuition Fee and Other Fee Revenue (net) ²	1,516,844,000	1,871,386,000	1,935,778,000
Reimbursement	0	1,000	1,000
Totals	\$4,201,035,000	\$3,974,138,000	\$4,371,400,000
Enrollment Growth, Programs, and Operations			\$327,881,000
Replace Revenue Loss (AB131)			4,500,000
Sub-total General Fund Increase			332,381,000
Center for California Studies			489,000
Total General Fund Increase			\$332,870,000
Net Tuition Fee Revenue Adjustments ³			64,392,000
Total Sources of Revenue			\$397,262,000

¹ In 2010/11, the state shifted \$106.6 million of costs to the federal American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund. The CSU 2011/12 GF Final Budget Act Appropriation was \$2,141,273,000 and is adjusted to include the estimated 2011/12 employer-paid retirement adjustment of minus \$38,521,000 and \$766 claims adjustment.

² Includes tuition fee revenue and other CSU Operating Fund fee revenue reduced by the amount of tuition fee revenue forgone from State University Grant (SUG) awards; reference the revenue forgone in the last table in this section.

³ This represents the change in enrollment patterns and enrollment growth revenue net of financial aid.

HIGHLIGHTS—USES OF THE 2012/13 CSU SUPPORT BUDGET INCREASE

- \$ 26.3 million for mandatory cost increases (health benefits, new space, and energy)
- \$ 154.9 million for 5 percent enrollment growth
- \$ 85.0 million for a 3 percent compensation increase pool
- \$ 58.0 million for Graduation Initiative and Student Access
- \$ 30.0 million for urgent maintenance needs
- \$ 20.0 million for information technology infrastructure upgrade and renewal
- \$ 22.6 million for instructional equipment replacement
- \$ 0.5 million for Center for California Studies

THREE-YEAR BUDGET SUMMARY BY PROGRAM

	2010/11 Actuals	2011/12 Final Budget (Adjusted)	2012/13 Request
Instruction	\$1,860,298,000	1,852,149,000	\$1,852,149,000
Research	6,767,000	3,560,000	3,560,000
Public Service	8,931,000	8,513,000	8,513,000
Academic Support	503,815,000	484,663,000	484,663,000
Student Services	514,145,000	452,093,000	452,093,000
Institutional Support	664,729,000	574,147,000	574,147,000
Operation and Maintenance of Plant	582,630,000	524,230,000	524,230,000
Student Grants and Scholarships (without SUG from forgone fees)	59,720,000	74,782,000	74,782,000
Reimbursement	0	1,000	1,000
Provisions for Allocation	0	0	397,262,000
Gross Expenditures	\$4,201,035,000	\$3,974,138,000	\$4,371,400,000

THREE-YEAR SUMMARY OF STATE UNIVERSITY GRANTS AND
TUITION FEE WAIVERS/REVENUE FORGONE

	2010/11 Actuals	2011/12 Budget	2012/13 Budget
State University Grants (SUG) (Forgone from Tuition Fees) ¹	\$431,007,000	\$577,421,000	\$577,421,000
2012/13 SUG Adjustment from Enrollment Growth	0	0	20,981,000
Tuition Fee Waivers ²	43,868,000	53,868,000	53,868,000
Total SUG and Tuition Fee Waivers Revenue Forgone	\$474,875,000	\$631,289,000	\$656,770,000

¹ SUG covers tuition fees for eligible students with financial need. Amounts awarded reflect forgone tuition fee revenue for the CSU. There is an additional \$33.8 million SUG funded by General Fund appropriation.

² Includes the campus tuition fee waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08). Amounts awarded reflect forgone Tuition Fee revenue for the CSU.

SOURCES OF FUNDS AND EXPENDITURE AUGMENTATIONS

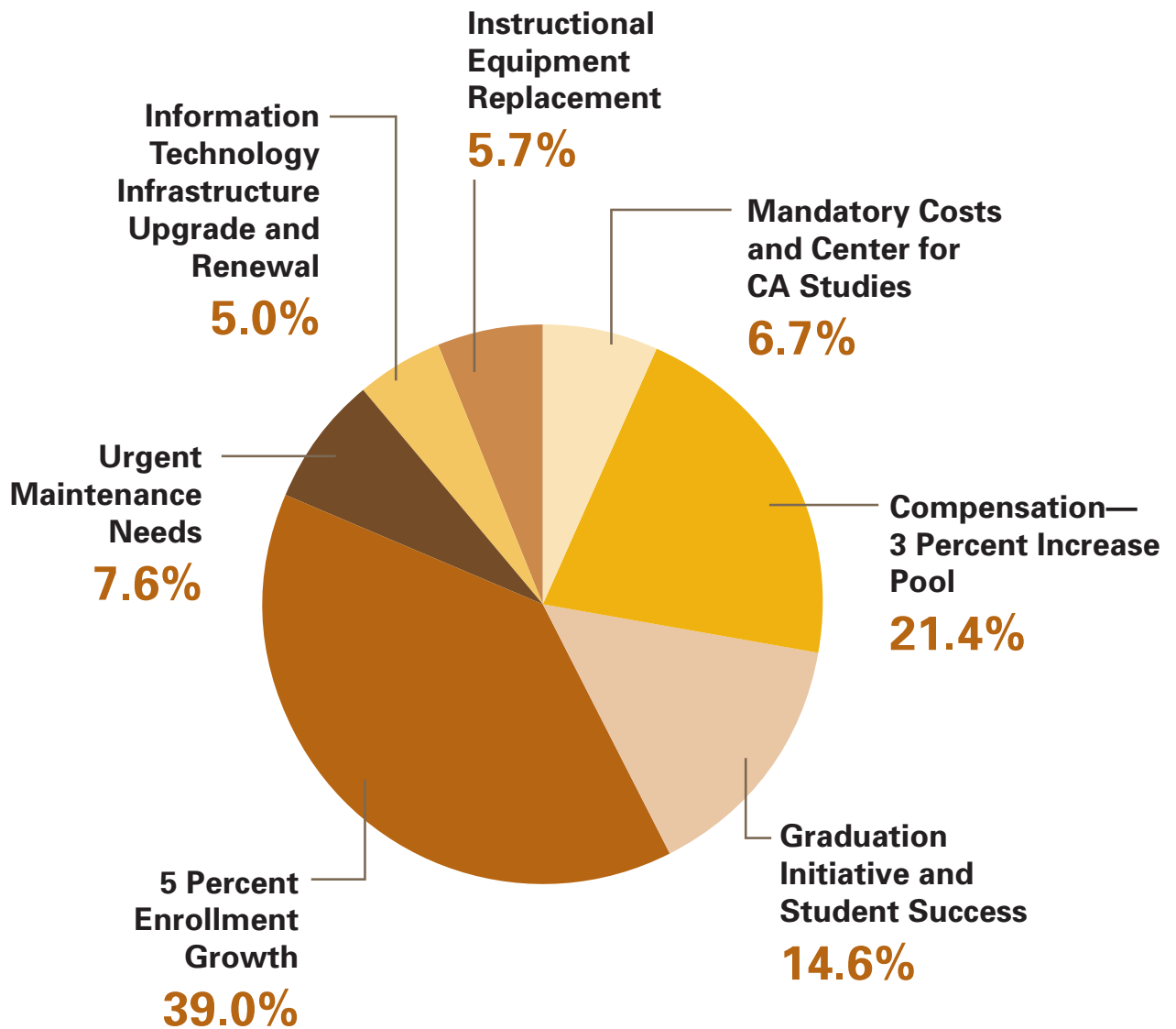
SOURCES OF FUNDS

GENERAL FUND INCREASE	\$332,870,000
5 Percent Enrollment Growth, Programs, and Operations	327,881,000
Financial Aid (Enacted Legislation, AB 131)	4,500,000
Center for California Studies	489,000
NET TUITION FEE REVENUE ADJUSTMENTS	\$64,392,000
Change in Enrollment Patterns	(15,576,000)
Revenue Loss Due to Enacted AB131	(4,500,000)
5 Percent Enrollment Growth (16,586 FTES Base Revenue)	84,468,000
TOTAL REVENUE INCREASE	\$397,262,000

EXPENDITURE AUGMENTATIONS

MANDATORY COSTS	\$26,256,000
Compensation Related	
Health Benefits	15,086,000
Other Increases	
New Space (2011/12 & 2012/13)	6,570,000
Energy	4,600,000
COMPENSATION—3 PERCENT INCREASE POOL	\$84,978,000
GRADUATION INITIATIVE AND STUDENT SUCCESS	\$58,000,000
5 PERCENT ENROLLMENT GROWTH	\$154,930,000
(includes Marginal Cost Calculation GF and Net Tuition Fee Revenue Uses)	
URGENT MAINTENANCE NEEDS	\$30,000,000
INFORMATION TECHNOLOGY INFRASTRUCTURE UPGRADE AND RENEWAL	\$20,000,000
INSTRUCTIONAL EQUIPMENT REPLACEMENT	\$22,609,000
CENTER FOR CALIFORNIA STUDIES	\$489,000
TOTAL EXPENDITURE INCREASE	\$397,262,000

DISTRIBUTION OF EXPENDITURE INCREASES





The 2012/13 California State University Support Budget includes a \$332.9 million increase to the current CSU \$2.1 billion General Fund (GF) base for a total of \$2.4 billion. This level of state funding represents a modest increase to move the CSU towards traditional state-supported funding levels. The \$332.9 million General Fund requested increase for 2012/13 budget is comprised of the following:

- \$327,881,000 to fund 5 Percent enrollment growth, programs, and operations;
- \$4,500,000 to replace tuition fee revenue loss due to increased financial aid provisions of recently enacted legislation, AB 131; and,
- \$489,000 to fund annual cost increases for the state Center for California Studies capitol fellows program.

The CSU 2012/13 budget plan also adjusts tuition fee revenue for changes in student enrollment patterns, such as changes in relative numbers of graduate and undergraduate students and full-time and part-time students. It also reflects tuition fee revenue loss associated with implementation of AB 131, as well as tuition fee revenue from the recommended 5 percent resident student enrollment growth. The net change in tuition fee revenue (after adjusting for forgone revenue associated with financial aid) due to these factors is \$64,392,000 as summarized below:

- Change in Enrollment Patterns (\$15,576,000)
- Revenue Loss Due to AB131 (\$4,500,000)
- 5 Percent Enrollment Growth \$84,468,000
(16,586 FTES Base Revenue)

The total 2012/13 support budget plan increase in sources of funds is \$397.3 million.

State General Fund Increase	\$332,870,000
Tuition Fee Revenue Adjustments	\$64,392,000
TOTAL	\$397,262,000

GENERAL FUND PROGRAMS AND OPERATIONS

The 2012/13 CSU budget request is based on a General Fund increase of \$332.9 million and tuition fee revenue adjustments of \$64.4 million to fund the cost of budget plan expenditure augmentations for mandatory costs, enrollment growth, employee compensation, academic programs, urgent maintenance, technology, and instructional equipment needs. The General Fund increase includes funding for the Center for California Studies. These cost increases are detailed in the next section.

5 PERCENT ENROLLMENT GROWTH

The 2012/13 budget plan General Fund augmentation supports a 5 percent increase in state-supported student enrollment. This funding will sustain the CSU's ability to address California's higher education demand and increase CSU student enrollment above its 2011/12 base.

CSU enrollments are once again on an upward trajectory, following emergency enrollment restrictions necessitated by the sharp funding reduction of the 2009/10 fiscal year. Many CSU campuses experienced record levels of applications and enrollments in the most recent term (fall 2011). Demand for transfer from community colleges to the CSU remains extraordinarily high. Increasing enrollment from the current state-funded level of 331,716 California resident FTES by 5 percent to a new level of 348,302 is entirely feasible, given adequate support from the state. Restoring full access to baccalaureate and master's instruction at the CSU is a vital and urgently needed investment by the state for the sake of student access and for the sake of California's economic recovery and workforce development.

Based on the state-approved marginal cost methodology, the 2012/13 estimated gross marginal cost rate of instruction has been calculated at \$10,606 per FTES. The General Fund share of this rate is \$6,812. The tuition fee revenue share of this rate is \$2,529, which reflects a one-third set aside (\$1,265) for forgone revenue associated with student financial aid.

2012/13 Total Marginal Cost of Instruction	\$10,606
Less: Forgone Financial Aid	(\$1,265)
2012/13 Marginal Cost after Forgone Financial Aid	\$9,341
Net Tuition Fee Revenue	(\$2,529)
GENERAL FUND SUPPORT	\$6,812

The 2012/13 net marginal cost support for enrollment growth (\$9,341 per FTES) for the proposed 5 percent enrollment growth (16,586 FTES) equates to \$154.9 million.

While beneficial marginal cost components were added in 2006/07, the state Department of Finance (DOF), the Legislative Analyst's Office (LAO), the University of California (UC), and the California State University have yet to agree on a single methodology that results in consistent marginal cost funding rates. The CSU will continue to participate in the review of the marginal cost calculation methodology with the DOF, LAO, and UC and strive for a consistent annual methodology that will adequately cover the cost of enrollment growth.



2012/13 TUITION FEE REVENUE

A revenue adjustment of -\$15.6 million will be reflected in 2012/13 campus revenue assumptions due to changes in resident and nonresident enrollment patterns used in 2011/12 revenue calculations. CSU tuition fee revenue projections are based on the most recent past-year student classification and fee paying distribution patterns, and adjustments are made annually to account for the year-to-year change in revenue assumptions. The most recent past-year data available for 2012/13 calculations are for the 2010/11 college year.

In October 2011, Governor Brown signed AB 131, one component of the California Dream Act. Among other provisions, this new law provides eligibility to a new group of students for institutional financial aid at the CSU and other public higher education segments. This new group of students includes individuals who are not currently residents of California, but who attended at least three years of high school in California and meet other specified conditions under state law. We estimate that roughly 2,000 students will qualify for State University Grants beginning with the winter and spring terms of 2013. Since State University Grants result in a loss of tuition fee revenue to CSU campuses, we estimate that the new law will result in a tuition fee revenue loss of roughly \$4.5 million in 2012/13 and about \$9 million annually thereafter. This budget plan proposes that the state replace this revenue loss.

Additionally, a 5 percent increase in resident FTES enrollment (16,586 FTES) is projected to generate \$84.5 million in new tuition fee revenue, which reflects a one-third set-aside of forgone revenue associated with students receiving CSU grant aid.



The 2012/13 California State University Trustees' Support Budget recommends an expenditure plan based on General Fund and tuition fee revenue increases to cover the cost of expenditure augmentations. The expenditures outlined below address the university's fundamental priorities for the 2012/13 fiscal year. These include increases for mandatory costs, employee compensation, the CSU Graduation Initiative and Student Success programs, enrollment growth, urgent maintenance needs, information technology infrastructure upgrade and renewal, instructional equipment replacement, and the Center for California Studies.

MANDATORY COSTS, \$26,265,000

Mandatory costs are expenditures the university must pay regardless of the level of funding appropriated by the state. These costs include increases for employee health benefits, operations and maintenance of newly constructed space, and energy. Without funding for mandatory cost increases, campuses would be required to redirect existing resources from other program areas to meet these obligations. In order to preserve the integrity of CSU programs, the 2012/13 support budget plan provides for the following increases in mandatory cost obligations.

Mandatory Costs	
Health Benefits	\$15,086,000
New Space (2011/12 & 2012/13)	\$6,570,000
Energy	\$4,600,000
Total	\$26,256,000

The CSU already has absorbed approximately \$125 million of mandatory cost increases since 2007/08, in addition to a decline in state appropriation of \$868 million. Given this history, each additional dollar of unfunded mandatory cost increase necessarily comes at the expense of vital programs and operations.



GRADUATION INITIATIVE AND STUDENT SUCCESS, \$58,000,000

The 2012/13 support budget includes \$58 million to facilitate degree completion and student success to close achievement gaps at CSU campuses. The \$58 million funding for the CSU Graduation Initiative and Student Success programs will allow the university to begin to restore critical services such as advising, and put in place additional programs focused on student success to build on the CSU's strong track record for outreach, access, and educational excellence, and focus on bringing every student to successful degree completion.

These funds will be used in three major program areas:

1. **Academic Advising** – \$13.8 million to provide significant enhancements to the current academic advising structure available to CSU students and clearer pathways to CSU graduation from the community college.
2. **Student Preparation** – \$35.7 million to provide essential support to help incoming freshmen attain college readiness before arriving on a CSU campus, and provide underserved CSU students with resources that greatly increase their likelihood to persist to a college degree.
3. **Academic Programs** – \$8.5 million for academic programs that have a positive impact on improving graduation rates, lowering the cost of textbooks, and closing the achievement gap.

Consideration will be given for campuses to fill vacancies in tenure/tenure-track faculty positions as a means of improving academic advising and academic programs, given the important roles these positions play in these areas.

California's near-term and long-run prospects for economic recovery and prosperity, and for social cohesion and harmony, depend on the ability of its higher education institutions to sharply boost the numbers of Californians attaining higher education degrees. Studies by the Public Policy Institute of California have projected that California will have 1 million fewer college graduates than it needs by 2025, based on recent trends. Any hope of addressing this urgent problem depends on the CSU, which currently awards almost one-half of all baccalaureate degrees in the state and almost one-third of all master's degrees. Thus, improvements in graduation rates at the CSU have the potential for maximum effect across the state. Relatively modest investments by the state, including this \$58 million request, would improve the "degree productivity" of the state's higher education expenditures and would leverage major dividends for California's economic future.



3 PERCENT COMPENSATION INCREASE POOL, \$84,978,000

The CSU Board of Trustees recognizes compensation for faculty, staff, and management as a key element of the university's success. The ability to offer a competitive compensation package is essential to the CSU's ability to recruit and retain faculty, staff, and management employees who contribute to the CSU's mission of excellence.

At this juncture, there are critical salary-related concerns across CSU employee groups that require attention by CSU leadership and in the collective bargaining process. Lack of funding has prevented the CSU from providing general compensation increases since June 30, 2008, in the case of faculty, and since July 1, 2007, in the case of all other CSU employees. Faculty and staff also experienced over 9 percent salary reductions during 2009/10 corresponding with a furlough program that fiscal year. This initial investment to make progress toward competitive salaries for faculty and staff will place the CSU in a stronger position to fulfill its primary mission of providing accessible higher education that maintains quality, which supports the state's ability to fill jobs and help the economy recover.

The CSU plans to use approximately \$85 million to fund a 3 percent compensation pool, subject to collective bargaining, for all employee groups, effective July 1, 2012. The 2012/13 cost of each 1 percent compensation increase is based on 2011/12 final budget salaries and salary-related benefits (OASDI, Medicare, and retirement) and is summarized in the following table.

Estimated 2012/13 Cost of 1 Percent Compensation Increase

	2011/12 Final Budget Compensation (Adjusted ¹)	2012/13 Cost of 1% Increase
Faculty	\$1,426,473,000	\$14,265,000
Staff	1,406,094,000	14,061,000
Total	\$2,832,567,000	\$28,326,000
Cost of 3% Increase		\$84,978,000

¹ The compensation base is adjusted for changes in employer-paid retirement rates. The CalPERS member categories for State Miscellaneous-Tier 1 and State Peace Officer/ Firefighter, respectively, decreased from the 2010/11 composite rates of 18.725 percent and 28.7215 percent to 2011/12 rates of 18.175 percent and 27.415 percent.



5 PERCENT ENROLLMENT GROWTH, \$154,930,000

The 2012/13 budget plan includes 5 percent enrollment growth of 16,586 California resident FTES from a 2011/12 resident FTES base of 331,716.

2012/13 Full-time Equivalent Students Enrollment Target

2012/13 Resident FTES Base	331,716
2012/13 Resident Student Enrollment Growth (5%)	<u>16,586</u>
2012/13 Total Resident FTES	348,302

This enrollment growth will be funded using a marginal cost rate of \$9,341 per FTES. The total funding required to sustain direct instruction, academic support, student services, institutional support, and plant operations related to the proposed enrollment growth is \$154.9 million.

Support Budget 2012/13 Marginal Cost Per FTES

General Fund	\$6,812
Tuition Fee Revenue (net of financial aid)	<u>\$2,529</u>
Net Marginal Cost Funding per FTES	\$9,341
x 2012/13 Projected Enrollment Growth	16,586

2012/13 Marginal Cost Funding for Enrollment Growth **\$154,930,000**

In 2010/11, the Department of Finance modified the calculation for funding enrollment growth. This change in methodology resulted in a shift in state General Fund support for enrollment from an average of 77 percent to a modified level of 70 percent. Reductions in CSU General Fund appropriations for all other CSU state-funded programs exacerbate the loss of marginal funding received from the state General Fund based on this modification under the Department of Finance methodology. State funding for the marginal cost of enrollment growth in 2012/13 following CSU General Fund reductions of \$650 million in July 2011 has fallen to 64 percent of gross marginal funding need. This critical shift in CSU enrollment funding from the state has increased pressure on student fee rates to meet the CSU's continuing enrollment demand, and it threatens California's higher education Master Plan guiding principle that the state bear the preponderance of the cost of student access.



CSU MARGINAL COST ENROLLMENT FUNDING HISTORY

Fiscal Year	State GF Share	Tuition Fee	Gross Marginal Cost per FTES	State Percentage Share of Gross Marginal Cost
2006/07	\$7,225	\$2,264	\$9,489	76%
2007/08	\$7,710	\$2,257	\$9,967	77%
2008/09	\$8,173	\$2,152	\$10,325	79%
2009/10	\$7,964	\$2,373	\$10,337	77%
2010/11	\$7,305	\$3,093	\$10,398	70%
2011/12	\$7,338	\$3,181	\$10,519	70%
2012/13	\$6,812	\$3,794	\$10,606	64%



URGENT MAINTENANCE NEEDS, \$30,000,000

The 2012/13 budget plan includes funding to address the CSU's most urgent maintenance needs. The deferral of CSU maintenance needs has accumulated annually since 2002/03 due to insufficient funding to address scheduled maintenance requirements in CSU final budget appropriations. This lack of funding has resulted in a backlog of systems and facilities past their useful life, with \$453.4 million considered priority deferred maintenance. The \$30 million funding in the 2012/13 Support Budget is necessary to address the most critical renewal and repair projects that are part of the priority deferred maintenance backlog.

10-YEAR DEFERRED MAINTENANCE BACKLOG

Budget Year	Prior Year CA-CPI % Change ¹	Final Budget Funding Offset	Backlog
2002/03	2.90%		\$361,185,000
2003/04	2.60%		370,576,000
2004/05	1.90%		377,616,000
2005/06	3.30%	\$1,500,000	388,578,000
2006/07	4.20%	2,500,000	402,398,000
2007/08	3.40%	2,500,000	413,580,000
2008/09	3.40%		427,642,000
2009/10	1.30%		433,201,000
2010/11	0.70%		436,233,000
2011/12	1.70%		443,649,000
2012/13 Growth	2.20%		\$453,409,000
2012/13 Proposed Offset		\$30,000,000	\$423,409,000

¹ CA-CPI % source: CA Department of Finance, Planning Estimate Forecast, July-June (calculated using a formula developed by the CA Dept. of Industrial Relations)

Funding to address the most critical renewal/repair projects with health and safety concerns at each campus (e.g., fire protection, structural repairs, roofing, electrical distribution, HVAC, and elevators) is necessary to avert building and campus shutdowns. Any facilities shutdowns will interrupt educational services to students and impede the CSU's ability to provide a clean and safe work environment for faculty and staff. Without funding to begin addressing this need, emergency failures will continue to drive up deferral costs and CSU critical renewals will multiply.



INFORMATION TECHNOLOGY INFRASTRUCTURE UPGRADE AND RENEWAL, \$20,000,000

The 2012/13 budget plan includes \$20 million for information technology infrastructure to meet the most urgent needs for campus network upgrade and renewal. This includes the need to maintain the campus baseline network infrastructure with advanced technology utilized by students. Over 10 years ago when the CSU network infrastructure was instituted, students accessed campus networks from a few wired locations such as libraries and computer labs. Today students access networks by wireless mode, putting exponentially higher demands on the network infrastructure. Further, CSU network resources for learning management systems, online courses, and smart classrooms have become standard, and a shift to Internet-based resources has increased traffic on the wide-area network infrastructure by over 2,000 percent over the last 10 years.

While student demand has risen, constrained funding has diminished the reliability of the current network infrastructure, reduced system maintenance, and minimized equipment replacement. By 2012/13, an estimated 45 percent of over 4,500 campus network switches will be obsolete. This increases the risk of network outages and security breaches, and typically increases costs.

The \$20 million will be used to replace obsolete switches and increase the dependability and capabilities of student connections to networks. This is an ongoing cost as the useful life of network equipment grows shorter due to advances in technologies, changes in security requirements, and student need. Funding the upgrade and renewal of the network infrastructure will ensure that connectivity and access to library resources, educationally related video content, cohort conferencing tools, online courses, learning management systems, and other classroom technologies are available to CSU students.



INSTRUCTIONAL EQUIPMENT REPLACEMENT, \$22,609,000

The CSU calculates annually the depreciation costs of its instructional equipment inventory. Based on annual depreciation, the cost for repairing and replacing obsolete and outdated instructional equipment is calculated in accordance with state-recognized standards developed for the University of California and the CSU. Typically, CSU replacement costs average roughly \$40 million per year based on recent reports submitted by the 23 CSU campuses.

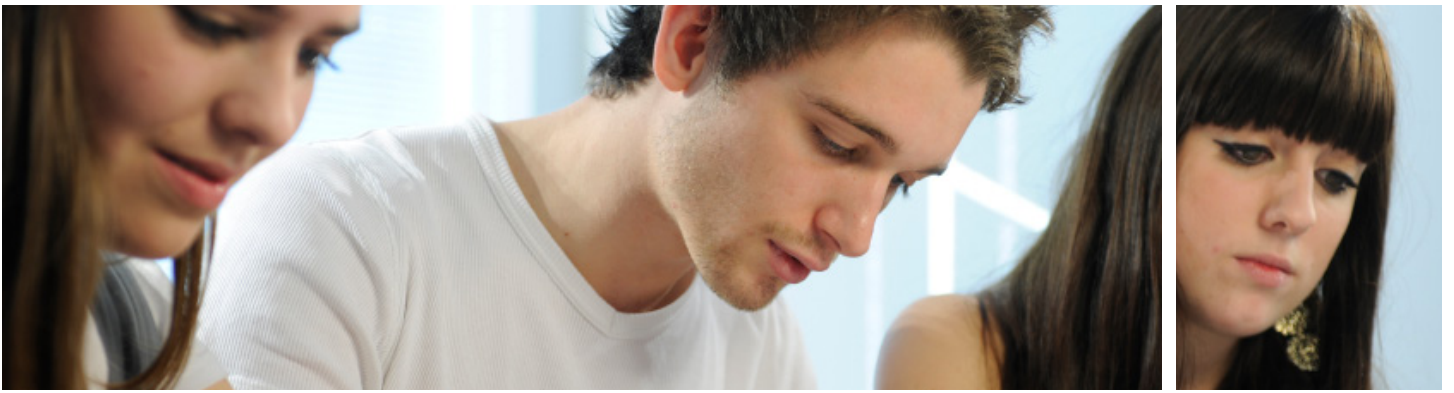
Recognizing the gap between state support for equipment replacement and CSU need, \$22.6 million is included in the 2012/13 budget to begin addressing a \$31.4 million equipment replacement need. This investment represents 75 percent of total need and will assist campus efforts to provide essential equipment upgrades and purchases required for direct instruction, smart classroom interface, and instructional-related and educational support services.

In fiscal year 2006/07, the state agreed to address a portion of instructional equipment replacement need within the CSU marginal cost calculation for enrollment growth. This component was added to the marginal cost methodology in recognition of the need to sustain and upgrade instructional equipment for new enrollment. However, marginal cost funding was designed to provide only a small fraction of equipment replacement need associated with the change in need as students graduated and new students matriculated. Most of instructional equipment replacement need for continuing students remained a critical long-range challenge for the university.

Instructional Equipment Replacement (IER)

Annual July IER Report Year	Reported Replacement Cost	Budget Year	Budgeted Funding Marginal Cost	Unmet Equipment Replacement Need
2011	\$31,365,000	2012/13 ¹	\$2,156,000	\$29,209,000
2010	33,499,000	2011/12	705,000	32,794,000
2009	34,925,000	2010/11	2,008,000	32,917,000
2008	36,639,000	2009/10	0	36,639,000
2007	43,352,000	2008/09	0	43,352,000
2006	39,817,279	2007/08	994,000	38,823,279
2005	42,471,747	2006/07	1,095,000	41,376,747

¹ Reflects \$2.2 million from 5 percent planned enrollment growth.



CENTER FOR CALIFORNIA STUDIES, \$489,000

Included within the 2012/13 Support Budget is an expenditure augmentation of \$489,000 for the Center for California Studies. The Center's General Fund appropriation—a stand-alone appropriation in the state's annual budget bill (currently \$3 million)—funds direct costs and administrative expenses for the Assembly, Senate, Executive, and Judicial Fellows programs and Center operations. The Center for California Studies is a state-funded program within the CSU that promotes understanding of and effective participation in the political and policy processes that govern California. The additional funding will allow the Center to maintain minimal operational levels and cover the increases in the fellows' graduate student fees and their associated operating expenses.



STATE UNIVERSITY GRANTS (SUG) AND TUITION FEE WAIVERS— REVENUE FORGONE

The State University Grant program is unique to the CSU and is a critical source of grant assistance for CSU students. Since its inception in 1982/83, the State University Grant program has provided need-based grants to cover the cost of mandatory systemwide tuition fees and to offset the impact of increased charges for students with the greatest financial need.

Prior to 1992/93, the state provided funds for the SUG program to ensure adequate grant assistance was available for the CSU's neediest students. Since 1992/93, the CSU has continued grant assistance to these students by forgoing one-third of annual revenue increases from tuition fees.

The amount projected for 2012/13 SUG from tuition fee revenue is \$602.9 million, an increase of \$25.5 million from 2011/12. The SUG adjustment is due to a one-third set-aside from tuition fee revenue derived from 5 percent enrollment growth (estimated 2012/13 marginal cost of \$1,265 per FTES), as well as additional financial aid requirements of recently enacted legislation, AB131. In addition, the annual budget act earmarks \$33,785,000 of the CSU's General Fund appropriation for SUG, bringing the projected total of SUG for 2012/13 to \$611.2 million.

Under current law, there are three state-mandated tuition fee waiver programs: the California Veterans Waiver for children of disabled/deceased veterans (Education Code 66025.3), the Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code 68120), and the tuition fee waiver for California residents who were dependents of victims killed in the September 11, 2001, terrorist attacks (Education Code 68121). In addition to state-mandated tuition fee waiver programs, other tuition fee waiver programs include waivers for employees and employee dependents pursuant to collective bargaining agreements. Other nonmandatory waivers have been established by CSU Board of Trustees policy and California statute that include programs for high school students and California residents age 60 years and older, among others. The state has not provided General Fund support for CSU tuition fee waiver programs since fiscal year 1992/93.



The following is a three-year summary of the total revenue forgone and applied to State University Grants and mandatory waivers from 2010/11 through 2012/13.

THREE-YEAR SUMMARY OF STATE UNIVERSITY GRANTS AND TUITION FEE WAIVERS/REVENUE FORGONE

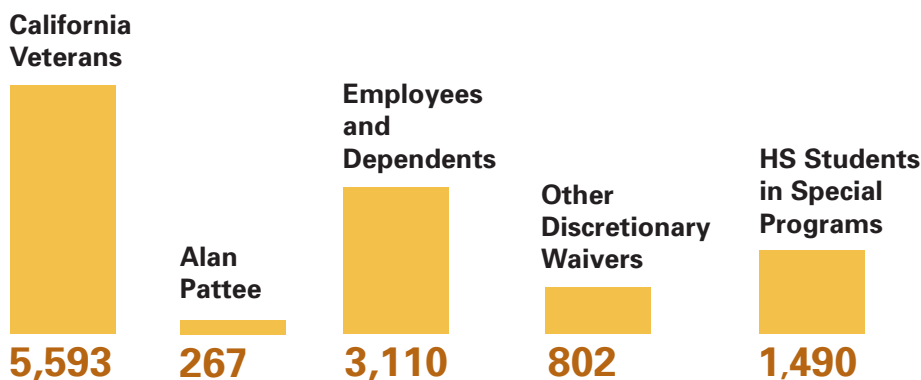
	2010/11 Actuals	2011/12 Budget	2012/13 Budget
State University Grants (SUG) (Forgone from Tuition Fees) ¹	\$431,007,000	\$577,421,000	\$577,421,000
2012/13 SUG Adjustment from Enrollment Growth	0	0	20,981,000
2012/13 SUG Adjustment from AB131	0	0	4,500,000
Tuition Fee Waivers ²	43,868,000	53,868,000	53,868,000
Total SUG and Tuition Fee Waivers Revenue Forgone	\$474,875,000	\$631,289,000	\$656,770,000

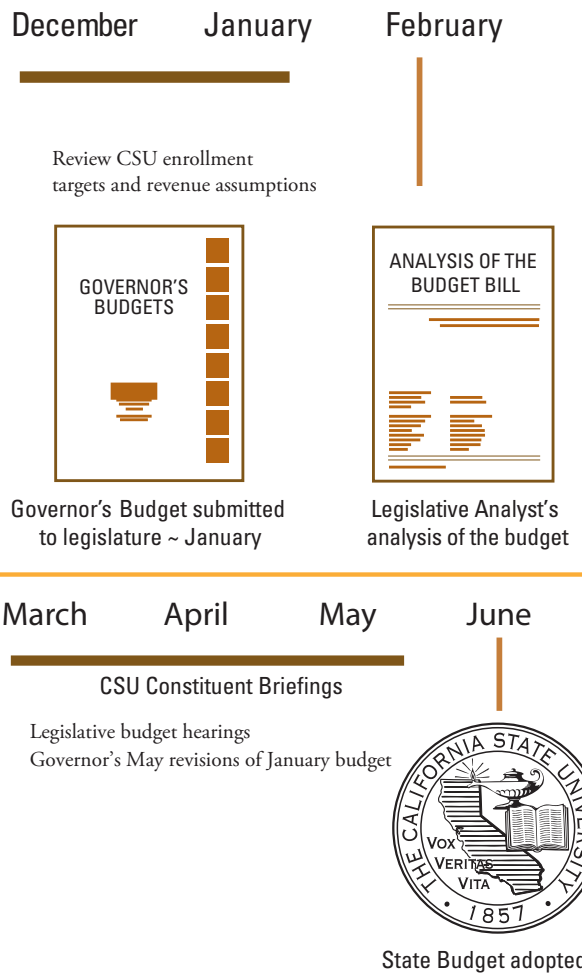
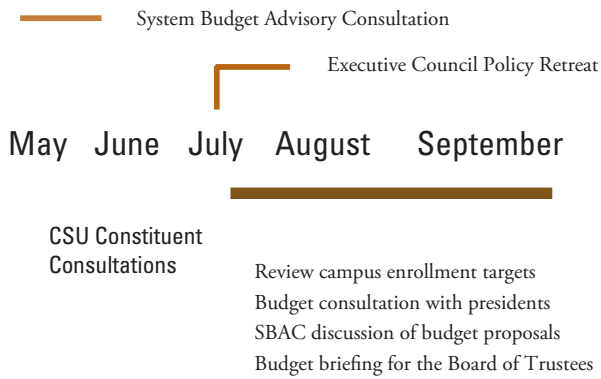
¹ SUG covers tuition fees for eligible students with financial need. Amounts awarded reflect forgone tuition fee revenue for the CSU. There is an additional \$33.8 million SUG funded by General Fund appropriation.

² Includes the campus tuition fee waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08). Amounts awarded reflect forgone tuition fee revenue for the CSU.

In the 2010/11 college year (fall, winter, spring, and summer), 11,313 tuition fee waivers were granted to CSU students. When tuition fee rates are applied to these waivers based on student enrollment status, it amounts to about \$44 million in revenue forgone to the CSU. When the 2011/12 tuition fee rates are applied to these numbers, the level of revenue forgone rises to \$54 million.

2010/11 SYSTEMWIDE TUITION FEE WAIVERS







CSU The California State University

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