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CODED MEMO B 2019-02

To: CSU Chief Financial Officers

From: Ryan Storm, Assistant Vice Chancellor for Budget 
Kara Perkins, Executive Budget Director 

CC: Timothy P. White, Chancellor
Steven Relyea, Executive Vice Chancellor and Chief Financial Officer
Loren J. Blanchard, Executive Vice Chancellor for Academic and Student Affairs
Evelyn Nazario, Vice Chancellor of Human Resources
CSU Presidents, Financial Officers, Budget Officers, Financial Aid Directors,
Enrollment Planning and Resource Officers, and Enrollment Managers

Date: July 19, 2019

Re: 2019-20 Final Budget Allocations

Attachments: Coded Memo B 2019-02, Attachments A-E

The Budget Act of 2019 includes a \$332.9 million increase in recurring General Fund appropriation for the California State University (CSU) operating fund. This General Fund increase, along with new tuition revenue of \$46.2 million from enrollment growth, equals \$379.1 million in new recurring funding for the CSU compared to 2018-19. A summary of the 2019-20 final operating fund budget can be found on the next page. The attachments contain detailed information by campus.

The governor signed two pieces of legislation specific to the Budget Act of 2019 that affect the CSU. The first is the original Budget Act of 2019 signed on June 27, 2019 ([Assembly Bill 74, Chapter 23](#)). The second was signed on July 1, 2019 ([Senate Bill 106, Chapter 55](#)), which amended the Budget Act of 2019 to correct drafting errors made in AB 74 that affected the CSU's General Fund appropriation. As you reference these statutes today and, in the future, it is important to only use Senate Bill 106 as it details the correct appropriation for the CSU's main General fund adjustments and was the latter of the two, making it the final authority. You may disregard the main CSU General Fund detail in the original budget act (i.e. Item 6610-001-0001). For all other CSU-related appropriations and provisions found throughout the original Budget Act of 2019, please reference Assembly Bill 74.

A third piece of legislation signed by the Governor on July 1, 2019 ([Senate Bill 77, Chapter 53](#)) is the 2019-20 higher education trailer bill. The trailer bill codified many programmatic changes that were necessary to implement the policy decisions contained in the Budget Act of 2019.

The following table summarizes the 2019-20 final operating fund budget including General Fund and tuition and fee revenue:

2019-20 Final Budget Summary	
2018-19 Final Budget, General Fund (Coded Memo B 2018-02)	\$3,627,143,000
2018-19 State-Funded Employer-Paid Retirement Adjustment	22,502,000
2018-19 Total General Fund Budget	\$3,649,645,000
2019-20 General Fund Increase	332,907,000
2019-20 Total General Fund Budget	\$3,982,552,000
2018-19 Final Budget Gross Tuition & Fees (Campus Reported)	\$3,118,104,000
2019-20 Tuition from 2.75% Enrollment Growth	46,158,000
2019-20 Gross Tuition & Fees	\$3,164,262,000
2019-20 Total Operating Budget	\$7,146,814,000
2019-20 Expenditure Increases	
Graduation Initiative 2025	\$45,000,000
Enrollment Funding	131,158,000
Compensation	147,831,000
Mandatory Cost Increases	
Employer-Paid Health Care	7,304,000
Operations and Maintenance of New Facilities	4,748,000
Retirement Above State Funding	23,198,000
Minimum Wage Increase	7,022,000
Project Rebound	3,300,000
Rapid Rehousing for homeless and housing insecure students	6,500,000
Other Program Adjustments	3,004,000
Total Expenditure Increases	\$379,065,000

Detailed explanations of ongoing budget allocations are provided in the following pages. General Fund and estimated gross tuition revenue from enrollment growth by campus are included in the attachments to this coded memorandum.

The attachments to the memo display the following final budget adjustments by campus:

- Attachment A: Operating Budget Total
- Attachment B: Revisions to 2018-19 General Fund Allocations
- Attachment C: 2019-20 Expenditure and Revenue Adjustments
- Attachment D: 2019-20 Enrollment and Tuition & Fee Revenue Adjustments
- Attachment E: 2019-20 Final State University Grant Allocations

The 2019-20 final budget also includes millions of dollars of one-time General Fund augmentations for such items as deferred maintenance, basic needs partnerships, and new campus studies. Separate allocation memos will be provided at a later date and include additional detail.

Questions concerning this memo or its attachments may be directed to Kara Perkins, Chris Canfield, or other System Budget Office staff at (562) 951-4560. Please reference the [Budget Office staff directory](#) for additional contact information and staff areas of assignment.

Additional References

- [CSU 2019-20 Operating Budget](#)
- An amendment to the Budget Act of 2019, [SB 106](#)
- Budget Act of 2019, [AB 74](#)
- Higher Education Trailer Bill, [SB 77](#)
- [2019-20 Governor's Budget, Department of Finance, State of California](#)
- [CSU Budget Detail in the 2019-20 State Budget](#)

RS: KP: CC

Attachments

2019-20 Final Budget Allocations, Attachment Descriptions

Operating Budget Total - (Attachment A)

Attachment A summarizes the 2019-20 operating budget by campus after revisions to 2018-19 General Fund allocations (Attachment B) and 2019-20 expenditure and revenue adjustments (Attachment C and D).

Revisions to 2018-19 General Fund Allocations - (Attachment B)

A revision to the 2018-19 General Fund allocation reflects one change since adoption of the Budget Act of 2018 and publication of the 2018-19 final budget allocation memo (B 2018-02).

- **State-Funded Retirement Adjustment**

Each year CalPERS adjusts employer-paid contribution rates to meet defined benefit pension obligations. The state adjusts the CSU General Fund appropriation for employer-paid contribution rate changes based on the actual CSU 2013-14 pensionable salaries reported by the State Controller's Office.

The 2017-18 to 2018-19 State Miscellaneous First Tier rates increased from 28.423 percent to 29.396 percent and the State Peace Officer / Firefighter rate increased from 44.245 percent to 45.371 percent. The 2018-19 operating budget base retirement cost increase funded by the state is \$22.5 million. The distribution is based on the 2013-14 pensionable payroll by campus as provided by the State Controller's Office.

2019-20 Expenditure and Revenue Adjustments - (Attachment C)

- **Employer-Paid Health Care Premiums**

Effective January 2019, the estimated annualized cost to fund employer-paid health care rate increases is \$7.3 million. The number of CSU employee participants and the difference between the old and new employer-paid contribution rates determine health care benefit cost increases. The distribution is based on the percentage share of campus 2017-18 actual operating fund health benefits expenditures. For additional information regarding January 2019 health premiums, please reference Human Resources Technical Letter, (HR/Benefits 2018-16).

- **Operations and Maintenance of New Facilities**

This allocation includes an increase of \$4.7 million for regular operations and maintenance of new facilities, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support. In 2019-20, the CSU is scheduled to open 404,052 new square feet of space. Funding is provided at the rate of \$11.75 per square foot. More details on campus facilities included in this allocation are provided [online](#).

- **Retirement Benefits (above State Funded)**

Beginning with the 2014-15 fiscal year, a limit was placed on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. While the state's obligation to adjust retirement funding continues (Government Code section 20814), the salary base applied to the incremental rate change is frozen at the CSU 2013-14 pensionable payroll level as reported by the State Controller's Office. The \$23.2 million budget plan covers the 2017-18,

2018-19 and projected 2019-20 unfunded retirement cost for annual CalPERS employer-paid rate adjustments that must be funded by the CSU. The campus distribution is based on pensionable payroll in excess of the 2013-14 level funded by the state in each of those years.

SB 84 Loan Repayment

Also related to retirement costs, but outside the base budget, the CSU is being assessed for a share of a CalPERS loan which was used to reduce unfunded pension liability. [Senate Bill 84 \(Chapter 50 of 2017\)](#) authorized the state to borrow \$6 billion from a state cash account and make a one-time supplemental pension payment to CalPERS in 2017-18 to reduce unfunded pension liabilities. While annual state pension contributions will continue to rise over the next several years, the purpose of the supplemental payment is to save the state money over the next few decades by slowing the pace at which the state's annual pension costs rise. The state General Fund and other funds (including CSU funds) are to repay the loan and the state Department of Finance determines each department's (and funds') share of the repayment. According to a September 2017 CalPERS analysis, the strategy has a 95 percent chance of saving the state and departments money.

Over the course of a year, the Chancellor's Office and the Department of Finance engaged in discussions over the methodology used by the Department of Finance to determine the CSU's share of the loan repayment. While those discussions resulted in some success, the Department of Finance will require a payment of approximately \$26.8 million in 2018-19 and approximately \$26 million each year from 2019-20 through 2023-24, with a final payment of \$22 million in 2024-25.

Based on discussions with the Department of Finance in the winter of 2019, Chancellor's Office staff began briefing campus business and finance representatives about the possibility of the CSU being responsible for more than its historical share of this pension-related cost. With the Department of Finance's recent and final determination and the end of the budget cycle last month, it is now appropriate to share definitive details of this new CSU obligation. In the coming months, Chancellor's Office staff will notify each campus of its share, by fund source (operating fund and enterprise funds), of this loan repayment.

- **Minimum Wage Increase**

In January 2019, the California minimum wage increased from \$11/hour to \$12/hour. The estimated annualized cost of the increase on CSU campuses is \$7 million, which is distributed by campus based on past-year salary expenditures below the new \$12/hour rate. The wages below this rate occur in the excluded (E99) employee group which includes non-instructional student assistants and casual workers.

- **Compensation**

Budget allocations include \$147.8 million to cover 2019-20 employee compensation increases for faculty and staff as further detailed in Human Resources Salary Technical letters and [collective bargaining contracts](#).

The distribution of 2019-20 compensation increases is based on the percentage share of campus 2017-18 actual operating fund salaries. The compensation adjustments are distributed for all employee groups with the exception of Public Safety (CBID R08), which does not have a finalized contract for 2018-19 or 2019-20 at this time.

- **Graduation Initiative 2025**

For [Graduation Initiative 2025](#), (GI 2025) an additional \$45 million builds upon the \$150 million allocated over the last two years. Graduation Initiative 2025 is the CSU's ambitious initiative to increase graduation rates for all students while eliminating equity gaps, providing California with the graduates it needs to power the economy. The 2019-20 funds are allocated as follows: (1) \$15.0 million for base budget increases of \$625,000 per campus, including systemwide provisions for GI 2025 priorities managed centrally at the Chancellor's Office; (2) \$25.0 million allocated to each campus based on the number of students eligible for Pell Grants in 2017-18; and (3) \$5.0 million for progress on leading indicators to close equity gaps, based on average unit load (AUL) increases achieved by underrepresented minority students from fall 2016 to fall 2018.

The allocation methodology acknowledges that while all campuses have ambitious graduation rate targets, differing levels of financial investment will be required in order to eliminate equity gaps. The allocation methodology is not intended to serve as a campus expenditure plan. Each campus may use these funds in support of their graduation initiative goals, including offering additional high-demand course sections to increase average unit load for undergraduate students and additional academic and student support services.

An allocation of \$30 million in one-time funding for Graduation Initiative 2025 will be included in a separate memo.

- **Other Program Adjustments: Center for California Studies; Project Rebound; and Emergency Student Housing**

The final budget includes the following additional adjustments:

- \$107,000 for a cost of living adjustment and relocation grants for the Center for California Studies, Capitol Fellows' Program.
- \$3.3 million to Project Rebound, which supports formerly incarcerated individuals pursuing a bachelor's degree at the CSU. The campuses currently participating in the program are: San Francisco, San Bernardino, Bakersfield, Fullerton, Pomona, Sacramento, Fresno, Los Angeles, and San Diego. Pending final decisions, these funds are held centrally.
- \$6.5 million for emergency student housing for homeless and housing insecure students. Pending final decisions, these funds are held centrally.
- \$2.9 million for other systemwide / campus program adjustments.

- **Funded Enrollment Growth**

The 2019-20 Final budget allocation includes resident undergraduate enrollment growth of 10,000 full-time equivalent students (FTES). This is equivalent to a 2.76 percent increase in funded enrollment. Funding to support 2019-20 FTES growth is based on the 2019-20 published marginal cost of instruction of \$11,322 per FTES, which is made up of a combination of state General Fund and tuition revenue (reference the [2019-20 marginal cost](#) detail) totaling \$113.2 million.

The methodology used in this year’s allocation for enrollment growth continues to acknowledge variable tuition collection per FTES at each campus. This ensures that each FTES is fully funded through a combination of tuition and General Fund to reach \$11,322.

The 2019-20 methodology uses each campus’ net tuition, which varies based on each campus’ State University Grant allocations and mandatory fee waivers (see example below). This methodology starts with the same \$11,322 marginal cost per FTES, subtracts each campus’ average net tuition revenue per FTES, and makes up the difference with state General Fund. An example is provided below:

Campus X		Campus Y
\$11,322	Funding per FTES	\$11,322
<u>(4,500)</u>	<u>Campus Net Tuition per FTES</u>	<u>(5,100)</u>
\$6,822	General Fund per FTES	\$6,222

The campus net revenue per FTES calculation is based on campus *actual* 2017-18 FIRMS gross tuition revenue (Object Code 501001) minus State University Grants (Object Code 609002) divided by actual college year FTES.

Also, the final allocation includes \$17.9 million to recognize campus efforts to encourage students to increase their unit loads. An increase in the average unit load (AUL) requires additional funding to cover new campus costs such as offering additional course sections and adding related academic and student support services. Under the current tuition model, an increase in AUL does not generate additional tuition revenue that can cover new campus costs like those mentioned above. Therefore, additional funding is allocated to assist with those costs and distributed based on campus pro-rata share of undergraduate AUL improvements from fall 2016 to fall 2018.

- **State University Grants**

The expenditure adjustments for State University Grants (SUG) reflect the redistribution of five percent of the SUG pool to match up SUG allocations at campuses who have the highest relative share of students with an estimated family contribution (EFC) of \$0 to \$4,000. The total expenditure adjustment in Attachment C moves funding and expenditures between campuses based on the change in relative need from 2018-19 to 2019-20. No campus’ SUG allocation is less than 95 percent of last year’s total. Further details on total SUG distribution by campus are outlined in Attachment E.

2019-20 Enrollment and Tuition & Fee Revenue - (Attachment D)

Attachment D includes the tuition and fee revenue reported by campuses in the 2018-19 final budget submissions and the projected revenue from 10,000 FTES growth in funded resident enrollment targets in 2019-20. The nonresident enrollment has been updated to reflect the past year (2017-18) actual full-time equivalent student figures.

2019-20 Final State University Grants - (Attachment E)

SUG funding is a finite resource and more students are eligible for SUG than there is funding available. Also, the relative share of SUG-eligible students rises and falls at each campus over time. As a result, there is consensus across the CSU to annually shift a small portion of SUG funding between campuses to ensure that SUG-eligible students with the greatest financial need receive a SUG award. Without this annual funding shift, the CSU would find it increasingly difficult to meet this important financial aid objective.

The total SUG allocation of \$700.9 million in the final 2019-20 operating budget has not changed from 2018-19. The preliminary budget memo (B 2019-01) set a minimum expectation for all campuses of 95 percent of their 2018-19 SUG allocations.

As changes in student enrollment and financial aid demand shift by campus, five percent of the total SUG pool is adjusted to ensure that campuses with the highest proportion of students with the greatest financial need have the funds available to provide grants. This re-allocation of the total SUG pool (approximately \$35.0 million) addresses these changes in relative share of students on each campus who have an Expected Family Contribution (EFC) of \$0 to \$4,000. If a campus' share of total need is above 95 percent of their past year's allocation, that campus will receive a portion of the \$35.0 million being reallocated.

Questions about the SUG distribution process may be directed to the System Budget Office or to Dean Kulju, Director of Financial Aid, at (562) 951-4737 or by email at dkulju@calstate.edu.