

**CALIFORNIA STATE UNIVERSITY, LONG BEACH
2001-02 RESOURCE PLANNING PROCESS**

BUDGET OUTLOOK

PURPOSE

This Outlook summarizes the fiscal assessment of the State, CSU System, and campus for 2001-02, which formed the context and basis of the RPP Task Force 's planning and recommendations to the President. The Budget Outlook attempts to be comprehensive and takes into consideration a wide range of information and activities evolving over an eight-month period. In spite of best efforts, the external factors influencing the outcome are often difficult to predict and the final allocation may differ from projections.

INTRODUCTION

The sources for this budget outlook include the Governor's Budget, the Legislative Analyst's Office, the Department of Finance, the CSU Board of Trustees, the Chancellor's Office, and financial projections about our own campus. These sources tend to fall into four categories: the Executive Branch of State Government; the Legislative Branch of State Government; the CSU system, and the campus.

THE EXECUTIVE BRANCH OF STATE GOVERNMENT

STATE ECONOMIC FORECAST

The economic forecast underlying the initial state budget released in January 2001 assumes that California's economy will slow more in line with the nation's in 2001, before rebounding in 2002. As shown in Table 1, the Governor's budget reflected a slowdown in real U.S. GDP from 5.1% in 2000 to 3% in 2001, before rebounding to 4.3% in 2002. While some slowing of consumer and business spending is projected in the first six months, the Governor's administration expects growth to be revived by a combination of lower interest rates, a slow reversal of recent energy price increases, and further productivity gains during the next 12 months. Slowing economic growth is expected to result in a moderation in inflation, with growth in the Consumer Price Index (CPI) slowing from 3.5% in 2000 to 2.5% in 2001. Regarding California, the Governor's budget assumes that the State's economic expansion would continue but slow to a more moderate rate during the next 2 years. Personal income growth is forecasted to slow from 11.7% in 2000 to 5.7% in 2001, before rebounding to 6.9% in 2002.

Table 1			
Summary of Budget's Economic Outlook			
	<u>Actual</u>	<u>Forecast</u>	
	2000	2001	2002
United States Forecast			
Percent Change in:			
Real GDP	5.2%	3.0%	4.3%
Personal Income	6.5	5.5	5.6
Wage and Salary Jobs	2.1	0.4	1.2
Consumer Price Index (CPI)	3.4	2.4	2.1
Unemployment rate (%)	4.1	4.5	4.7
Housing Starts (000)	1,610	1,600	1,710
California Forecast			
Percent Change in:			
Personal Income	11.7%	5.7%	6.9%
Wage and Salary Jobs	3.6	2.8	2.7
Taxable Sales	11.3	4.9	6.4
Consumer Price Index (CPI)	3.7	3.1	2.5
Unemployment rate (%)	4.9	4.8	4.7
New Housing permits (000)	147	155	167

Source: California Legislative Analyst's Office – February 2001

GOVERNOR'S PROPOSED BUDGET – JANUARY 2001

The Governor's budget estimates General Fund revenues to be \$79.4 billion, a 3.3% increase from the current year, with expenditures proposed at \$82.9 billion. This is up \$3.1 billion, a relatively modest 3.9% growth compared to the exceptionally strong 15-20% increases experienced in the current and prior years. This modest growth partially reflects the fact that one-time spending in the budget year (\$3.3 billion) is less than in the current year (\$5.8 billion). After adjusting for the reduced amount of one-time spending, as well as funding shifts and accounting changes, General Fund expenditure growth would be higher—about 7.5%.

REVENUES (Table 2):

After strong growth in each of the past two years, General Fund revenues are projected to increase by a modest 3.3% in 2001-02. This modest revenue gain is consistent with the State's economic forecast of slowing personal income and sales growth in 2001 and early 2002. It also reflects predictions that capital gains and stock option income will decline 10% between 2000 and 2001. The budget's revenue forecast also reflects tax-related legislation passed in conjunction with last year's budget and proposed in this year's budget, as well as a triggered reduction in the Sales Use Tax rate.

- California's personal income tax, the single most important determinant of state revenues, is expected to increase by 9.4% for 2000-01 and only 3.5% for 2001-02.

- Sales and use tax is the General Fund's second largest revenue source, accounting for about one-third of the revenue total, is expected to increase 4.0% during 2000-01 and 6.6% in 2001-02. Budget assumptions regarding SUT legislation include:

2000 Legislation. Last year the state enacted tax relief legislation that will reduce taxes by \$2 billion in 2001-02 and \$1.2 billion in 2002-03. The main provision was an acceleration of the Vehicle License Fee rate reductions, which under prior legislation would have been reduced by about one half. Other tax relief measures passed last year included a credit for credentialed teachers and partial conformity to the federal child care credit.

2001 Proposals. The 2001-02 budget includes several targeted tax relief proposals, which would reduce General Fund revenues by a combined total of \$108 million in the budget year. Other provision is an increase in the manufacturers' investment tax credit from 6% to 7%.

Triggered Sales Use Tax (SUT) Rate Reduction. Under legislation accompanying the imposition of a quarter-cent sales tax increase in 1991, this quarter-cent rate increase can "trigger off" in any year in which the Director of Finance certifies (by November 1) that the budgetary reserves are more than 4% of General Fund revenues. In October 2000, the Director of Finance made this certification, which resulted in a quarter-cent SUT reduction effective for calendar year 2001. The 2001-02 budget forecast assumes the quarter-cent tax rate will be reinstated on January 1, 2002.

Table 2			
Summary of the Governor's Budget			
General Fund Revenue Forecast			
<i>(Dollars in Millions)</i>			
	Actual	Proposed	
	99-00	00-01	01-02
Revenue Source			
Personal Income Tax	\$39.6	\$43.3	\$44.8
Sales and Use Tax	21.1	22.0	23.4
Bank and Corporation Tax	6.6	6.9	6.9
All Other	4.6	4.7	4.3
Totals	\$71.9	\$76.9	\$79.4
Percent Change		6.9%	3.3%

Source: California Legislative Analyst's Office, Feb 2001

EXPENDITURES (Table 3):

- The proposed General Fund spending level is \$82.9 billion in 2001-02, an increase of \$3.1 billion or 3.9% above estimated current year General Fund spending.
- Over one-half (52%) of the total budget is devoted to education, with K-14 education accounting for about 43% of the total budget plan and Higher Education receives just under 10%. Combined, health and social services programs account for slightly more than one-fourth, while spending on youth and adult corrections accounts for about 6.5% of the total.

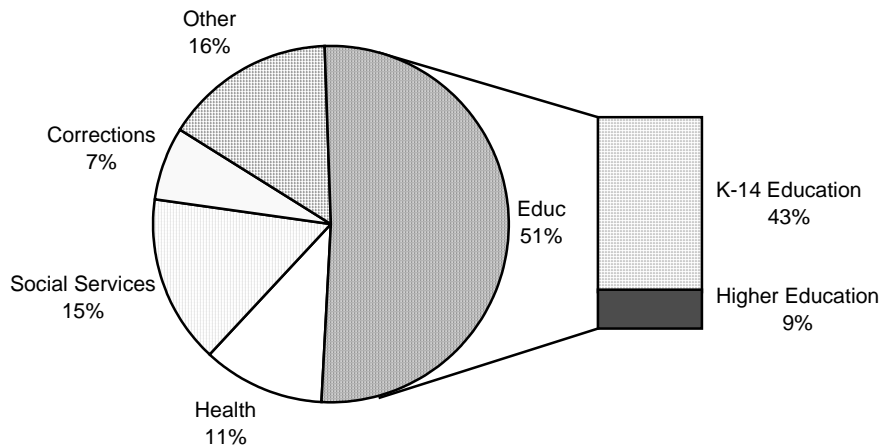
Table 3

General Fund Spending by Major Program Area

	Actual 1999-00	Estimated 2000-01	Proposed 2001-02	
			Amount	Percent Change
Education Programs				
K-12 Education	\$27,588	\$30,311	\$32,540	7.4%
Community Colleges } K-14 Education	2,552	2,819	3,048	8.1%
Higher Education (CSU and UC)	4,891	5,826	6,397	9.8%
Other (e.g. Hastings College)	577	750	897	19.7%
Health and Welfare Programs				
Medi-Cal	\$8,065	\$9,458	\$9,325	-1.4%
CalWORKS	1,991	1,935	2,128	10.0%
SSI/SSP	2,501	2,626	2,870	9.3%
Other	5,193	6,849	7,866	14.8%
Youth and Adult Corrections	\$4,748	\$5,181	\$5,389	4.0%
All Other *	<u>\$8,780</u>	<u>\$14,659</u>	<u>\$13,144</u>	<u>-10.3%</u>
Totals	\$66,494	\$79,708	\$82,853	3.9%

*The 2001-02 decline is primarily due to the magnitude of one-time spending in 2000-01.

Source: California Legislative Analyst's Office, February 2001



HIGHER EDUCATION OUTLOOK

The 2001-02 Budget proposes combined general fund support for CSU and UC of \$6.4 billion, an increase of \$471 million or 9.8% compared to the current year.

The funding agreement, referred to as a “partnership”, was renewed between higher education and the State. This agreement has been a critical budget component for both the UC and the CSU since higher education is not one of the entitlement programs with guaranteed funding levels, and it brings a measure of stability and predictability to budgeting.

Overall, spending on higher education has increased due both to enrollment growth and additional monies provided for stable student fees, building maintenance, new technology and research. Budgeted enrollment levels will increase by 3% at both institutions -- 5,700 full-time equivalent students (FTES) at the UC and 8,760 FTES at the CSU. Both segments will also receive funds to begin the conversion of summer enrollment to state supported instruction.

GOVERNOR'S PROPOSAL FOR THE CSU

Overall, the proposed budget provides an increase for the CSU of \$291 million (9% increase) over 2000-01, \$267 million in additional General Fund support, and \$24 million from student revenues associated with enrollment growth. The budget is the first developed in accordance with the terms of the Higher Education Partnership formalized last year with the Davis Administration. The partnership contains specific commitments by the state to the CSU, including a 4% annual increase to the CSU's general fund base, funding for enrollment growth, an additional 1% increase to eliminate annual budgetary shortfalls in certain key areas (building maintenance, instructional equipment/technology, and libraries), and funds for new initiatives.

MAY REVISION TO THE GOVERNOR'S BUDGET

Each year, the Department of Finance re-exams and revises its projection of revenues after the tax period has closed. This forecast, known as "the May Revise", provides updated economic and revenue forecasts, as well as the latest caseload, enrollment and population information for programs in the health and welfare, education and public safety areas. This becomes the new benchmark by which the final budget will be measured.

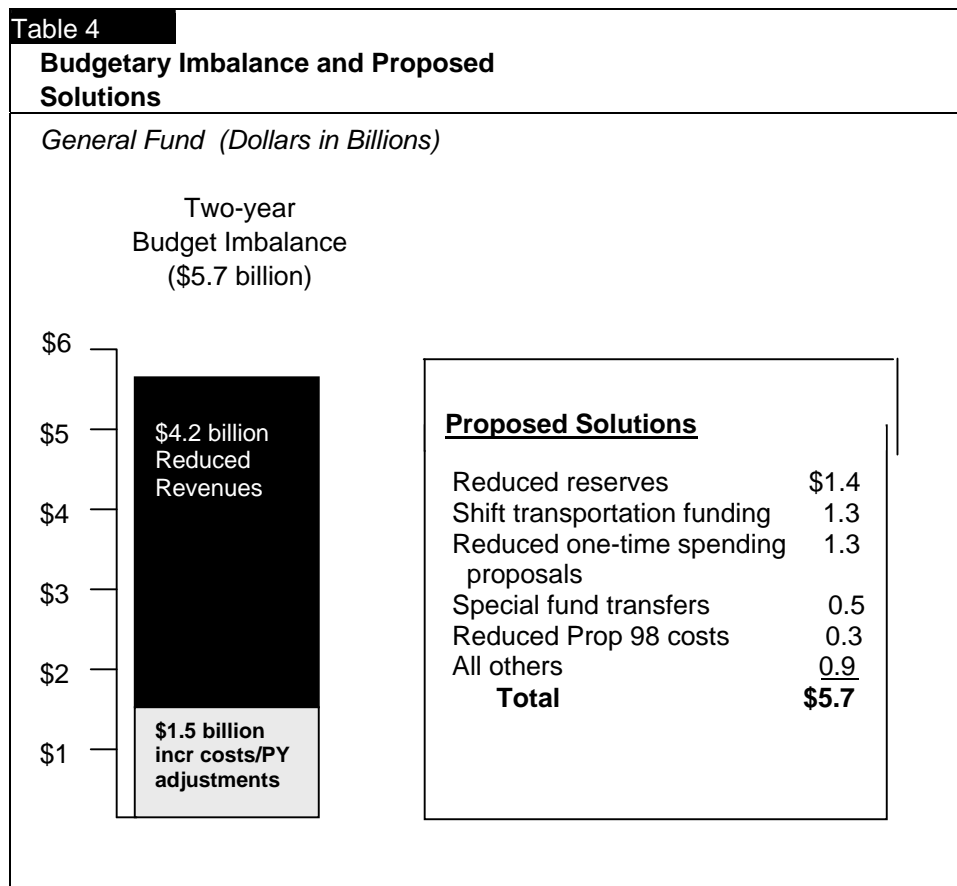
In striking contrast to the past several years, the 2001-02 May Revision reflects a sharp deterioration in the state's fiscal picture. The slower, near-term economic growth and recent weakness in the stock market have led to a sharp decline in the revenue outlook. This, coupled with added costs in a variety of budget areas, has necessitated significant changes to the Governor's January Budget proposal.

The May Revision reports a \$5.7 billion deterioration in the state's fiscal condition due to the combination of a net two-year reduction of \$4.2 billion in revenues and a net two-year increase of \$1.5 billion in the January plan's spending requirements. The expenditure increases are due to higher retirement costs, legal settlements, energy costs, and prior year Proposition 98 requirements. Table 4 displays how the Governor proposes to solve the budgetary two-year imbalance of \$5.7 million.

The CSU budget contained in the May Revise reflected a \$233.4 million increase in the CSU's General Fund budget for 2001/02: \$157.1 million within the Higher Education Partnership, and \$76.2 million in state investments above the partnership. This represented a net reduction of \$58 million of the amount provided in the January budget.

The May Revision budget provided full funding for enrollment growth of 3 percent, including conversion to year-round operations and student financial aid. Also included was a \$34 million augmentation for increased natural gas costs, including \$18.5 million in one-time funds.

The May Revision was released just after RPP was finishing its work and was therefore not specifically reflected in the planning figures or in the recommendations. The changes in the May Revision appear to be earmarked and do not impact discretionary funds available to support the Task Force recommendations. Nonetheless, the Task Force is prepared to reconvene should further work and advice be warranted.



Source: California Legislative Analyst's Office, February 2001

THE LEGISLATIVE BRANCH OF STATE GOVERNMENT

Upon issuance of the Governor's proposed budget, the budget committee of each house of the Legislature assigns a subcommittee to analyze and develop independent recommendations regarding the budget. The parent committees adopt the subcommittee's recommendations, which are then sent to the floor of the respective house for action. After the Assembly and Senate have adopted budget plans, a Joint

Conference Committee comprised of members from both houses is assembled to resolve differences between the two versions of the budget. Once a compromise budget plan has been developed and ratified by both the Assembly and Senate, it is presented to the Governor for signature. As of this writing, the legislature remains in session and it is too early to predict the outcome and timing of the final budget.

THE CALIFORNIA STATE UNIVERSITY

The CSU submitted its 2001-02 budget request to the Governor last fall seeking \$364 million in increased resources: \$122 million for 6% employee salary increases, \$62 million for 3% enrollment growth; \$43 million for K-12 academic preparation, \$19 million for graduate FTE conversion, \$18 million in mandatory costs, \$16 million for state supported enrollment; \$15 million for technology; \$12 million for student services improvement, \$ 8 million for deferred maintenance and libraries, \$49 million for new campuses, high cost programs, and several other special CSU initiatives.

COMPENSATION

The May Revise supports the CSU with a \$40.8 million increase for a 2% compensation pool for all employees, which is down from the 4% provided in the Governor's January Budget and the 6% originally proposed by the Board of Trustees.

ENROLLMENT

Enrollment is the second largest component of the budget increase. For 2001-02 the budget includes funding for a 3% systemwide enrollment growth equaling 303,878 full . This increase of 8,760 FTES is consistent with post-secondary enrollment projections provided by the Department of Finance. For Long Beach, our 2001-02 enrollment target has been set at 24,000 FTES, which is a 1,175 FTES (5.1%) increase over the current year enrollment target and 906 FTES over this year's actual enrollment. The campus has also been assigned a target of 1,145 FTES for the state-supported summer term in 2001.

PRELIMINARY CAMPUS ALLOCATION

The Chancellor's Office issued preliminary campus budget allocations in March 2001 reflecting a \$24 million general fund increase for Long Beach. As in past years, some local carryover savings from the prior year as well as anticipated higher collection of revenues will be added for campus budget planning process bringing the total general fund increase to approximately \$30 million. About one half of the new funds have been earmarked or reserved for specific expenditures.

LOCAL CAMPUS CONDITIONS

The campus' budget planning process judged that it was important to maintain the operating divisions' current General Fund base budgets to ensure departments will continue to have stability in their base budget allocations. As in the past, the RPP Task Force recognized that certain mandatory cost requirements must be funded "off the top" of any new funds being allocated to the campus. Two of the more substantive items are funding for state-supported summer operations, increased energy costs, and a contingency reserve for salaries.

The Task Force agreed that this year's resource planning should recognize workload increases while preserving the traditional proposal process. Another critical issue was the extensive nature of temporary funds being allocated to support ongoing needs which resulted in an adjustment to last year's workload model to provide some permanent funding for these recurring costs. The 2001-02 process consisted of two discrete elements:

1. The Workload Model which identified a permanent allocation of faculty resources to meet the increased enrollment target of 1,175 FTES, and a distribution of permanent resources to all divisions for non-faculty workload pressures.
2. The Traditional Proposal Process that prioritized budget recommendations based on division requests.

CONCLUSION

While it is still early, recent developments in the May Revise and subsequent actions by the Legislature indicate that there will be some modification to the CSU's original budget plan. One of the more significant categories is compensation where it is hoped that the final budget would fund the Board of Trustees' original plan for a 6.0% salary increase to all employees.