

**CALIFORNIA STATE UNIVERSITY, LONG BEACH  
2002-03 RESOURCE PLANNING PROCESS**

**BUDGET OUTLOOK**

**PURPOSE**

This Budget Outlook summarizes the fiscal assessment of the State, CSU System, and campus for 2002-03, which formed the context and basis of the RPP Task Force's planning and recommendations to the President. The 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, media, the Internet, and enrollment 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 2002 assumed that the projected cumulative budget shortfall would be \$12.5 billion. The components included a current year deficit of \$3 billion, a budget year imbalance between revenues and expenditures of about \$9 billion, and the need to rebuild the reserve of \$500 million.

After a record-long expansion, both the US and California economies were in the midst of a recession that began in the spring of 2001. This downturn was primarily caused by two factors which led to significant job losses in manufacturing in California as well as other areas the economy: First, a retrenchment in business investment spending, particularly involving high-tech goods and related services. Sharp declines in spending by businesses on capital goods, and then aggravated by the September 11th terrorist attacks. Second, declining exports to foreign nations, reflecting a weak international trade environment.

The forecast assumed that the US and California economies would begin emerging from the recession in spring 2002, and that a sustained expansion would begin by mid-year.

The strength of California's economy is an important factor determining the level of revenues collected in state taxes. Most sectors have experienced job growth since last November, and it is expected that employment could recoup its losses by the end of 2002. Manufacturing is beginning to expand in parts of the State, and the state's tourism industry has improved. Low mortgage rates and a disappointing stock market have fueled the California residential real estate markets. Overall, in the first quarter of 2002, home sales increased by 18% from a year earlier; in the San Francisco Bay Area, sales were up 29% in March from a year ago. However, the recovery in income related to stock options will more than likely be prolonged.

The Governor's original budget forecast in January assumed that both the U.S. and California economies will stabilize in the first quarter of 2002 and then begin a sustained moderate expansion in the spring. As shown in Table 1, real Gross Domestic Product (GDP) is projected to increase 0.5% in 2002 and 4.4% in 2003. The recent slowdown in inflation will continue in 2002 and 2003.

<b>Table 1</b>			
<b>Summary of Budget's Economic Outlook</b>			
	<u>Actual</u>	<u>Forecast</u>	
	2001	2002	2003
<b>United States Forecast</b>			
Percent Change in:			
Real GDP	1.1%	0.5%	4.4%
Personal Income	5.0	2.6	5.6
Wage and Salary Employment	0.3	-0.5	1.1
Consumer Price Index (CPI)	2.9	1.8	2.2
Unemployment rate (%)	4.8	6.2	5.7
Housing Starts (000)	1,590	1,570	1,510
<b>California Forecast</b>			
Percent Change in:			
Personal Income	1.4%	2.6%	7.5%
Wage and Salary Employment	1.8	0.3	2.4
Taxable Sales	-2.0	0.8	7.5
Consumer Price Index (CPI)	4.1	1.7	1.8
Unemployment rate (%)	5.2	6.2	5.9
New Housing permits (000)	142	145	149

*Source: California Legislative Analyst's Office, Feb 2002*

It is expected that California's economic recovery will pick up as the year unfolds, but job growth will likely be modest for the next few months as employers gauge the strength and sustainability of the recovery. By the fourth quarter of 2002, it is projected that jobs will be up about 1% from a year earlier and growing at an annualized rate of about 2.5% on a quarter-to-quarter basis. The unemployment rate, a lagging indicator, will likely stay close to 6% for the rest of 2002 before moving downward in 2003.

## GOVERNOR'S PROPOSED BUDGET – JANUARY 2002

The Governor's 2002-03 budget proposes a plan for addressing the state's \$12.5 billion deficit between General Fund revenues and expenditures. It does this through a variety of actions, including spending reductions and deferrals, revenue accelerations, sale of assets, and loans from special funds. The basic strategy reflects the assumption that the current imbalance between revenues and expenditures is a temporary one, brought about by a decline in revenues resulting from a recession that itself is expected to be mild and brief. As a consequence, most of the budget's proposed solutions involve one-time savings or revenue accelerations, on the theory that the improved economic conditions associated with the projected economic recovery will keep the budget balanced over the longer term.

Table 2 reflects the General Fund's condition under the budget's assumptions and proposals. For the current year (2001-02), revenues are projected to be \$77.1 billion, expenditures are estimated to be \$78.4 billion, and the year is expected to end with basically no reserves. In 2002-03, revenues are projected to be \$79.3 billion, an increase of 2.9% over the current year and expenditures are estimated to \$78.8 billion, an increase of .5% from the current year, leaving a budgetary reserve of \$.5 billion.

<b>Table 2</b>			
<b>Overall Summary of the Governor's Budget General Fund</b>			
<i>(Dollars in Billions)</i>			
	00-01	01-02	Proposed 02-03
Prior-year fund balance	\$9.4	\$2.8	\$1.5
Revenues and transfers	71.4	77.1	79.3
Total resources available	\$80.8	\$79.9	\$80.8
Expenditures	\$78.0	\$78.4	\$78.9
Ending fund balance	\$2.8	\$1.5	\$1.9
Encumbrances	1.5	1.5	1.4
<b>Reserve</b>	<b>\$ 1.3</b>	<b>\$0</b>	<b>\$0.5</b>

*Source: California Legislative Analyst's Office, Feb 2002*

### REVENUES (Table 3):

The budget's revenue forecast reflects the budget estimates General Fund revenues will grow from \$71.4 billion in 2000-01, to \$77.1 billion in 2001-02, and to \$79.3 billion in 2002-03. These figures are affected by a variety of policy related factors, including the assumption that the electricity loans will be repaid and the tobacco securitization proposal.

The state's three major taxes – the Personal Income Tax (PIT), the State and Use Tax (SUT), and the Bank and Corporate Tax (BCT) – are expected to account for nearly 90% of total General Fund revenue in 2002-03.

California's Personal Income Tax (PIT), the single most important determinant of state revenues, is expected to decline by 13.8% for 2001-02 and then increase by 10.8% for 2002-03. Although the economic slowdown has had an adverse impact on overall wages, the main factor behind the drop in PIT has been the downturn in stock market-related options and capital gains.

The Sales and Use Tax (SUT) is the General Fund's second largest revenue source, accounting for about one-third of the revenue total, is expected to remain constant through 2001-02 and then increase 8% during 2002-03. The combined state and local SUT rate varies significantly across California, due to differences in the local optional rates that are levied. The current state SUT rate is 6%. To that, a uniform local tax rate of 1.25% is levied by all counties. The final overall SUT rate component involves optional local tax rates, which local governments are authorized to levy. The maximum allowable combined rate is 8.75%. The quarter-cent SUT rate that was adopted in 1991 for budget-balancing purposes but subsequently "triggered off" was reinstated effective January 1, 2002, due to the state's poor budget condition. Thus, the Governor's forecast reflects the additional \$1.2 billion revenue that is expected from the increased tax rate.

<b>Table 3</b>			
<b>Summary of the Governor's Budget</b>			
<b>General Fund Revenue Forecast</b>			
<i>(Dollars in Billions)</i>			
	Actual	Proposed	
	00-01	01-02	02-03
<b>Revenue Source</b>			
Personal Income Tax	\$44.6	\$38.5	\$42.6
Sales and Use Tax	21.3	21.2	22.9
Bank and Corporation Tax	6.9	5.3	5.9
Other Taxes	1.4	1.3	1.0
Tobacco Securitization	---	---	2.4
Electricity Loans	-6.2	6.2	---
Other revenues	1.9	1.7	1.3
Other transfers and loans	---	---	1.6
<b>Totals</b>	<b>\$71.4</b>	<b>\$77.1</b>	<b>\$79.3</b>
Percent Change		7.9%	2.9%

Source: California Legislative Analyst's Office, Feb 2002

#### EXPENDITURES (Table 4):

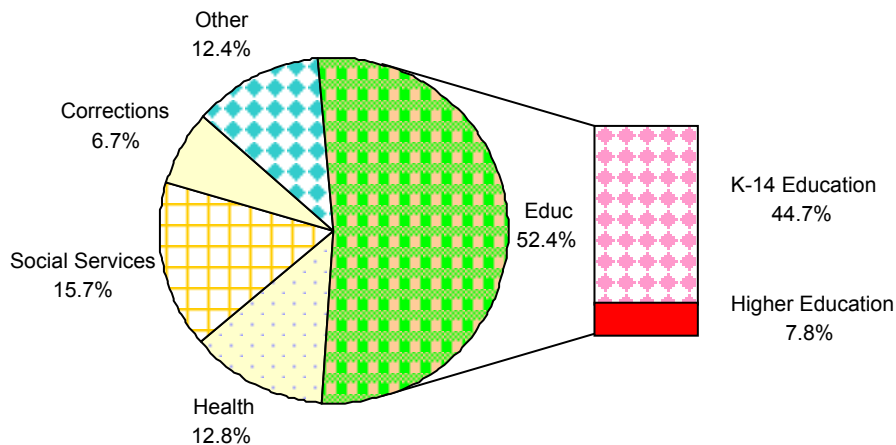
The General Fund is the predominate source of support for state programs. Table 4 summarizes General Fund spending reflecting a modest increase of \$426 million or 5% from the current year's level. Over one-half (52%) of the total budget is devoted to education, with K-14 education accounting for about 40% of the total budget plan and Higher Education receiving about 7.8%. Combined, health and social services programs account for slightly more than one-fourth, while spending on youth and adult corrections accounts for about 6.7% of the total.

Table 4

**General Fund Spending by Major Program Area***(Dollars in Millions)*

	Actual 2000-01	Estimated 2001-02	Proposed 2002-03	
			Amount	Percent Change
<b>Education Programs</b>				
K-12 Education	\$27,229	\$28,270	\$28,582	1.1%
Community Colleges } Proposition 98	2,680	2,693	2,682	-0.4%
Higher Education (CSU and UC)	5,644	6,166	6,104	-1.0%
Other (e.g. Hastings College)	3,343	4,202	3,933	-6.4%
<b>Health and Welfare Programs</b>				
Medi-Cal	\$9,168	\$9,705	\$10,072	3.8%
CalWORKS	1,966	2,015	2,151	6.7%
SSI/SSP	2,555	2,821	3,049	8.1%
Other	6,121	7,181	7,169	-0.2%
<b>Youth and Adult Corrections</b>	\$5,298	\$5,372	\$5,274	-1.8%
<b>All Other</b>	\$14,050	\$9,956	\$ 9,790	-1.7%
<b>Totals</b>	<b>\$78,053</b>	<b>\$78,380</b>	<b>\$78,806</b>	<b>0.5%</b>

Source: California Legislative Analyst's Office, Feb 2002

**HIGHER EDUCATION OUTLOOK**

The 2002-03 Budget proposes combined general fund support for CSU and UC of \$6.1 billion. This represents an increase of \$68.5 million, or 1.1% compared to the current year. In prior years, the Governor has supported a budget agreement or "partnership" with higher education. The partnership as originally defined includes an annual increase of 4%, plus additional funding for enrollment growth and long-term budget needs, capital outlay and selected high priority initiatives.

In return, the CSU agreed to certain accountability goals. Regrettably, as a result of the slowing in the State's economy, the funding agreement was not being fully funded by the Governor for 2002-03 and both the UC and the CSU have had to share in the budget reductions necessitated by the decline in State revenues. The Governor has stated his intentions to resume the funding elements of the Partnership once the State's fiscal situation improves. Nevertheless, both segments' commitment to the accountability measures under the Partnership continues.

Budgeted enrollment levels will increase by 4% at both institutions – 7,100 full-time equivalent students (FTES) at the UC and 12,030 FTES at the CSU. Both segments will also receive funds to continue the conversion of summer enrollment to state-supported instruction.

### GOVERNOR'S PROPOSAL FOR THE CSU, JANUARY 2002

Overall, the proposed budget provides an increase for the CSU of \$82 million, the net change after accounting for an increase towards the Partnership Agreement of \$117 million; increased revenue of \$21 million associated with enrollment growth, and a \$56.0 million reduction related to the current economic situation. And, for the eighth year in a row, there is no increase in system-wide mandatory student fees.

### 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. The May Revise has traditionally been considered to be an important milestone in the budget process and it is usually the benchmark for the final budget. This year, however, the May Revise is just another point of departure for the Legislature and the Governor.

As many experts predicted, the original budget plan in January was overly optimistic about the rate of State revenue recovery. By May, the State deficit was projected to be \$23.6 billion and could climb higher depending on the economy and the final budget plan. In striking contrast to the past several years, the 2002-03 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 Governor's proposal to solve the \$23.6 billion shortfall is a combination of spending reductions and revenue increases, as well as funding shifts, loans, accelerations, transfers, and deferrals. Table 5 displays the Governor's revised plan as compared to the original budget plan in January. The Governor's updated plan would address about one-third of the total \$23.6 billion shortfall through spending cuts.

With the exception of K-12 Education, Adult Corrections, and the California Community Colleges, all major program areas would experience significant program reductions in 2002-03. The Revise also expands the January proposal to securitize a share of the state's tobacco settlement revenues to provide for an additional \$2.1 billion for a total of \$4.5 billion in accelerated revenues in 2002-03. Under this proposal, the state would sell investors a revenue bond with debt service payments backed by future tobacco settlement receipts. The Governor also introduced a new component into the solution plan related to tax increases, including a one-time increased tax on cigarettes, and a one-time partial rollback of the Vehicle License Fee reduction approved in 1998.

<b>Table 5</b>				
<b>Governor's Proposed Budget Solutions</b>				
<b>General Fund</b>				
<i>(Dollars in Billions)</i>				
<b>Type of Solution</b>	<b>January 2002</b>	<b>Added</b>	<b><u>Total Solutions</u></b>	
	<b>Governor's</b>	<b>Solutions in</b>	<b>Amount</b>	<b>Percent</b>
	<b>Budget</b>	<b>The May</b>		<b>of</b>
	<b>Plan</b>	<b>Revision</b>		<b>Solution</b>
Spending Reductions	\$5.2	\$2.4	\$7.6	32.2%
Loans/transfers/deferrals	\$3.0	\$2.2	\$5.2	22.0%
Tobacco settlement securitization	\$2.4	\$2.1	\$4.5	19.1%
Tax increases and accelerations	\$0.2	\$3.7	\$3.9	16.5%
Fund Shifts	\$0.6	\$0.7	\$1.3	5.5%
Federal funding increases	\$1.1	\$0.0	\$1.1	4.7%
<b>Total Proposed Solutions</b>	<b>\$12.5</b>	<b>\$11.1</b>	<b>\$23.6</b>	<b>100.0%</b>

Source : California Legislative Analyst's Office, May 2002

The CSU again received relatively favorable treatment in the May Revise. While the revised budget plan proposes a further reduction of \$70 million to the CSU, this is offset in part by an increase of \$19.5 million to fund an additional 1% enrollment growth above the level provided in the January Budget, for a net reduction of \$50.5 million. This reduction includes \$27 million in cuts directed to specific programs at the system level, \$5 million cut in technology equipment purchases at the system level and \$38 million in unallocated cuts to campus operations.

The May Revision was released just as RPP was finishing its work and was therefore not specifically reflected in the campus' planning figures.

## 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 2002-03 budget request to the Governor last fall seeking \$269 million in increased resources: \$89.5 million for 4% employee salary increases, \$87.9 million for 4% enrollment growth; \$14 million for technology; \$11.9 million in mandatory costs, \$10.8 million for state-supported summer enrollment; \$12 million for deferred maintenance and libraries, \$10 million for student services improvement, \$10 million for high-cost programs; \$9.7 million for operating new space; \$7.9 million for State University Grants and fee waivers; and \$5.3 million for special CSU initiatives.

Despite the state's substantial budget shortfall, the CSU was treated relatively well in the Governor's January budget. Overall, the initial budget proposed a \$138 million increase to the CSU, less a \$56 million budget reduction that was enacted in the current fiscal year and continued into 2002-03. The budget provided sufficient funds to preserve the 4% system-wide enrollment increase, a 1% salary pool for all employees, and system-wide mandatory costs and network initiatives.

### COMPENSATION

On March 2002, the CSU Board of Trustees announced their intent to increase non-resident tuition by 15%. The new revenue will be directed to employee compensation, bringing the salary increase pool to 1.5%. The allocation provides for general, service-based, and performance-based salary increases. This new compensation package requires appropriate negotiation under the provisions of the Higher Education Employee Relations Act (HEERA) with the appropriate collective bargaining units.

### ENROLLMENT

Enrollment is the second largest component of the budget increase. For 2002-03 the budget includes funding for a 4% system-wide enrollment growth totaling 12,030 full-time equivalent students (FTES). For Long Beach, our 2002-03 enrollment target has been set at 26,440 FTES, which is 1,295 FTES (5.1%) over the current year's enrollment target and 293 FTES below this year's actual enrollment.

The campus has designed 460 FTES of the increased target for the state-supported summer term. This will bring the funded enrollment target for summer 2002 to 1,605 FTES, which is consistent with the actual enrollment experienced last summer.

## PRELIMINARY CAMPUS ALLOCATION

The Chancellor's Office issued preliminary campus budget allocations in April 2002, reflecting a \$16.6 million general fund increase for CSULB, when combined with some local revenues, the total general fund increase totals nearly \$19 million. About 70% of the new funds have been earmarked or reserved for specific expenditures, leaving roughly \$5.3 million in new campus discretionary funds for the campus planning process.

Subsequent to the system office releasing this preliminary allocation, the Governor released the May Revise. While the revised budget plan proposes a further reduction of \$70 million to the CSU, this is offset in part by an increase of \$19.5 million to fund an additional 1% enrollment growth above the level provided in the January Budget, for a net reduction of \$50.5 million. This reduction includes \$27 million in cuts directed to specific programs at the system level, \$5 million cut in technology equipment purchases at the system level and \$38 million in unallocated cuts to campus operations. Our campus' share of the additional \$38 million reduction is estimated to be \$2.8 million and, as a consequence the amount of new discretionary funds available will be reduced.

## **LOCAL CAMPUS CONDITIONS**

Early in the budget cycle, the campus' local planning process judged that there would be a high probability that the actual budget would be leaner. Therefore, it was important that we be prepared for reductions, which might include a cut in our base budget.

Given the considerable uncertainty about the economy and the politics associated with the State Budget, the RPP Task Force believed that it was necessary to develop a flexible budget plan that would be capable of responding to changing conditions. Therefore, the Task Force agreed to plan for three different scenarios:

1. A decrease of up to 5% in our state support budget effective July 1, 2002;
2. A reduction at the middle of FY 2002-03 and/or at the beginning of FY 2003-2004;
3. A budget increase sufficient to cover the budgeted enrollment increase and some existing commitments as well as provide a modest level of discretionary funding to address a number of priorities.

## **CONCLUSION**

The CSU received favorable treatment in both the original Governor's Budget and in the May Revise. The Governor's Budget proposed a net increase of \$82 million. Thereafter, the May Revise included a net reduction of \$50.5 million from the level proposed in the Governor's January Budget. Recent actions by the Legislature indicate that there could still be further adjustments to the CSU. The System Office is working with the Legislature and the Governor's Administration to maintain funding for the CSU at the May Revise level.