



CALIFORNIA STATE UNIVERSITY, LONG BEACH

June 19, 2002

TO: President Maxson

FROM: Karl W. E. Anatol
William H. Griffith
Co-Chairs, 2002-03 Resource Planning Process Task Force

SUBJECT: **2002-03 Resource Planning Task Force Recommendations**

We are pleased to transmit the 2002-03 RPP Task Force Recommendations for your consideration, along with the planning parameters that shaped this year's process. For several months, the campus has been dealing with considerable uncertainty both in the current and the next budget year. The Task Force was diligent in the development of a responsible budget plan that considers the most realistic and probable outcome.

In spite of the favorable treatment we received in the Governor's January Budget, the RPP Task Force understood 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.

The RPP Task Force initially developed a plan that set priorities for a possible budget increase of up to \$3.750 million in discretionary funding above the current year. Of that, the Task Force set as the highest priority \$2.029 million for faculty costs to accommodate the new enrollment target. The information in the May Revise left little hope that there will be sufficient funds to respond to the divisions' incremental budget requests other than this highest priority, and it is possible there will not even be sufficient funding in the final budget to provide for the support for the increased enrollment target.

Governor's Proposed Budget – January 2002

For some time, there was evidence that the State's fiscal outlook was uncertain and that after eight years of economic expansion, the national and California economies were entering a recession. The September 11 terrorist attacks exacerbated the State's already seriously deteriorating fiscal situation. The Governor's January Budget projected a shortfall of at least \$12.5 billion for the 2002-03 budget year. The Governor's proposed plan was optimistic about the rate of revenue recovery and it proposed to close the gap through moderate budget cuts, various multi-year borrowing and one-time budget solutions.

Although the proposed budget did not fully fund the higher education “partnership agreement”, the Governor’s priority to education resulted in a plan that was relatively favorable to the CSU. The proposed budget for the CSU included a \$138 million (4.5%) general fund increase, offset by a \$56 million budget reduction enacted in the current fiscal year and continued into 2002-03 for a net increase of \$82 million. The proposed increase included funding for a 4.0% increase in enrollment, a 1.0% salary increase pool for all employees, and system-wide mandatory costs and network initiatives. In March, the Trustees announced their intent to increase non-resident tuition by 15% and directed the new revenues be used to increase the employee compensation pool to 1.5%.

CSULB’s share of the system’s net budget increase was roughly \$10 million, a 4.4% increase over the 2001-02 general fund budget. While this constitutes a significant increase, a large portion of these new resources would be earmarked for specific expenditures and prior claims, leaving a limited amount of discretionary funds. Even under the most optimistic assumptions, our capability to fund new and continuing budget requests will be extremely limited.

The Governor’s May Revise

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 recovery rate of State revenues. 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. The May Revise introduced a modest amount of tax increases and, while increasing program reductions, budget cuts still account for only 30% of the solution. The revised plan also continues to place a heavy reliance on borrowing and deferrals.

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.

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.

RPP’s Recommended Budget Planning

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.

Budget Decrease Plan:

Given that contingency planning was absolutely necessary, each division was asked to prepare contingency plans for the possibility that the entire increase proposed in the Governor's Budget would be eliminated, and that a cut could be imposed on our base budget. The underlying premise was that divisions' reduction plans would preserve critical services, avoid fundamental disruption, and prevent loss of any permanent faculty or staff. The Task Force has been assured by each of the divisions that they will be able to preserve most instruction and critical services at the lower reduction levels. However, the Division of Academic Affairs has indicated that if budget cuts reach the upper limits of those predicted, there is a correspondingly higher probability that services will be adversely affected. Concurrent increases in enrollment and existing contractual obligations together have an impact on support for instruction.

Each division developed a budget reduction plan that incrementally responded to a one-time reduction of up to 5% from the 2001-02 base budget. Should there be a need for the base budget to be reduced as a part of the final budget, the RPP Task Force recommends that a non-recurring adjustment be made to all divisions and only to the extent necessary.

Budget Decrease at Mid-Year:

Another possible outcome would be a mid-year reduction and/or a reduction at the beginning of fiscal year 2003-04. Since this outcome is entirely possible, the Task Force recommends that the divisions hold their contingency planning in place through the fall semester.

Budget Increase Plan:

Based on the assumption that some portion of the Governor's January Budget would survive, the RPP Task Force set the upper limit for the budget increase plan at \$3.750 million in discretionary funding over the current year. If sufficient funding survives in the final budget, the Task Force recommends \$2.029 million be allocated for additional faculty to accommodate the budgeted academic year enrollment increase of 835 FTES.

Should the May Revise survive intact, base budgets will remain whole, but there will only be sufficient new funding to address the highest priority for faculty to accommodate the new enrollment target. Regrettably, the Task Force saw little probability of being able to fund any of the remaining division requests.

Campus-wide Planning: Mid-Range Goals

In recent years, the campus developed Mid-Range Goals to help guide the Resource Planning Process. This year, these goals anticipated the budget conditions that we are now facing and helped to identify the most pressing all-university challenges, along with specific division issues. Given these latest budget developments, progress toward advancing many of our mid-range goals is likely to be delayed.

Long-Range Budget Planning

While all of our recent attention has been directed to the immediate budget issues, after this crisis passes we will still need to adjust to the new circumstance of attaining our enrollment capacity. Once we are filled to capacity, all of our existing resources will be required to deal with a large but stable enrollment. A stable enrollment implies no additional funds for the University based upon enrollment growth, traditionally our most important and often only source of new discretionary support. Because it is unlikely that our expenses will stabilize with our enrollment, it is imperative that we develop a comprehensive budget strategy to deal with these new conditions.

The Task Force commends the divisions for preparing responsible budget increase requests, for making difficult choices, and forwarding only essential needs. In the absence of new discretionary funds, the need to honor prior commitments or respond to compelling service needs will result in the divisions' need to reallocate. Many multi-year contractual obligations have been funded on a year-to-year basis using non-recurring discretionary funding, especially in the division of Academic Affairs.

In closing, the members of the Task Force are to be applauded for their cooperative efforts and dedication to the process. As in prior years, the Task Force has agreed to reconvene for further consultation, as necessary.

c: RPP Task Force
President's Cabinet
Deans, Directors, Department Heads
Academic Senate Office
Financial Affairs Council
Staff Council
Library Reserve Book Room