



CALIFORNIA STATE UNIVERSITY, LONG BEACH

July 13, 2004

TO: President Maxson

FROM: William H. Griffith, Vice President for Administration and Finance

Gary W. Reichard, Provost and Senior Vice President for Academic Affairs
Co-Chairs, 2004-05 Resource Planning Process Task Force

SUBJECT: 2004-05 Resource Planning Process Task Force Report

We are pleased to submit the report of the 2004-05 Resource Planning Process (RPP) Task Force, including the planning parameters that shaped this year's process and recommendations.

Executive Summary

Including the 2003-04 fiscal year, CSULB has had two difficult budget years, and the RPP Task Force anticipates having one more challenging one. It is expected that our share of the State's 2004-05 General Fund net budget reduction to the CSU system combined with unfunded mandatory costs will total some \$14 million.

The RPP Task Force and each of the operating divisions have collaboratively constructed a plan for dealing with the \$14 million anticipated reduction that will protect the fundamental integrity of our academic programs, ensure that students are generally able to get classes needed to make reasonable progress to degree, and maintain the most vital support services for the 2004-05 academic year. Each division has planned for an 8% reduction in its base budget. During recent years the divisions have been very cautious in their spending and accumulated reserves, and RPP's 2004-05 budget strategy incorporated provisions for the application of these temporary resources to offset some of the impact of the 8% base budget reductions.

The reserves can be applied one time thus minimizing the disruption in the coming fiscal year and maintaining our essential programs and services. This is particularly critical in Academic Affairs, where the use of these temporary resources will ensure enrollment does not drop below the campus student enrollment target.

Just as the RPP Task Force was completing its work in May 2004, the Governor issued his 2004-05 Budget Revision, which did not include any additional cuts to the CSU. The Governor also announced a multi-year agreement with the UC and the CSU for a new budget compact beginning in 2005-06, whereby the two systems agreed to accept the 2004-05 budget cuts proposed by the Governor in exchange for a promise to support future budgets. This budget compact would ensure that the State's administration will support a minimum and predictable level of funding in the future. In return for these funding commitments, both sectors have committed to provide comprehensive annual reports on a variety of student outcome-based performance measures.

Despite the good news contained in the May Budget Revision, there is still some moderate level of risk that further budget reductions will be made to Higher Education during the closing days of the 2004-05 budget process, when final negotiations and compromises are reached with the Legislature. Should CSULB experience additional reductions, the campus is prepared to apply up to \$8 million in one-time, temporary funding to protect both instruction and non-instructional budgets from further cuts. The RPP Task Force has judged this level of reserves to be a sufficient contingency. Any portion of these funds not required in 2004-05 would be available for the 2005-06 budget planning process.

Recent Developments

As we were preparing the final copy of this report for publication, both the Senate and Assembly were considering alternative budget proposals. These actions together with subsequent meetings between the top Legislative leaders and the Governor held some promise that the CSU would receive a modest improvement in the 2004-05 Final Budget. Therefore, we held the report until July 13 in anticipation that we would have the budget momentarily. At that point, the timing of the budget was still unclear, so we decided to release the report.

While delays in getting a final budget are not a good sign, we remain cautiously optimistic that the CSU's budget might have some modest restorations in funding for access and/or outreach from the May Revision.

Governor's Proposed Budget and May Revision

In January 2004, the Governor proposed a budget plan to the Legislature that became the framework for the campus' 2004-05 budget planning. The Governor's budget plan did not incorporate tax increases, but did include new revenues from the Economic Recovery Bond passed by voters on March 2, program cuts, additional borrowing and funding realignments. Since not all of these budget solutions are permanent, an estimated \$7 billion imbalance between revenues and expenses remains in subsequent budget years.

Higher Education took some of the biggest cuts of any major state program in the proposed budget plan. For the CSU, the budget included \$240 million (9%) in budget reductions and unfunded costs and incorporated a student fee increase of 10 percent for undergraduates and 40 percent for graduates. The Governor's January budget plan was also very specific as to how the CSU would deal with some of its reductions. The position of the CSU, and that of the coalition (CSU, California Faculty Association, Academic Senate, and CSSA), has been to argue for budget flexibility on how the reductions would be applied rather than context the amount of the total reduction. For example, the Governor's plan proposed that the CSU reduce the Educational Opportunity Programs and Outreach by \$52 million. The CSU has adamantly opposed a targeted cut to these programs that have been very successful for students who otherwise may not have the opportunity to attend the CSU. Instead, CSU has substituted a plan that would distribute the \$52 million cut as an unallocated reduction across all the campuses. Until a final budget is enacted, there is some risk that the CSU's plan for managing this and other targeted reductions could be rejected.

Based on the January Budget, the Task Force estimated that CSULB would experience a budget cut of at least \$20 million (11.6%) as the campus share of the 2004-05 State General Fund budget reduction and unfunded costs to the CSU system. After the additional revenues from the proposed student fee increase offset some of the State budget cut, and after local resources offset prior year commitments, the net effect is projected to be a \$14 million (8%) base budget reduction.

On May 14, 2004, the Governor released the May Revision to the 2004-05 Budget. The revised budget plan incorporated minor changes in state revenues and expenditures and aims to end the state's deficit by June 30, 2006. For the CSU, the May Revision did not include any further reductions to our 2004-05 operating budget. The Governor modified the student fee rate increases that were proposed in January, substantially lowering the increase for graduate students and slightly increasing the rate for undergraduate students. On May 19, 2004, the CSU Board of Trustees approved this new rate structure, effective in fall 2004: Undergraduate student fees will increase by \$288 (14 percent), credential program fees will increase by \$250 (20 percent), and all other post-baccalaureate and graduate fees will increase by \$564 (25 percent).

One fifth of these new revenues will be set aside for student financial aid. Non-resident tuition will increase 20% for 2004-05.

Since the May Revision did not increase the CSU's budget reduction, CSULB's \$8 million one-time reserve remains available to the campus as a contingency for any deterioration that may occur in the final days of the 2004-05 Legislative budget session or any exposures that may develop in 2005-06.

In conjunction with the May Revision, the Governor also announced a multi-year commitment to higher education, whereby the UC and the CSU would accept the budget cuts in 2004-05 in exchange for budget support in subsequent years. The budget compact is a very welcome development, as the 2005-06 budget year was most worrisome due to the high reliance on one-time funding in 2004-05. The agreement, which begins in 2005-06 and continues through 2010-11, provides base funding increases of 3% for the first two years, 4% for 2007-08 and 5% thereafter. Further, enrollment growth funding of 2.5% annually is provided for the duration of the agreement. In return for these funding commitments, the CSU will provide comprehensive annual reports on a variety of student outcome-based performance measures, as well as measures of resource utilization and student data. The agreement also calls for student fee increases in each of the next three years. A budget increase consistent with this agreement will require Legislative action in 2005.

RPP's Recommended Budget Reduction Plan

A basic planning assumption was that the State would be dealing with a structural budget problem through 2005-06. Moreover, since there was substantial uncertainty about the magnitude and duration of the budget problem, RPP shaped a flexible budget plan that relies on temporary resources to cover 2004-05 needs. Such reliance on one-time temporary funds in the budget strategy has risks but minimizes the impact of the budget reductions in 2004-05, and allows time to phase in more permanent solutions for the following year if necessary. Fortunately, 2005-06 could be less problematic if the State is able to deliver on the terms of the new compact agreement.

This year's plan for dealing with the upcoming budget reduction has three distinct components: (1) an 8% base budget reduction, (2) one-time temporary relief utilizing division carryover funds, and (3) a contingency reserve at the university level.

1. 8% Base Budget Reduction (\$14 million)
 - All divisions' 2003-04 base budgets will be reduced by 8%, based on the Governor's proposed budget plan.
2. Division Reserves (\$6.3 million)
 - The divisions have been very conservative with hiring and spending over the past few years and have accumulated savings that can serve as one-time budget relief where otherwise base reductions would pose significant

impact or risk to the University. The application of these resources, along with expected employee attrition and the reduction in the number of temporary employees, avoids the layoff of any permanent/probationary faculty or staff in fiscal year 2004-05.

- After applying some \$6.3 million in temporary funding to the \$14 million reduction, the net impact in 2004-05 is reduced to approximately 5%.
3. University Contingency Reserve (\$8 million)
- One-time savings from 2003-04 university-wide budgets and excess revenues have been reserved to offset any deterioration that should occur in the final budget. While we judge the risk to be modest, it remains important to protect the University from disruptive budget fluctuations whenever possible.
 - Since the reductions in our state operating budget are permanent, and our plan utilizes temporary savings not available in future years, a base budget solution must be finalized in the next budget cycle.
 - Any portion of the contingency reserve not required for 2004-05, will be carried over to assist with budget planning for 2005-06, which will begin during the fall 2004 semester.

Budget Impact to Campus Divisions

While there are no targeted or program-specific reductions next year, there will be impacts to many programs campus wide. Curriculum offerings will be spread very thin and there will be cuts in student advising. Academic Computing and Network Services are losing personnel and freezing positions precisely at a time when services need to expand. We will be unable to take advantage of the benefits of the link between the Common Management System (CMS) student databases and Academic Computing due to lack of personnel. The level of services that can be provided by Counseling and Psychological Services and the Student Health Center will be compromised. Evening and weekend services will be substantially reduced, creating hardships for our non-traditional students, and the maintenance of the physical plant will be impaired.

The anticipated reduction in instructional resources for 2004-05 could generate a much larger enrollment loss than the 5% decrease in our assigned target if the anticipated reduction were taken in full. Under such circumstances, the campus would fall below its assigned target, students would be unable to make reasonable progress to degree, and the fundamental integrity of many academic programs would be harmed. To avoid these unacceptable consequences, the Division of Academic Affairs will shelter the majority of lost instructional resources by applying temporary carryover funds. The fact that assistance from the division will not be available again creates risk for future years. The Task Force commends the divisions for preparing responsible budget reduction plans and for making difficult choices. Further information on the 2004-05 budget reduction plans is provided in the appendix of this report, pages B1-B51.

Enrollment in 2004-05

As part of the CSU's strategy for responding to the cuts imposed for 2004-05, our enrollment target is reduced by 5% or 1,387 full-time equivalent students. At this same time, admission applications for next year have increased 20-25% in all categories to an all-time high of 50,000 applicants for Fall 2004. This increase in applications collides with our enrollment target reduction, requiring the campus to raise the admission requirements and deny admission to a record number of CSU-eligible applicants. CSULB will not admit about 13,000 CSU qualified freshmen and approximately 2,000 CSU qualified transfer students.

To ensure that we can adequately serve enrolled students, we must carefully manage admissions. Throughout late fall 2003 and early spring 2004 intense discussions occurred in the Enrollment Advisory Committee, the RPP Task Force and the Council of Deans regarding how to implement admissions controls. The final decision was to take necessary reductions in a balanced manner among freshmen, transfers and post-baccalaureate credential admissions, leaving graduate degree admissions to the discretion of departments.

Although the Chancellor offered campuses the option to return summer to self-support, CSULB opted to keep the term on the General Fund and reduced the summer instructional budget by 10% for 2004. Moreover, CFA and the division of Academic Affairs worked through an agreement for faculty and summer instruction. Other CSU campuses which did return to self-support may capture some of our nonresident summer enrollment because there will be a cost advantage for the students that we cannot match.

Campus Strategic Planning

CSULB's Goals provide the framework for RPP's budget planning and identify priority issues in a three-year planning horizon affecting the whole university. The goals represent a change agenda at the university level and do not incorporate all of the core responsibilities for the divisions.

These goals are incorporated in the division plans submitted to RPP and the Task Force commends the divisions for continuing to advance campus goals while coping with budget reductions. The complete set of Campus Goals is included in the Appendix of this report and is available on the University's Strategic Planning website at www.csulb.edu/divisions/aa/planning_enrollment/.

Conclusions

This year, the Task Force believed it was important to issue a preliminary status report to the campus community before the end of the semester to alleviate the anxiety on the campus in these uncertain times. (A copy of this communication is included in the appendix of this report, pages F1-F2.)

The Academic Senate, California Faculty Association, student leadership, staff, and campus administration have collaborated throughout this budget process to minimize the impact of the projected budget reductions and maintain morale. Whatever reduction the campus ultimately experiences for 2004-05 will be a permanent loss of resources to our base budget, which means the State resets our base budget to that lower level. When funding increases resume in the future, it is unlikely that we will receive funding specifically to restore these budget cuts. Future budget increases will probably be limited to funding associated with new enrollment growth and mandatory cost increases. Nonetheless, careful allocation of these funds should allow us to consider priorities and strategies for recovery from some of these past budget reductions. Moreover, with the new budget compact beginning in 2005-06, the RPP Task Force remains optimistic that we can avoid serious erosion of our quality programs and services.

c: RPP Task Force
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CSULB Faculty and Staff Union Chapter Presidents