



CALIFORNIA STATE UNIVERSITY, LONG BEACH
DIVISION OF ADMINISTRATION AND FINANCE

To: F. King Alexander, President

From: William H. Griffith, Vice President for Administration and Finance
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Co-chairs, 2007-08 Resource Planning Process (RPP) Task Force

Date: June 15, 2007

Subject: 2007-08 RPP Task Force Report

Campus Strategy

We are pleased to transmit the report of the 2007-08 RPP Task Force including the planning parameters and funding challenges that shaped this year's process and recommendations. Your support for the continuation of our multi-year financial strategy was fundamental to this year's planning. While the Task Force recommends continuation of the budget recovery plan that has served the campus so well in protecting instruction and non-instructional areas, recent developments have changed the longer term outlook and our overall recommendations.

In April, we were presented with an unexpected challenge in terms of budget planning. Following months of protracted negotiations, the final negotiated salary increases significantly exceed the available compensation budget allocated by the Chancellor's Office. These increased salaries are well deserved, are important for recruiting and retaining faculty and staff, and will enhance the quality and future of the campus enterprise. However, there are consequences for our campus budget since we were notified that each campus must fund its share of the unfunded salary increases from local resources. For CSULB, the permanent unfunded cost of salary increases for 2007-08 is estimated to be \$3.2 million. In addition, the annual unfunded compensation costs compounds by an additional \$3 million in each of the subsequent contract years.

Since we anticipate sufficient reserves, the Task Force recommends we avoid the disruption associated with budget cuts and handle this challenge with a funding approach similar to that which was used with state budget cuts four years ago. The Task Force recommends we utilize temporary resources to fund these unanticipated costs until permanent funds become available through increased enrollment funding.

The Task Force has carefully weighed the risk of prolonging our financial strategy period beyond earlier plans. The campus does not have unlimited temporary reserves and cannot rely on non-permanent sources over the long term for base budget requirements. The state's fiscal picture is impossible to predict and any significant change in the economy, state revenues, or state leadership could materially impact the state's ability to fund the Governor's Compact with Higher Education. Also, any interruption to our planned enrollment growth would disrupt the fundamental premise of the financial strategy that new permanent base funds associated with enrollment growth will eventually replace the campus' dependency on temporary resources. Nevertheless, the Task Force strongly endorses the continuation of the multi-year financial strategy.

We are now in the fourth year of the recovery phase of this strategy to replace temporary resources with new permanent funds. Of the \$16 million in base budget cuts during the early 2000s, \$9.5 million has been restored so far, leaving an additional \$6.5 million remaining to be restored over the next two years. The Task Force recommends that the budget recovery plan be continued in 2007-08 and completed the following budget cycle.

Another budget challenge was created by the important decision last year to conduct a comprehensive fundraising campaign to provide better educational opportunities for our students, build our endowment, significantly boost annual fundraising efforts and expectations, and strengthen our statewide and national reputation. This decision was also necessitated by the Board of Trustees' mandate that every campus have such a comprehensive fundraising effort to further the academic mission of the university. With an expected return on investment of 7:1, the Task Force considers this very worthwhile and offers the campaign its full endorsement. During 2006-07, the campaign's start-up costs were supported with temporary resources, but an annual investment of \$1.8 million is required to support this activity. It was assumed that the campaign could be permanently funded in 2007-08, but due to the budget impact of the recent labor negotiations, the campaign must also remain on temporary resources for now.

The campus is fortunate to have or to anticipate sufficient temporary resources to cover the budget recovery plan, the unfunded compensation costs, and the comprehensive fundraising campaign for the near term. While this financial strategy depends on achieving and being funded for enrollment growth, CSULB continues to be a high demand campus, and therefore the Task Force has judged this strategy to represent an acceptable level of risk.

For all of the advantages, this financial strategy will result in limited flexibility over the next several years because all new resources have been pre-committed. It is therefore necessary to exercise conservative and prudent spending. The Task Force will remain alert to external budget factors and changing conditions that could impact this strategy and will be available to consider modifications that might be necessary.

Governor's 2007-08 Proposed Budget

Overall, we are pleased with the good budget support that we have from the state. The Governor honored his commitment to higher education by supporting the Compact Agreement to provide the CSU with a \$299 million or 7.4 percent increase over the prior year. This budget assumes a 10 percent student fee increase, which the Board of Trustees approved on March 14, 2007.

The Governor released the May Revision to the 2007-08 budget on May 14, 2007. Overall, state revenues for the current and budget years are projected to be down modestly from the forecasted levels in the Governor's January budget. At the same time, expenditures related to Proposition 98, pension obligation payments, and some program costs have risen. The net effect of these higher costs and lower revenues is that the budget outlook has worsened by some \$2 billion since January. To offset this budget degradation, the Governor proposed expanded revenues by collecting tobacco settlement proceeds early, and by selling EdFund (the state student loan guarantee agency) to private interests. In addition, the Governor proposed some small cuts in social services and public transit. The May Revision continues to fully fund the compact with higher education and included a \$3.6 million increase for the CSU to support an additional 340 full-time equivalent undergraduate nursing students.

While there is always risk in a political process, the Task Force anticipates that the Governor's budget recommendations for the CSU will be endorsed in the final budget.

CSULB Strategic Priorities and Goals

CSULB has achieved recognition as the third highest ranked public Master's granting university in the West in America's Best Colleges 2007 and as one of America's Best Value Universities. This recognition is the result of sustained striving for excellence on the part of the university community. CSULB now aims to achieve still greater distinction with four strategic priorities: Student Success, Academic Quality, Service Excellence, and Campus Life and Environment:

- **Student Success:** By 2008, CSULB aims to raise already-improving graduation rates to a leading position among comparable universities in California and in the nation.
- **Academic Quality:** Excellence in research and creative activities strengthens academic programs, leads to new areas of disciplinary and interdisciplinary focus, and adds value to CSULB degrees. Academic priorities include increasing external support and internal recognition for faculty scholarship and creative activity, fostering student engagement in research, increasing study abroad opportunities, enhancing graduate education in targeted areas of strength and growth, and increasing support for academic technology.
- **Service Excellence:** CSULB seeks to deliver "Excellence Every Day" in services through the concerted efforts of staff and the skillful deployment of technology.
- **Campus Life and Environment:** CSULB aims to enhance its distinctly beautiful campus, update and expand the existing infrastructure, and preserve the quality of the physical environment.

The CSULB *Strategic Priorities and Goals* are reviewed and revised annually and guide our budget planning process. Each division provided a budget plan demonstrating how campus priorities and goals will be advanced by divisional activities. The Task Force commends all the divisions for preparing responsible budget plans, their commitment to advancing the campus goals, promoting student success and improving essential services.

Campus *Strategic Priorities and Goals* for 2007-10 are available on the university's strategic planning website: http://www.csulb.edu/divisions/aa/planning_enrollment/

CSULB Budget

The campus' state general fund budget is estimated to increase by \$24 million. Approximately \$18 million is designated for specific expenditures, e.g. compensation (\$10.1 million), financial aid (\$3.6 million) health benefits rate change (\$2.0 million), retirement rate change (\$1.9 million) space and energy (\$.4 million), and deferred maintenance (\$.2 million).

With enrollment growth funding, the campus will allocate \$5.7 million in permanent funding to continue the budget recovery plan that has been effective in creating fiscal stability for the campus over the past three years. Within this plan, the first priority for permanent funding is \$1.8 million in faculty resources to accommodate the campus' increased enrollment target. The remaining permanent dollars will be used to restore base budgets and reduce dependency on temporary funding.

The campus will also allocate \$8.7 million in temporary funding to sustain operations until permanent funds become available to restore the remaining base budgets. Temporary resources will also be utilized to pay the unfunded salary increases for 2007-08, and fund the comprehensive fundraising campaign.

Shortfall to Fund Compensation Agreements

Campuses were notified in spring 2007 that the Chancellor's Office negotiated contract agreements that exceed the planned compensation budgets for the next several years. For the CSU, the cumulative permanent cost requirement by 2010-11 will approach \$150 million.

For CSULB, the cost of this shortfall is estimated to be \$3.2 million for 2006-07 and 2007-08, and will further compound by an additional \$3 million in each of the following three budget years. By 2011, the annual budget requirement to permanently fund the salary increases will approach \$12 million. The Task Force factored the need to cover these unfunded costs into the university's budget planning.

Continuing the Multi-Year Financial Strategy

The Task Force strongly endorses the continuation of the multi-year financial strategy. This strategy has successfully protected the campus from the disruption and trauma of state budget cuts and has created an invaluable sense of stability and calm. To ensure the continuation of this steady state, and to avoid the necessity of having to cut

existing base budgets, the Task Force recommends that the budget recovery plan be continued in 2007-08 and completed the following budget year.

The campus is fortunate to have sufficient temporary resources to fund the budget recovery plan, the unfunded salary costs, and comprehensive fundraising campaign for the foreseeable future.

Enhanced Classroom Maintenance

An enhanced classroom maintenance program was initiated in 2006-07 and is included in the budget plans for 2007-08. This program augments the regular classroom maintenance budget to provide for regularly scheduled painting, more frequent floor stripping and waxing, carpet cleaning, and repair/replacement of chairs, tables, window coverings, floor tile, and white boards. Funding for this enhanced program during 2006-07 and 2007-08 was provided by one-time proceeds from a legal settlement with Enron. While funding to continue this program beyond 2007-08 has not yet been identified, the Task Force will give it serious consideration in the next budget cycle.

Enrollment

CSULB has experienced strong enrollment growth in recent years. There have been three important reasons why the campus chose to accept this growth and a fourth important reason has recently been added.

1. Student Need: California experienced a large increase in high school graduates beginning in the late 1990s and CSULB had dramatic increases in demand for admission from freshmen.
2. Capital Plans: CSU policies require that all major building projects be justified by enrollment growth. The campus has plans for science and liberal arts buildings which cannot be constructed unless the campus demonstrates enrollment growth.
3. State Budget Cuts: The state reduced CSU budgets in 2002, 2003 and 2004. Cuts to CSULB totaled about \$16 million. The campus protected academic programs and services from the full impact of these cuts by using temporary funds. As temporary funds are exhausted, new enrollment funds are being used to make support for programs permanent. Without enrollment growth funding coming to the campus, budget cuts would have to be implemented.
4. Excess Compensation Costs: Recently, collective bargaining agreements awarded compensation increases in excess of available state funding. These excess compensation increases have to be funded by the campus. To avoid reducing academic programs, the campus is planning to again use temporary resources on a short term basis to fund these unanticipated costs. As temporary funds are exhausted, new enrollment funds will be used to pay these excess compensation costs. Again, without enrollment growth funding coming to the campus, budget cuts would have to be implemented.

Many CSU campuses must deal with state budget cuts and excess compensation costs without the benefit of enrollment growth and the associated funding increase. Those

campuses have had no alternative but to take cuts in academic programs and services. CSULB's financial strategy avoids the pain of budget cuts but does reduce campus flexibility in the use of new enrollment growth dollars since those funds are pre-committed to permanently supporting academic programs and services that have avoided cuts with temporary funds. The Task Force has confidence in recommending the extension of this strategy for the near term because of the strong enrollment demand that exists for CSULB.

Unlike some of our sister campuses that are struggling with enrollment, CSULB has exceeded its 2006-07 enrollment target by about 700 FTES. This result is due to an increase in transfer students, an increase in rates of continued enrollment attributable to the success of retention efforts and changing student mix, an increase in the size of the freshman class, and a rise in the student average unit load to an all-time high.

For 2007-08, the system office has assigned CSULB an enrollment target of 29,357 FTES, an increase of 637 resident FTES over our funded enrollment target for the current year. We have already achieved next year's target in the current year, which adds to our confidence level that we can expect continued enrollment demand. Based on recent trends, current projections suggest that the campus could be overenrolled next year by 800 FTES. Over-enrollment poses a significant risk of not being able to provide necessary classes to students and places significant pressure on academic facilities, requiring that we schedule very efficiently. Consequently, the campus aims to modestly reduce the size of the freshman class to the 4,100 – 4,200 range and to reduce transfer enrollments by about 200 FTES to avoid excessive over-enrollment.

Contingency Planning

The Task Force judges the risk of a significant reduction in the Governor's recommended budget to be modest. And while there is no certainty in a political process, the Task Force did not believe the risk was high enough to warrant separate contingency planning for the campus. Each division has reflected some contingency planning in its RPP presentations by identifying expenditure priorities.

Long Term Outlook

Our ability to implement the budget strategy recommended by RPP may be affected by external factors that remain uncertain. In particular, we note that:

- Our strategy is highly dependent upon funding from continued enrollment growth to meet financial obligations. We are a "destination" campus of choice. However, it is also the case that in the next several years, high school graduates in California are forecast to decline slightly. This could reduce the state's willingness to fund enrollment growth, despite the robust demand at a few campuses, such as CSULB.
- A recession due to economic cycles or other factors, something with which we are quite familiar, could affect the state's ability to fund enrollment growth.
- Other demands on the state budget, such as health care or prison reform, could affect available funding. However, in recent years, governors of both

parties and the legislature have been reasonably supportive of higher education.

- Growing public awareness of a number of higher education issues could help us. The CSU is increasingly recognized as one of the most accessible and efficient models for high quality higher education in the United States. More leaders in our state are recognizing the vital need for California to help a larger percentage of its young people obtain a college degree in order to strengthen economic opportunity and enhance global competitiveness across the state. Political awareness of these issues could work to the benefit of our students and campus.

The budget strategy recommended by RPP has important consequences for the university over the next four to five years. As enrollment growth occurs, new permanent enrollment funds will be required to provide classes to meet student needs and to replace temporary funding covering already-obligated costs (including excess compensation, recovery from prior reductions, and the comprehensive fundraising campaign). Meeting these already-obligated costs will seriously constrain our financial flexibility for the near future. The need for fiscal constraint will be especially challenging over the next few years, given our growing ambitions to hire more tenure track faculty, increase our research support and scholarly and creative productivity, improve student success rates, give increased attention to graduate education, enhance support for academic technology and our technology infrastructure, improve our physical plant, and promote excellence in all that we do. The campus will need to be strategic, entrepreneurial, and very creative to address all of these ambitions and continue to move forward in a tight fiscal environment.

C: RPP Task Force
President's Cabinet
Deans, Directors, Department Chairs
Academic Senate Executive Committee
University Resources Council
Staff Council Executive Committee
CSULB Faculty and Staff Union Chapter Presidents