



CALIFORNIA STATE UNIVERSITY, LONG BEACH

**DATE:** March 14, 2008  
**TO:** Vice Presidents Gould, Stephens, Robinson and Taylor,  
Director Cegles  
**FROM:** 2008-09 Resource Planning Process Task Force – RPP  
**SUBJECT:** Campus Budget Planning for FY 2008-09

RPP

Executive Summary

Throughout the U.S. and California, the current mortgage and housing crises are showing increasingly pervasive and substantially negative impacts to the economy. These ominous signs, coupled with soaring fuel, food and energy prices are significantly hampering the consumer and governmental entities including the State Budget of California. Within this context, the governor's office issued the 2008-09 state budget proposal including a projected \$14.5 billion state budget deficit for the year ending June 30, 2009. He also proposed a \$312.9 million reduction for the CSU. The impact of this proposal for CSULB can be summarized as follows:

- The projected impact of the state funding reduction and unfunded costs is \$16 million for CSULB.
- The lack of enrollment growth funding from the state will disrupt CSULB's budget recovery plan.
- The budget situation compels us to reduce our 2007-08 over-enrollment to a number of students closer to the target funded by the state
- It is still possible that the legislature will approve additional funding to the CSU in lieu of a fee increase as contained in the trustees' budget request. Because the outcome will be unknown for some time, for campus planning purposes we are assuming a 10 percent fee increase effective fall 2008 or equivalent legislative funding.
- CSULB has accumulated \$5.6 million of temporary resources that will be utilized to reduce the impact of this budget problem.
- The estimated total negative budgetary impact on operating divisions is \$9.8 million.
- The RPP Task Force has agreed that instruction will be a priority. The planning parameters include a budget reduction to instructional areas of 3.9 percent and a reduction to non-instructional areas of 5.8 percent.
- Due to a high level of uncertainty, it is very likely that adjustments to these initial planning assumptions may be required later this year.
- The task force has judged the risk of a second challenging budget in 2009-10 to be significant and requests that divisions plan accordingly.

## **Level of Uncertainty**

The level of uncertainty with regard to the 2008-09 state fiscal picture and the Governor's Budget for 2008-09 is very high. Since early fall 2007 when the current year state budget was enacted with a projected reserve of \$4 billion, the state fiscal condition has worsened significantly. By November 2007 the state was forecasting a deficit of some \$10 billion rather than a surplus and by the release of the Governor's Budget in January, the deficit had grown to \$14.5 billion. The annual Legislative Analyst Office (LAO) analysis of the Governor's Budget was released in February 2008 and projected a larger state deficit of \$16 billion. It is likely that the Governor's May Revision budget will contain a dramatically different state fiscal outlook from that assumed in the January Governor's Budget and the proposed solutions could be substantially different as well. Therefore, although the assumptions and planning parameters contained in this document are based on the latest available information, it is possible that circumstances will change and necessitate adjustments.

## **California Fiscal Outlook and the Governor's Budget**

The January Governor's Budget was based on a state fiscal outlook that California's economy will continue to experience weak performance in the near term primarily due to the housing slump, the credit crisis, rising energy costs, and other factors. For 2008, economic growth and inflation is expected to be modest, with the first half of the year especially sluggish. Although the second half of 2008 may strengthen somewhat most experts project that significant economic improvement likely may not come until 2009. The assumptions and key features of the governor's proposed budget for 2008-09 are:

- State budget deficit of \$14.5 billion
- No proposed tax increases
- Unilateral cuts of 10 percent to most state programs

## **Legislative Analyst Office Analysis**

The Legislative Analyst Office (LAO) made an independent analysis of the Governor's Budget and concluded:

- State budget deficit is \$1.5 billion worse, or \$16 billion
- The governor's across-the-board reduction approach is fundamentally flawed
- Spending solutions fail to set priorities and revenue solutions are minimal

The LAO recommends that the legislature reject the governor's proposal in whole and has developed an alternative budget approach:

- Strategic approach that is more balanced and targeted
- Adds revenue without broad-based tax increases
- Targeted approach to expenditure reductions

The LAO has been known for its more accurate revenue projections and analysis of economic patterns. While many of its proposed solutions have been pragmatic and

understandable, the office is often not politically astute. Therefore, based on past history, the LAO's alternative budget approach is not likely to be considered seriously and probably will not be widely endorsed by the legislature. Furthermore, even under the LAO's alternative approach, the impact to the CSU budget is only marginally better than the governor's proposal.

### **California State University Support Budget**

The Governor's Budget acknowledges a workload based funding increase for the CSU that appears to honor parts of the Compact with Higher Education but then conversely implements a broad overall reduction of 10 percent. Additionally, the Governor's Budget does not provide funding in lieu of a student fee increase as requested by the Board of Trustees. In summary, the Governor's Budget for the CSU:

- Provides a workload based funding increase of \$213.6 million
- Reduces the CSU budget by \$312.9 million (10 percent)
- The net funding reduction to the CSU is \$99.3 million from 2007-08 funding levels (\$213.6 million minus \$312.9 million)
- Fails to provide \$73.2 million of funding in lieu of a student fee increase

The impact of this proposed budget can be summarized as follows:

- 10,000 students will be denied access to the CSU in 2008-09
- Will significantly hurt diversity and service to underserved communities
- Will have a long-term negative impact on key industries and the economy of California

Pursuant to the Compact Agreement and the Board of Trustees' budget request, the CSU can only accommodate 2.5 percent enrollment growth, honor employee compensation agreements, pay required mandatory costs, and avoid a student fee increase, with a significant adjustment to the governor's proposal:

- Reinstatement of the 10 percent reduction totaling \$312.9 million
- State funds in lieu of a student fee increase totaling \$73.2 million
- In total, a sum of \$386.1 million more than the governor's proposal is required.

### **University Budgets**

While the university budget is complex, this section provides a general context to help the reader better understand the sections that follow.

- The state utilizes an incremental budgeting process. Annual funding increases or decreases are applied to the general fund base budget depending on financial, economic, and political conditions.
- When budget allocations increase, CSULB receives state resources for:
  1. designated or mandatory expenditures such as compensation increases, employee benefit changes, etc. Resources must be utilized for these expenditures and the campus has little discretion over their use.

2. non-designated uses such as enrollment growth increases over the current year funded enrollment target. The campus does have some discretion over the use of these resources.
- When budget allocations decrease, CSULB receives no incremental funding and may also have its base budget reduced, as is projected for 2008-09. This means that:
    1. CSULB will be required to reduce its base budgets and also cover the costs of mandatory expenditures such as compensation, employee benefit changes, etc.
    2. CSULB must be mindful of enrollment levels because we may experience further budget reductions from the CSU if funded enrollment targets are not met.
  - Approximately two-thirds of our university operating budget is provided by state general funds and one-third is generated by student fees. It is important to note that while we do not receive state general funds for enrollment beyond our target, we do generate and retain student fees attributable to over-enrollment.

### **Budget Recovery Plan**

The budget recovery plan was crafted during the last state-imposed budget reduction period of 2002 and 2003. The essence of the budget recovery plan was to utilize temporary reserve funds accumulated from general university savings and division savings to mitigate the impact of base budget cuts. While this obviously decreased university reserves for emergencies and unexpected expenditure requirements, the university was comfortable with this action because of the expected receipt of non-designated state resources tied to our steady annual enrollment growth plan. After funding new faculty positions to accommodate enrollment growth, the remainder of the permanent funds received for enrollment growth was pledged to the recovery plan to restore base budgets and reduce dependency on temporary funding.

The budget recovery plan has worked as designed for the past four years. Permanent funds tied to our enrollment growth plan has enabled us to steadily replace temporary resources, thus restoring base budgets to funding levels prior to the cuts. In fact, instructional budgets for faculty positions were fully recovered in 2007-08. However, non-instructional budgets required one additional year of budget recovery funding in 2008-09 to be substantially fully recovered.

Non-instructional budgets were provided with \$3 million in temporary resources in 2007-08 with the full expectation that permanent base funds would replace them in 2008-09. Unfortunately, it would appear that no enrollment growth funding is forthcoming in 2008-09. Therefore, unless temporary resources are again provided to non-instructional budgets, these areas will be impacted by an additional budget cut because they will not receive funding that they are utilizing for operations in the current year.

## **CSULB Budget Outlook**

In summary, the total budget impact of the state funding reduction and the unfunded costs that must be covered is \$16 million for CSULB as outlined in Exhibit 1. After applying additional revenues received from a student fee increase, the costs of presidential priorities, and the application of temporary university resources, the estimated negative budgetary impact to operating divisions is \$9.8 million. Please see Exhibit 1 for details. The following narrative attempts to explain this exhibit:

### **CHANGE IN COSTS:**

The unfunded costs related to compensation agreements from the current year are \$5.9 million (\$3.1 + \$2.8). CSULB's share of the unfunded mandatory cost increases, including employee health benefits not funded by the state, is \$2.7 million and our share of the CSU budget reduction (\$99.3 million) is estimated to be \$7.4 million. In aggregate, the state funding reduction and cost requirements that must be funded by CSULB translate into a funding problem of \$16 million.

### **CHANGE IN REVENUES:**

For planning purposes, we are assuming a 10 percent State University Fee increase effective fall 2008 or equivalent legislative funding in lieu of a fee increase. This incremental fee increase revenue and revenues associated with our planned enrollment performance will generate \$6.1 million in resources that will help mitigate the \$16 million funding problem.

### **PRESIDENT'S PRIORITIES:**

The president has identified several university priorities to be included in the 2008-09 budget:

- Comprehensive Fundraising Campaign \$1.8M – CSULB is in the early stages of a very important comprehensive fundraising campaign. Interrupting the momentum that has already taken place would set the university back considerably. Campaign results will provide better educational opportunities for our students, build our endowment, significantly build annual fundraising efforts, and strengthen our statewide and national reputation. Furthermore, the Board of Trustees mandated that every campus have a comprehensive effort to further the academic mission of the university. With an expected return on investment of 7:1, the campaign has received broad university support since 2006-07 and has been funded with temporary resources due to a lack of permanent discretionary funds.
- Campus Messaging \$0.1M – With recent episodes of campus violence and disruption across the nation, it is imperative that the university create a campus-wide messaging system to notify students and employees of emergency information.
- Partial Budget Recovery Plan \$1.0M – This year, the university allocated \$3 million in temporary resources to divisions to continue key services under the budget recovery plan. Because of the expected 2008-09 budget reductions, we cannot continue all of this funding, but partial funding will help mitigate the

reduction to non-instructional budgets next year (see Budget Recovery Plan section for further explanation).

- Enhanced Classroom Maintenance \$0.6M – This will continue the enhanced classroom maintenance program where the frequency of items such as routine classroom maintenance, carpet and floor cleaning, and classroom painting is increased beyond former levels.

The inclusion of the costs related to these university priorities totals \$3.5 million.

In an effort to mitigate the budget problem, the president has decided to apply \$5.6 million of temporary university resources in 2008-09. Recognizing that the budget problem is sizable and would certainly result in substantive disruption, the task force is fully supportive of this decision to help moderate impacts next year.

In addition, all non-instructional areas will have to deal with the loss of \$2 million in prior non-base funding that they had the use of in 2007-08. This loss effectively adds another 1.9 percent to the budget impact that will be felt by the non-instructional areas. Academic Affairs will also have to deal with the loss of \$1.4 million in temporary funding associated with over-enrollment student fee revenue that will not be available because of the reduction in enrollment. Although over-enrollment (and the associated workload) is being reduced, that loss is nevertheless a genuine reduction in resources to Academic Affairs.

While the university was able to utilize available temporary resources to mitigate the full impact of the 2008-09 budget situation, this only defers the problem to future budget years unless the state fiscal situation recovers.

## **Enrollment**

In recent years CSULB has experienced increased enrollment and strong application demand for several reasons. The Beach is attractive to students because of the quality of our programs. A statewide increase in high school graduates has increased freshman demand. Campus plans for new science and liberal arts buildings are closely related to and justifiable by high enrollment figures. At the time of the budget cuts in the early 2000s, the university designed a recovery plan around enrollment growth to avoid downsizing its programs. According to the recovery plan, the temporary funds were replaced over time by the permanent funds generated from increases in enrollment. Also, new enrollment funds were planned to cover costs resulting from collective bargaining agreements in excess of available funding for compensation from the state. With pending state budget cuts, these circumstances have changed.

For 2007-08, CSULB exceeded its enrollment target by about 1,400 FTES. Although new admissions were reduced, a strong increase in continuing students accounted for most of this increase. For 2008-09, the system office has assigned CSULB an enrollment target of 29,357 FTES, level with the prior year. CSULB cannot take additional enrollment growth this coming year – we are already being asked to educate

the same target enrollment as the current year with fewer resources. Enrollment growth will result in lower quality education for all.

As a result of these changes, the university has developed a plan to downsize enrollment. We expect that overall CSULB enrollment will decline about 700 FTES for the coming college year (summer, fall and spring). This figure is based on the following components:

- Projected decline in summer enrollment estimated to be about 600 FTES due to planned downsizing of summer
- Projected decline in new student enrollments to be about 1,000 headcount in fall and spring due to planned downsizing of admissions of freshmen and transfers
- Projected increase in continuing student enrollments largely offsetting the reductions in new students in the fall and spring terms

These changes combine in such a way that overall academic year (fall and spring) 2008-09 enrollments will be about the same as 2007-08. This fact means that colleges and departments must plan schedules of classes that will accommodate about the same number of students in fall 2008 as in the prior fall term, albeit with slightly fewer freshmen and slightly more upper classmen.

### **Campus Budget Reduction Plan**

CSULB is committed to protecting our students, our faculty, our staff, and the integrity of our core mission. Accordingly, the task force has agreed that in campus budget planning, instruction will be a priority. Hence, the budget reduction of instruction will be less than the reduction to non-instructional areas. The reduction to instruction is proposed at 3.9 percent and the non-instruction areas of Academic Affairs will share the burden with the rest of the campus at 5.8 percent. Please see Exhibit 2 for reduction details.

The 2007-08 base budgets of the University divisions will be the point of departure for 2008-09 budget reductions. Divisions are expected to identify total divisional carryover resources and the application of these resources to their budget planning.

### **Contingency Planning**

As mentioned earlier, the level of uncertainty regarding the upcoming budget year is very high and the task force has judged the risk of a second challenging budget in 2009-10 to be significant. As such, the task force requests that all divisions plan accordingly and make budgetary decisions that are reflective of these expected fiscal constraints over the next two budget years.

It's unlikely that CSULB's budget outlook will improve, but divisions should plan for slightly larger or smaller reductions than currently forecast.

## **Campus Goals** (Please see Exhibit 3)

The rising excellence of California State University Long Beach (CSULB) is increasingly recognized. The university is ranked as one of the top five public comprehensive universities in the western United States for the fourth consecutive year and as the third best value public university among all American public colleges and universities. *CSULB Strategic Priorities and Goals* articulate a university desire to achieve still greater distinction with four strategic priorities: *student success, academic quality, service excellence, and campus life and environment*. These priorities and supporting goals are outlined in the attached *CSULB Strategic Priorities and Goals for 2008-11*. In developing budget plans for the 2008-09 fiscal years, each university division should describe how planned budget actions will affect university progress toward these goals. For budget reductions, plans should describe whether and how reductions undermine university progress toward campus goals. Where specific mitigations of reductions are contemplated, plans should describe how mitigations will protect our ability to sustain progress toward goals.

## **Forms and Instructions**

Exhibit 2 (attached) provides the specific base budget reduction and non-base funding allocations for Form 3, which are based on the preliminary campus planning parameters described in this document. Deans, directors and department heads should look to their respective division offices for specific instructions on how to respond to internal divisional planning strategies.

Prescribed formats as well as presentation instructions will be provided under separate cover to each division executive.

## **Future Updates**

As the university receives new budget developments, the task force will incorporate any appropriate changes into the budget planning process. Divisions are asked to inform their areas of these latest developments.

### Attachments

- Exhibit 1: Preliminary Campus Budget Outlook
- Exhibit 2: 2008-09 Campus Budget Strategy
- Exhibit 3: 2008-11 Campus Goals

cc: President Alexander  
Deans, Associate Deans, Directors and Department Heads  
Academic Senate Executive Committee  
Staff Council Executive Committee  
Associated Students Officers  
CSULB Faculty and Staff Union Chapter Presidents  
Library Reserve Book Room