To: F. King Alexander, President

From: Donald Para, Provost and Senior Vice President for Academic Affairs
Mary Stephens, Vice President for Administration and Finance

Date: August 16, 2010

Subject: 2010-11 RPP Task Force Budget Recommendations

We are pleased to transmit the budget recommendations of the 2010-11 Resource Planning Process (RPP) Task Force. In the past decade this campus has made remarkable strides forward and we do not wish to retreat on these achievements. Our budget challenges may slow our progress, but we are determined to continue our pursuit of excellence.

**SUMMARY**
California continues to struggle with extremely challenging fiscal circumstances and is faced with a re-emerging budget deficit of about $19 billion for 2010-11. Despite the state’s fiscal condition, the Governor has made higher education a central priority of his 2010-11 Budget. The Governor’s proposed budget replaces some of the funding cut from the California State University system (CSU) in 2009-10 by recommending that $305 million be restored to the system. The proposed budget also contains funding of an additional $60.6 million for reinstatement of enrollment.

Many of the Governor’s budgetary proposals will face a very difficult reception in the Legislature and much may happen between now and when the budget is finalized. Due to these uncertainties and previous historic inconsistencies exhibited in Sacramento, the Chancellor’s Office has taken a conservative approach and has provided to the campuses some key budget planning assumptions:

- Cuts made in 2009-10 will be permanent
- No additional state cuts or additional state funding in 2010-11
- Employee furloughs are discontinued at end of fiscal 2009-10
- Campuses are expected to achieve but not exceed 2010-11 enrollment targets, which have been drastically reduced from 2009-10
- Funding in the amount equal to a 10 percent increase in student fees is assumed
As a result, CSULB again faces substantial budget reductions this coming year. Unfortunately, we do not know the final amount or even the timing of the budget reduction. However, the RPP Task Force believes it is important to convey the recommended budget plan for 2010-11 to the campus community prior to the start of the academic year.

The RPP Task Force has developed recommendations for a 7.8 percent reduction to all campus operating divisions and enrollment downsizing to target. Implementing this budget plan in 2010-11 will affect employment for temporary faculty, class availability, ability to fill vacant staff positions and extend temporary staff positions, operating budgets, and faculty and staff workload throughout the university.

At this time, several key issues remain unresolved including passage of a final state budget and action by the CSU Board of Trustees to reduce anticipated impacts on campuses. Should still-further reductions be necessary in summer or early fall, the RPP Task Force recommends that the campus make every effort to avoid further impact on the schedule of classes.

**CURRENT BUDGET OUTLOOK**
The Governor’s May Revision continues to prioritize higher education above many other state concerns by proposing to restore to CSU $305 million of the more than $600 million that had been reduced in recent system budgets. Additionally, the May Revision contains increased funding of an additional $60.6 million to support enrollment growth for the CSU. An important development is that in the Governor’s January budget proposal, this additional enrollment funding was contingent upon the state receiving a certain amount of federal funds for other state programs. The May Revision removes this contingency language.

If the CSU ultimately receives this funding, it would represent a year-to-year increase in overall CSU resources from 2009-10. While this funding is not sufficient to offset all recent budget cuts, it would lessen the amount of budget reduction currently contained in CSULB’s plans for 2010-11. This funding would allow us to increase our enrollment target and retain some of the course sections that may have been targeted to be cut next semester. This would be good news for our university community. To effect the Fall 2010 semester, however, a final state budget would have to be passed by July 1, 2010. This is not expected to occur.

At this point, significant uncertainty remains. The state budget situation may stabilize or continue to worsen. The Governor’s budget may be enacted by the Legislature as proposed or it may be modified. The CSU Trustees recently voted to raise the State University Fee by five percent, basing their decision on the Assembly’s budget proposal that provides additional state revenues.

It is important to remember that the May Revision is still a budget proposal, not a final budget. California remains in the midst of extremely challenging fiscal circumstances and many of the Governor’s proposals for deep reductions and elimination of programs
are controversial. As proposed, the state budget will likely face a very difficult reception in the Legislature and may not be finalized until late summer or early fall. Some legislative leaders have indicated that they are less interested in getting the budget done by the June 30 deadline than in “getting it done right.” Negotiations over this budget could indeed be very long and brutal. We could be well into the fall semester before we have a final budget for 2010-11.

Although the early indications seem positive, the CSU has not changed planning parameters for the campuses because of all the uncertainties that remain.

**RECOMMENDATIONS**

RPP’s budget planning for CSULB is fully described below. The RPP Task Force budget recommendation, based on the situation as currently understood, is as follows:

- Reduce student FTE enrollment to our funded target of 26,297 FTES.
- Implement a 7.8 percent reduction to all operating divisions of the university totaling $15.9 million, effective July 1, 2010.
- Implement a $4 million reduction to non-operating division budgets in areas such as utilities, employee benefits, and risk management.
- Utilize university reserves to the extent possible to offset additional reductions.

Depending on how uncertainties are resolved, it is possible that additional reductions will be necessary. Unfortunately, the RPP Task Force is not in a position to provide more definitive conclusions at this time.

**RPP PLANNING, BASED ON PLANNING ASSUMPTIONS PROVIDED BY THE CHANCELLOR**

Most of RPP’s planning was based on the budget planning assumptions provided to the campuses by the Chancellor in late summer 2009. The planning parameters were as follows:

- Assume the $571 million one-time reduction in 2009-10 becomes permanent in 2010-11.
- State funding will not substantially improve in 2010-11. Therefore, assume the CSU’s state General Fund allocation in 2010-11 will be the same as the 2009-10 allocation.
- Employee furloughs will be discontinued at the end of the 2009-10 fiscal year.
- Campuses are expected to reach their enrollment targets that have been reduced by 9.5 percent for the CSU, or 32,576 FTES (CSULB target = 26,297 FTES).
- Campuses must account for budgeted fee revenue loss associated with reduced enrollment targets for 2010-11.
- Campuses should include revenue equivalent to a ten percent student fee increase in their planning assumptions.
- Campuses should plan for mandatory cost increases.

As mentioned earlier, the Governor’s January proposed budget and the May Revision prioritizes higher education above many other areas and proposes to restore some of
the funding cut from the CSU in 2009-10. While this proposal represents a positive starting point for the CSU, because of the all the uncertainties, campuses have been directed to continue budget planning based on the original assumptions stated above.

Based on these original planning assumptions, CSULB’s estimated share of the state budget reduction is $24 million. The fee revenue loss associated with our reduced enrollment target of 3,044 FTES is $9.5 million. Unfunded mandatory cost increases for health benefits, energy, and new space, were projected at $1.7 million. Therefore, CSULB’s gross budget problem for 2010-11 was projected to be $35.2 million.

As an offset to these reductions, the enrollment downsizing does result in some instructional cost savings estimated to be $6.0 million. The proposed ten percent student fee increase would generate additional revenues of about $9.3 million. These offsets result in an estimated unresolved budget problem of $19.9 million for CSULB.

The following table illustrates the campus’ unresolved budget shortfall:

<table>
<thead>
<tr>
<th>Assumptions = no furloughs, some mandatory costs, no state reductions, 10% fee increase</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Unresolved permanent budget problem from 2009-10</td>
<td>$(20,106,543)</td>
</tr>
<tr>
<td>Recalculation of 2009-10 budget reduction</td>
<td>(3,887,400)</td>
</tr>
<tr>
<td>Enrollment downsizing fee revenue loss (3,044 FTES)</td>
<td>(9,554,045)</td>
</tr>
<tr>
<td>Mandatory costs</td>
<td>(1,650,000)</td>
</tr>
<tr>
<td>State reductions</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total budget problem</strong></td>
<td><strong>$(35,197,988)</strong></td>
</tr>
<tr>
<td>Enrollment downsizing instructional savings (3,044 FTES)</td>
<td>$6,057,560</td>
</tr>
<tr>
<td>Revenues from student fee increase (10%)</td>
<td>$8,238,239</td>
</tr>
<tr>
<td>Revenues from nonresident tuition increase (10%)</td>
<td>$1,042,767</td>
</tr>
<tr>
<td><strong>Total solutions</strong></td>
<td><strong>$15,338,566</strong></td>
</tr>
<tr>
<td><strong>Unresolved Budget Shortfall</strong></td>
<td><strong>$(19,859,422)</strong></td>
</tr>
</tbody>
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The RPP Task Force also identified university-wide budget savings totaling $4 million. Prudent investments in energy saving projects are now generating operating cost savings that allow reduction in the utilities budget. The downsizing of the number of total campus employees allows for a reduction in the employee benefits budget. And positive trends in workers compensation and liability claims and some decreasing insurance premiums permit the university risk management budget to be reduced.

After applying the university-wide budget savings of $4 million to the unresolved budget problem of $19.9 million, the Task Force was left with a remaining unresolved shortfall of $15.9 million.
The RPP Task Force recommends a pro rata reduction of 7.8 percent to all the operating divisions to resolve the remaining shortfall of $15.9 million. The RPP co-chairs, in consultation with the President, agreed that the President will apply university end-of-year carryover resources to address a worsening budget situation, although no dollar value for this contingency could be determined until the end of the fiscal year.

**ENROLLMENT**
For the second consecutive year, RPP was also faced with a major interrelated change that complicated the planning process significantly: downsizing enrollment to our funded target. In response to Legislative pressure, the Chancellor has directed campuses to manage student enrollment down to our funded target or face financial penalties. For 2010-11, the campus must reduce enrollment to our funded target of 26,297 FTES, a reduction of almost 2,300 FTES from 2009-10 enrollment. The Division of Academic Affairs must reduce the fall and spring schedules of classes to accommodate the anticipated enrollment reduction and the loss of fee revenue. At the academic department level, this change will function much like a budget cut in that classes must be eliminated, and many part-time faculty will not be offered employment, while the demand for those classes will also diminish.

At this time, the campus enrollment plans for 2010-11 are based on the assumption that no additional state funding is forthcoming. As such, initial plans have been put in place to be closed to all students for Spring 2011. If additional state funding is provided in the final budget, we would expect to be open for Spring 2011 enrollment.

Fortunately, at CSULB aggressive enrollment management has allowed us to avoid academic program eliminations and large scale class cancellations seen at other CSU campuses. In contrast, the campus has worked in a very orderly yet aggressive manner toward efficient class sizes and has essentially no undersubscribed programs.

**CONCLUDING THOUGHTS**
The RPP Task Force recognizes that in order to mitigate the recommended budget reductions, the divisions are relying on significant one-time funds in 2010-11 for which there is no replacement source of funding for 2011-12. These are likely to have the same effects as further budget cuts, in addition to reductions that the state may impose in 2011-12. Areas supported by these one-time funds include the schedule of classes and support for faculty scholarship and student success projects. These are all at risk for 2011-12, unless some funding augmentation is realized.

Significant reductions will become progressively more difficult and harmful. In the event of continued reductions, the campus may need to explore a range of budget approaches in order to successfully sustain the campus core mission of delivering high-quality, student-focused education. This may necessitate consideration be given to increasing mandatory campus-based fees and instituting new campus-based fees, making them an integral part of the aggregate funding at CSULB.
A comprehensive summary of the 2010-11 budget planning process is contained in *CSULB 2010-11 Budget Planning – February 2010* which can be found on the CSULB Budget Central website. This report contains additional background information, the projected effects of the budget reduction plan as reported by the operating divisions, and other considerations and recommendations that arose during the planning process.

The Task Force commends all divisions for their thoughtful, creative and proactive efforts. Essential services have been examined and efficiencies have been maximized. While necessary, the Task Force recognizes that reduction strategies will force the elimination of many less critical services and will slow the delivery of critical services to students and campus constituents. Our university has made virtually all of the reductions that can be made without beginning to affect core mission activities.

The Task Force would like to acknowledge the continued hard work of the entire university community and the resolve shown by all. CSULB remains a vital, premiere institution of higher education that is one of the nation’s best. This would not be possible without the energy, creativity, dedication and positive attitude of our faculty, staff and students.

C:  Associated Students Officers
    All CSULB Employees