



CALIFORNIA STATE UNIVERSITY, FULLERTON

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Dr. Michael Shafae
Professor of Computer Science
Chair, Planning, Resource, and Budget Committee
California State University, Fullerton

Dear Dr. Shafae:

Happy New Academic Year! I hope you and the rest of your colleagues on the Planning, Resource and Budget Committee (PRBC) were able to relax and reenergize over the summer.

Once again, a new academic year is upon us, and much of my optimism for what lies ahead is grounded in the important work that you and your colleagues on the Planning, Resource and Budget Committee (PRBC) do for the University and its students. I am pleased by the quality of work reflected in the budget recommendations presented in Dr. Erica Bowers' PRBC memorandum for FY 2016-17, and proud that the PRBC continues to be a driving force in our ascension toward becoming the model public comprehensive university of the nation.

With this in mind, this letter serves to communicate my decisions regarding our University's FY 2016-2017 budget, how these decisions respond to the PRBC's recommendations, and the context in which the University operates as we enter the crucial fourth year of our strategic plan.

FY 2016-17 Funds Available – CSU Level

The Governor's final Budget Act of 2016 (Senate Bill 826, Chapter 23) and the Education Trailer Bill (Assembly Bill 1602, Chapter 24) signed on June 27, 2016, allocated \$154 million Base General Fund, which is \$101 million short of the CSU BOT budget request, and \$87 million in one-time state appropriations to the CSU for fiscal year 2016-17. These allocations were made with the on-going expectation that the tuition rates will not increase in 2016-17. Other funding expectations as reflected in SB 826 pertaining to base enrollment funding increase states that "The full-time equivalent enrollment for the 2016–17 college year shall be at least 5,194 more than the full-time equivalent enrollment for the 2015–16 college year". The funds have been allocated in accordance with the categories as listed below.

Baseline totaling \$154M:

\$35.1M Health Care Premium Increase

\$.9 M Maintenance of Facilities

\$7M Retirement rate adjustment costs above stated funded rate

\$30.2M Budgeted Enrollment Increase (1.46% increase)

THE CALIFORNIA STATE UNIVERSITY

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\$69.6M Employee Compensation Increases (2%)
\$10.2M Student Success Increases
\$1.1M Education Insights, CSU Student Success Network
\$20K Center for California Studies

One-time totaling \$87M

\$15M to be used at the Trustee's discretion
\$35M for deferred maintenance and infrastructure needs
\$35M for graduation rate goal setting
\$2M for best practices in equal employment opportunity

FY 2016-17 Funds Available – Fullerton

The fiscal year 2016-17 final allocations from CSU include a new baseline increase of \$14.2M and a one-time allocation of \$5.3M. While the baseline increase will be utilized for mandatory cost increases as well as campus specific priorities, the one-time allocations are earmarks for faculty compensation (\$2.6M), deferred maintenance (\$1.8M), academic preparation programs (\$650K) and graduation rate and student success initiatives (\$220K):

The Chancellor's Office distributed new enrollment increases to campuses utilizing a methodology that was agreed upon by the Council of the Presidents last year. Our share of the resident enrollment target increased by 385 FTES compared to last year's 579 FTES. The difference is due to the state providing a 1.46% enrollment increase this year compared with 3% increase last year.

The enrollment increase will generate additional revenues at the campus level from student tuition income. This increase, combined with the allocations from the state as described above will result in a total baseline budget increase of \$16,757,510 and a one-time budget increase of \$18,489,779 for a combined total of \$35,247,291.

After accounting for system-wide pass-through and mandatory baseline items such as compensation and health premium increases totaling \$12,646,779, and one-time compulsory costs totaling \$2,861,052, the net amount available for budget allocation this year is \$19,739,458 (\$4,110,731 in baseline funds and \$15,628,727 in one-time funds).

FY 2016-17 Budget Allocations

In making my allocation decisions this year, I relied on the PRBC's recommendations and the operational priorities established by the University's senior leadership team. As in the past, I continued to adhere to the following principles: 1) the budget must be balanced; 2) the budget must be aligned with the University's strategic priorities and institutional mission; and 3) the University reserves should be at a sufficient level to address contingencies. The third principle impacted noticeably in this year's budget process.

In the previous three years, I was able to supplement the budget process by infusing roughly \$10M each year from the University reserves. Unfortunately, I am unable to provide a similar

infusion this year given the reserve balance has diminished, and we need to maintain a minimal level for contingencies. Last year, the Chancellor’s Office issued a guideline that enables campuses to have reserves of up to six months of operating costs. For our campus, that equals approximately \$200 million; we currently have an undesignated balance of \$15 million.

Consequently many operating and institutional support needs outside of core academic and instructional components are not funded. Our Fall 2016 enrollment exceeds 40,000 students for the first time in history and corresponding staffing needs for support services—such as in the Financial Aid office, Student Financial Services, and even custodial services—will not be met due to lack of funds.

I appreciate and concur with the six priorities put forth in the PRBC Recommendations for FY 2016-2017; however, the aforementioned lack of funding makes it impossible to address all of them sufficiently. For example, priority #3’s charge to bolster staffing such as Research Grant Specialists is difficult to address given the fact that the start-up cost for new faculty is sensitive to grant specialists in each college. Also, priority #5’s recommendation to address inflationary costs of library resources is outside the realm of our resources. Further, in the case of priority #2 in which the PRBC recommends that HRDI “provide the PRBC with an annual workforce report,” we need to be sensitive to the fact that we are in the middle of a leadership transition in the division. As always, we will do our best to meet this priority while we conduct a national search to appoint a permanent vice president of HRDI, but we must be cognizant of the increased difficulty of this endeavor during this time.

The following table summarizes my allocations organized by the categories PRBC developed for this year's process.

Table 1 Summary of FY2016-17 Budget Allocations:

	Baseline	One-Time	Total
Compulsory Allocations	\$12,646,779	\$2,861,052	\$15,507,831
Mission Critical and Compliance Initiative		\$116,609	\$116,609
Faculty Hiring, Retention, Tenure Track Density and Instruction	\$2,940,731	\$7,369,467	\$10,310,198
Capital Facilities and Infrastructure Projects	\$250,000	\$3,811,748	\$4,061,748
Instructional & Support Infrastructure		\$400,000	\$400,000
Core Operations Critical to Advance Institutional Mission	\$920,000	\$3,930,903	\$4,850,903
Total	\$16,757,510	\$18,489,779	\$35,247,289

Compulsory Allocations

The total one-time amount of \$15,507,831 will support mandatory cost increases such as employer-paid health care benefit premiums, retirement, and faculty and staff compensation increases:

- o Compensation: \$11,394,831 (\$8,533,779 baseline and \$2,861,052 one-time) to fund compensation increases

- Benefits: \$4,113,000 (all baselines) to cover increased retirement and health benefits costs.

Mission Critical and Compliance Initiatives

The total one-time amount of \$116,609 is allocated to fund emergency notification system and serves as part of campus compliance with maintaining data related to litigation holds. This budget allocation indirectly supports the University Strategic Plan Goal #1, #2, and #3 and addresses PRBC recommendation bullet #1.

Faculty Hiring, Retention, and Tenure Track Density and Instruction

The total amount of \$10,310,198 (\$2,940,731 baseline and \$7,369,467 one-time) is allocated for faculty hiring, retention and tenure track density as follows:

- Continue to Invest in High-Quality and Diverse Faculty Hiring Plan: \$3,740,000 (\$1,140,000 baseline and \$2,600,000 one-time) to continue and support the faculty hiring plan. This year, we plan to fill 42 faculty positions. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1 and #4, and addresses PRBC recommendation bullet #2.
- Increased Instructional Costs Related to Baseline Enrollment Increase: \$1,321,039 (all baseline) to support additional instructional costs (salaries and benefits) related to enrollment increase. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1 and #4, and addresses PRBC recommendation bullet #2.
- Faculty Promotions: \$479,692 (all baseline) to fund the additional salary costs of faculty promotions. This budget allocation is a contractual obligation that is directly linked to the University Strategic Plan Goal #3 and addresses PRBC recommendation bullet #2.
- Over - Enrollment: \$6,469,467 one-time allocation to support additional instructional costs representing \$4,769,467 for salaries and \$1,700,000 for employee benefits. Since there is not sufficient funding from new revenues, for this year only the employee benefits pool will absorb the \$1.7M. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1 and #4, and addresses PRBC recommendation bullet #2.

Capital and Facilities Infrastructure Projects

The total amount of \$4,061,748 (\$250,000 baseline and \$3,811,748 one-time) is allocated for capital and facilities infrastructure projects as follows:

- Capital Financing Authority: Campus Capital Reserves: \$2,011,748 in one-time funds in support of the new capital financing authority reserve requirements. With the delegation of financing authority from the State for capital projects, CSU has been developing

financial strategies and related policies for issuing system wide bonds. One element of the policy would require each campus to cover a portion of the project costs. Campuses have been informed to begin establishing a capital reserve fund and we'd need to set aside approximately \$2.5 - \$5 million each year beginning in 16-17. The amount allocated for this year is lower than the \$2,500,000 I had ascribed in last year's budget memo for this year's process. Current five-year capital outlay program consists of academic buildings (e.g. McCarthy Hall Renovation and Fine Arts) that would require the use of campus capital reserves to satisfy the campus match requirements for CSU financing; thus, I have asked Vice President Kim and Interim Provost Puri to work on identifying additional \$488,252 in 2016-17 to build the capital reserves to \$2.5M as initially intended.

- **Deferred Maintenance:** The decision was made during last year's budget process to set aside \$250,000 in baseline funds for deferred maintenance this year; \$1,800,000 in one-time funding is a pass-through from the state as described earlier. I concur with the PRBC's assessment of our university's deferred maintenance needs and we'd need to continuously address them, however modestly funds would allow, to avoid exacerbating an already sizeable backlog. This year, we will continue to fund the highest-priority needs, focusing on health and safety.

Instructional and Support Infrastructure

The total amount of \$400,000 one-time funding is allocated for the instructional and support infrastructure and is distributed as follows:

- **Classroom refurbishment:** \$400,000 one-time to renovate classrooms including computers and equipment. This is year four of a five year commitment. This budget allocation is directly linked to the University Strategic Plan Goal #2 and addresses PRBC recommendation bullet #4.

Core Operations to Advance Institutional Mission

The total amount of \$4,850,903 (\$920,000 in baseline and \$3,930,903 in one-time) is allocated for core operations critical to advance institutional mission as follows:

- **Special Academic Programs:** The total amount of \$3,689,903 (\$800,000 in baseline and \$2,889,903 in one-time) to fund special academic programs such as Ed. D, DNP, and KDN. While these are core campus programs that have been in place for many years, the campus has traditionally used the annual budget process to allocate their operating funds. Thus, last year I asked the Vice Presidents of Administration and Finance and Academic Affairs to begin converting this program's budget to baseline as funds allow. This year's allocation represents this first step.
- **Academic Preparation:** \$649,000 one-time. This budget allocation is a pass-through item from the state and is directly linked to the University Strategic Plan Goal #2 and addresses PRBC recommendation bullet #6. This is part of the state pass-through item for Student Success and Completion Initiatives/Graduation Initiative 2025 specifically for college readiness in math and English.

- Athletics – Concession Revenue: \$76,000 one-time. This allocation represents continuation of an on-going commitment to reimburse athletics for their previous contributions to campus capital facilities. This budget allocation is directly linked to the University Strategic Plan Goal #2.
- Children Center Subsidy: \$96,000 one-time. This allocation represents a continuing support as agreed upon in prior years to expand enrollment for staff and faculty's children. This budget allocation is directly linked to the University Strategic Plan Goal #2.
- Pell & Grad Rate: \$220,000 one-time. This budget allocation is a pass-through item from the state and is directly linked to the University Strategic Plan Goal #2 and addresses PRBC recommendation bullet #6. This is part of the state pass-through item for Student Success and Completion Initiatives/Graduation Initiative 2025 specifically to provide more funding for Pell Grant-eligible students to improve graduation rates.
- Student Success: \$120,000 baseline. This budget allocation is a pass-through item from the state and is directly linked to the University Strategic Plan Goal #2 and addresses PRBC recommendation bullet #6. This is part of the state pass-through item for Student Success and Completion Initiatives/Graduation Initiative 2025.

Beyond FY 2016-17 Budget Process

Beyond 2016-17 budget allocations, there continues to be critical budgetary matters that require our attention and we must develop plans for them for the future as follows:

Equity in State Funding

During the past two years we have continued our advocacy efforts to narrow the gap in state funding per student relative to our sister campuses. After reflecting 2016-17 allocations, we are unfortunately still at the bottom of state funding per student. However, we have closed the gap modestly with the next lowest funded campus from a gap of \$446/FTES last year to \$390/FTES this year. The difference from the CSU average rate has remained relatively flat at \$2,339 this year compared with \$2,328 last year. Moving forward, we will continue to work with the Chancellor's Office to advance this objective even as the State incorporates outcomes into the CSU's funding model and the CSU considers the recommendations in the recently released Draft Report of the Task Force for a Sustainable Financial Model for the CSU.

Deferred Maintenance

As with other campuses, deferred maintenance continues to be challenging for our campus. This past year, Facilities Management commissioned a physical inspection of all of our buildings, infrastructure, and systems. This study revealed a total DM need of \$330M which is considerably higher than the previous \$150M, a number based on a formula rather than actual inspection and assessment. While the total amount is insurmountable I have asked Vice President Kim to develop strategies in addressing the most critical needs, especially those related to health and safety. We will also need to continuously set aside baseline funds in future years.

Funding Shortfall for Compensation Increases

While I am very pleased with the well deserved salary increases provided to our faculty, the Governor did not provide corresponding funding to fully cover these costs. Consequently, we have to absorb the shortfalls and the Chancellor's Office instituted a cost sharing approach with all of the campuses utilizing baseline and one-time budgets for the baseline salary increase agreements for CFA and other bargaining units. Even though these salary increases ultimately require baseline funding, CSU adopted a strategy that covers a portion of the 2016-17 costs with one time funds and defers related baseline funding needs to next year. In addition, the CSU directed individual campuses to cover the 1 % of the total salary increases for these units.

Specifically for Fullerton and for 2016-17, the campus needs to absorb roughly \$2.6M related to the directive for the campus to fund the 1% salary increase. Beginning in 17-18, the campus needs to cover another \$2.9M in baseline funding related to CFA's 2% salary increase that CSU funded on a one-time basis in 2016-17. Note that these two amounts represent the total funding needs related only to the 7% increase thus far for CFA and corresponding increases due to the "fairness" clauses for other bargaining units.

Given the lack of funding available from new revenues this year, I have instructed the Cabinet to utilize divisional resources, such as carryforward balances and any reserves, to fund the 1% (\$2.6M) on a one-time basis for 2016-17. This will buy us time to work on funding strategies for the corresponding baseline needs totaling \$5.5M (\$2.6M+\$2.9M) that will come due effective 2017-18.

Student Success and Graduation Rates

The State allocated \$35M in one-time funds for initiatives to improve graduation rates. On September 2, 2016, we submitted our plan to the Chancellor's Office on their student success initiatives, and on September 9, the CSU plan was submitted to the Department of Finance in the Governor's Office. Funding is contingent upon the approval of the CSU plan by the Department of Finance. We do know the State expects us to specifically improve the four-year graduation rates for first-time freshmen and the two-year rates for transfer students per the 2025 Graduation Initiative. Since funding is provided only on a one-time basis, and if the State does not provide funds for these activities in the future, we must be prepared to fund these costs from campus resources in order to sustain our efforts and achieve our graduation rate targets.

As we address this goal, let me be clear that our high academic standards will remain the same. What we will continue to do is strengthen the ways in which we provide students the tools necessary to reach our high standards. We must ensure that we maintain the reputation that our students leave us fully ready to enter their chosen career or advanced studies. For us, students' academic excellence has always and will always come first.

Conclusions

Finally, as we aim to "finish strong" in this, the fourth year of our five-year strategic plan, I would like to thank the PRBC for continuing to align our resource allocation and operational planning decisions with the plan's ambitious goals. I am so proud that the work of the PRBC,

along with the dedication of our faculty, staff, and students, continues to evolve to serve the changing face of our students. As I often say, we are all educators, and behind the financial numbers so carefully poured over by the PRBC stand some of the most important numbers this University has ever produced: a 24% improvement in six-year graduation rates, the elimination of the achievement gap for transfer students, and, for the first time in University history, the conferral of more than 10,000 degrees.

Thank you, fellow Titans, and keep reaching higher!

Sincerely,



Mildred García, Ed.D.

cc: PRBC Committee Members
President's Advisory Board Members