CALIFORNIA STATE UNIVERSITY, FULLERTON

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September 21, 2020

Dr. Estela Zarate
Chair, Planning, Resource and Budget Committee
California State University, Fullerton

Dear Dr. Zarate:

First and foremost, I want to thank you, past Chair Dave Mickey, and the entire Planning, Resource and Budget Committee (PRBC) for selflessly, transparently, and collaboratively taking on your important work in the face of one of the most challenging years in university history. I understand and appreciate that the adversity you faced in this endeavor transcends the impact COVID-19 will have on our budget and the economic uncertainties of our future. Indeed, you navigated this work while also caring for loved ones, homeschooling children, innovating new ways to teach and work remotely, standing with our marginalized communities, and weathering the myriad other storms that have bubbled up under the pressure of this global pandemic.

Despite all that, the budget recommendations provided for 20-21 somehow elevate the already lofty standard of excellence synonymous with the PRBC. As such, before I get into your recommendations and my response to them, I want to thank you and the PRBC on behalf of the entire campus community.

The fact that we find ourselves in such a radically different economic position than last year is sobering, especially when you consider that the funding uptick that came in FY 19-20, which was the largest budget increase in CSU history, was nearly completely swallowed by mandatory costs before the ink was dry on the governor's signature. Today, we would love to be in that position as we absorb a $299 million decrease in recurring General Fund appropriation for the CSU along with a reduction of tuition revenue of $24.2 million due to changes in enrollment patterns. This staggering $323.2 million decrease year-over-year on top of what was already a woefully low baseline budget and our campus' nearly $50 million in losses and unexpected expenses tied directly to the pandemic puts both the CSU as a system and CSUF as a campus in precarious financial waters.

As I wrote to campus in the summer and re-articulated in the State of the University, despite the unprecedented nature of COVID-19, we were not caught entirely unprepared. Over the past two budget cycles we have worked very hard to reduce our structural budget deficit and establish some limited reserves. This proactive work has empowered us to both cover our losses and live up to our educational commitments. Further, as we began to prepare for COVID-19 back in January, the belt-tightening measures we implemented, including our ongoing hiring chill and travel freeze, gave us a little more breathing room. This, in conjunction with the significant resources we received and dispersed from the CARES Act, has been crucial these past few months. That said, we have already faced the unfortunate reality of layoffs — either from lack of work or lack of funds, or both. We hope to minimize any further layoffs this academic year through belt-tightening and drawing down on our reserves, and there will not be a furlough program for this fiscal year, although it is quite possible next year.

For now, we will strive to mitigate the impact this budget crisis has on our Titan Family and the quality of the education we provide. That begins with the widespread buy-in and implementation of budget reduction strategies across every division and college. In preparation for this reality, we have explored several budget reduction scenarios that aligned with and were informed by the PRBC's recommendations. In doing so, we were able to make final budgetary decisions that both track with the PRBC's pragmatic and innovative work while also adhering to the parameters put forth by the Chancellor's Office.

In other words, our final decisions for FY 2020-2021 were helped significantly by you and your PRBC colleagues. Those decisions and my response to the PRBC recommendations are below, and as you review this document, I hope it is apparent that your input contributed to every section, graph, and sentence. Indeed, as both individual Titans and a collective committee, you have contributed mightily to our ability to continue providing equitable pathways to the transformative power of a Titan degree during a difficult and challenging time. My gratitude for your service is matched only by my confidence in the resulting budgetary decisions and plan given the adversity and uncertainty we face.

Fiscal Year (FY) 2020-21 Budget Reduction – CSU Level

To recap, the Budget Act of 2020 decreased recurring General Fund appropriations for the CSU by $299M. In addition, a projected $24.2M shortfall in tuition revenues due to changes in enrollment pattern resulted in a total baseline budget reduction of $323.2M for FY 2020-21. While significant, the reduction did not represent the total impact on the operating budget as the State did not provide any funding for the traditional mandatory cost adjustments such as health care premiums, minimum wage increase, operations and maintenance of new facilities. These totaled approximately $46.5M, which each campus will need to absorb. In addition, the State did not provide any additional funding for GI2025. The State did fund 2019-20 retirement rate increases associated with the previously adopted obligation based on 2013-14 pensionable payroll (Government Code section 20914); funding for this increase, valued at $39M, is to be reallocated from the budget reduction.

The Chancellor's Office (CO) allocated 50% of the above reduction to campuses across the board based on 2019-20 campus operating budgets and the remaining 50% reflecting Pell grant eligibility; in other words, campuses with a greater number of Pell-eligible students received lower reduction amounts in order for these campuses to retain resources to support disadvantaged students and address equity gaps. Fullerton's share of this reduction is $23,606,061.

FY 2020-21 Budget Reductions and Funds Available – CSU Fullerton

<u>Baseline</u>

As alluded to above, in its Spring 2020 letter, the PRBC recommended that the campus model various budget reduction scenarios ranging from 5% to 15% cuts against state funds (or equivalent to roughly 2.5% to 7.5% cuts to combined state and tuition fee revenues which represents our total operating funds). The campus benefited from starting this process early as the ultimate reduction figure handed down to the campus by the Chancellor's Office fell within this range. Each division was prepared to fine-tune its budget plan to meet its respective budget target. Further, the divisions underwent a thorough evaluation of their operating budgets in alignment with the University

Guiding Principles for Budget Reductions, which PRBC also highlighted in its memo, calling for the campus to protect "the financial solvency, integrity and viability of the University and its programs."

The table below displays the divisions' reduction targets based on pro-rata share of the total operating budget. The campus developed a reduction amount of $24M, which slightly exceeded the $23,606,061 assigned to us by the Chancellor's Office. As described later in the allocation section, this excess amount is used to help meet baseline needs in Academic Affairs related to faculty appointments. The $24M translates to roughly a 5.1% reduction of our operating funds. However, there are compulsory budget commitments that the campus cannot reduce such as debt obligations and capital leases. Reflecting these results in an overall pro rata reduction of 6.54% to each division's operating funds.

Assigning the 6.54% reduction target to Academic Affairs (AA) presents a special challenge. Since personnel costs make up the majority of its operating budget, it is impossible for AA to meet its target of $16.17M without reducing roughly $8.44M in instructional salaries. Meanwhile, the enrollment for Fall 2021 has actually increased relative to Fall 2020 level, and so we need to maintain the instructional budgets for 2021-22. While AA will indeed meet its baseline target, the campus will restore instructional salaries from its reserves using one-time funds to continue to support the necessary course offerings this year, which will result in a net reduction of 3.41% for Academic Affairs. All other divisions will assume a 6.54% reduction.

Given that the above restoration for AA is one-time, the campus will face this funding need again next year and beyond, and a permanent solution will have to be found in order to address this structural deficit. Such solutions could include allocating portions of future new baseline funds incrementally over time to restore this deficit, reducing baseline enrollment, making additional reductions, or any combination thereof.

The following table identifies the distribution of reductions by division:

CO Assigned Reduction to CSUF:	**$24M**	**5.1%**
Division	**$ Reduction**	**% of Base**
AA Initial	16,167,812	6.54%
Restore Instruction:		
TT/Lecturer Pool	*(818,005)*	
Course section adjustments	*(3,653,265)*	
TA	*(466,000)*	
GA	*(778,991)*	
Benefits	*(2,012,071)*	
AA Net Reduction	**8,439,480**	**3.41%**
AF	2,447,985	6.54%
HRDI	538,691	6.54%
IT	1,478,496	6.54%
SA	2,308,550	6.54%
UA	752,553	6.54%
President	178,242	6.54%
Universitywide	127,671	6.54%
Total	**24,000,000**	**6.54%**

One-Time Sources

The baseline budget reduction notwithstanding, the campus will continue to be over-enrolled, which will generate $14M in one-time tuition revenues associated with this excess enrollment. The campus has relied on this revenue source for many years to help fund its core needs. However, this year is different in that due to the lack of funding from the State, we do not have the flexibility to fund other critical needs such as deferred maintenance and shortfalls in centrally managed costs pools such as risk management expenses, which we anticipate to be in deficit by roughly $1.2M this year. Given the budget climate, 100% of these one-time revenues are allocated to Academic Affairs to cover items such as faculty promotions, faculty searches, and faculty start-up as described in the next section.

FY 2020-21 Budget Allocations

Again, I appreciate and concur with the recommendations and priorities put forth in the PRBC recommendations for FY 2020-21. In past years our over-enrollment provided flexibility with one-time funds, but this year the entire $14M one-time funds are allocated to Academic Affairs for their core needs. In addition, we will draw down $8.44M from university-wide reserves to restore the reductions to instructional budgets. Though these actions are far from addressing all of the recommendations and priorities of the PRBC and meeting the needs of the academic enterprise of the campus, they align with the PRBC's recommendation that we assure "student success in academic progress." Please note that for the first time in recent history, other divisions and areas will not receive any funding this year.

Summary of FY 2020-21 Budget Allocations:

Operationalizing the University's Strategic Plan

We have allocated $949,140 ($393,939 baseline and $555,201 one-time) to fund faculty promotions. It is noted that the $555,201 is a recurring need and, again, creates a structural deficit that will need to be addressed next year and beyond.

Faculty Hiring, Retention, and Tenure Track Density and Instruction

We have allocated $9,547,906 (one-time) for faculty hiring and retention as follows:

- Continue to Invest in High-Quality and Diverse Faculty Hiring Plan: $250,000 in one-time funds for faculty searches, and $1,266,109 for faculty start-up in order to continue and support the faculty hiring plan.

- Over-Enrollment: $8,031,797 ($5,501,231one-time for salary and $2,530,566 for benefits) is allocated to support additional instructional costs. salaries and benefits to be funded based on actual enrollment.

Core Operations to Advance Institutional Mission

- Special Academic Programs: Total one-time amount of $3,739,903 to fund special academic programs such as Ed.D., and DNP. 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. Due to a lack of baseline funding, the campus is unable to provide partial baseline funds this year as it has in the past to make the funding source permanent. The campus will consider this funding option again next year.

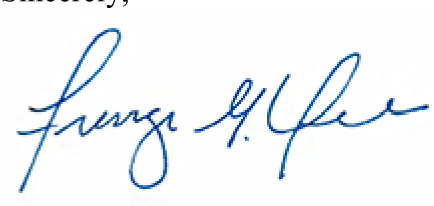
- University Reserves: $156,190 in one-time funds to set-aside for priority allocations.

Closing

The student success that will undoubtedly rise on the 20-21 horizon can be directly tied to Cal State Fullerton’s continued ability to adapt amidst an ever-changing global pandemic and ongoing economic downturn. Central to that endeavor is how we manage our budget and mitigate the impact of our budget cuts on our students. Due in no small part to the PRBC’s recommendations, we are well-positioned to do exactly that this academic year. That said, based on what the State is predicting and our own economic forecasting, there are increasing budget challenges in our future. With the leadership and ongoing support of the PRBC, I am confident we will not only persevere, but also build upon our momentum as a system-wide leader in eradicating equity gaps, increasing graduation rates, and widen paths to degree.

Thank you. Be well, be kind, and stay strong. Together, we will continue to get through this as one Titan Family.

Sincerely,



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