



THE CALIFORNIA STATE UNIVERSITY

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The 2003/04 California State University Budget: Challenges Amidst Crisis

California faces a fiscal crisis of unprecedented magnitude. The Legislative Analyst's Office estimates the gap at \$26.1 billion, while the Governor, using a different set of assumptions, identifies a shortfall at \$34.6 billion. The economy remains bogged down in recession, slowing the growth of revenues needed to close the budget gap. While the Governor's proposed solutions to the budget crisis range from deep spending reductions, loans and other temporary measures to tax increases, there is little or no consensus to date as to which combination of strategies will best lead the state to economic recovery.

In his 2003 State of the State Address, Governor Gray Davis declared that in order to solve the state's fiscal crisis, all state programs must share in the pain of the difficult decisions that will be required to restore California to a sound economic footing. The Governor's statement is reflected in his proposed budget for the California State University (CSU), which included \$326 million in reductions to the system's \$2.6 billion General Fund budget. In addition to the reductions contained in the Governor's budget, the CSU faces an additional \$78.6 million in unfunded mandatory cost increases for such items as employee salary increases, increased health care costs, and insurance premium increases; as well as a permanent \$43 million reduction for long-term needs in the system. **Altogether, the CSU will have to implement reductions and unfunded costs totaling \$260.7 million in 2003/04 – assuming that there are no further cuts above those proposed in January.**

California State University: 2003-04 System Budget

Support Budget, General Fund	\$2.6 billion
Cumulative Funding Shortfall (2001-02 to 2003-04)	\$782.3 million
Partnership Funding Shortfall	\$297.6 million
Program Reductions	\$383.2 million
Unfunded Mandatory Costs	\$101.5 million
2003-04 Proposed Budget Reductions and CSU Fiscal Pressures	(\$447.7 million)
2003-04 Governor's Budget Reductions	(\$326.1 million)
Unfunded Mandatory Costs	(\$ 78.6 million)
Permanent Reduction, Long-Term Needs	(\$ 43.0 million)
2003-04 Revenue to the CSU Support Budget	\$187.0 million
Net Student Fee Revenue (less SUG allocation)	\$142.0 million
Revenue from 2002-03 Student Enrollment	\$ 45.0 million
CSU Support Budget Reductions	(\$260.7 million)
Percentage Reduction	(10%)

Budget Provides Funding For Enrollment Increase

The governor's budget request, recognizing the CSU's mission of providing access, proposed increases of \$105.9 million to fund a 5 percent enrollment growth at the CSU and \$45 million to partially compensate for the CSU's current over-enrollment. Altogether, that \$150.8 million will fund 25,000 additional students in 2003/04. **This funding increase, along with revenue from the proposed fee increases, absolutely must be protected if the CSU is to ensure that the 424,000 students expected to enroll in 2003/04 are able to obtain the courses, student services and instructional programs reflective of a quality education and true opportunity.**

Budget Assumes Student Fee Increases

The governor's budget proposal is based upon the expectation that fee increases for all students at the CSU, the University of California, and community colleges will be necessary to help protect access and quality as best as possible during the budget crisis. The CSU budget assumes that the Board of Trustees increase undergraduate fees for 2003-04 by 25% (or \$396) for a full-time student and 20% (or \$348) for full-time graduate students.

The proposed increases bring the State University Fee (SUF) for the full academic year to \$1,968 and \$2,082 for undergraduate and graduate students, respectively. CSU student fees would remain the lowest among the 20 institutions identified by the California Postsecondary Education Commission (CPEC) as comparable to the CSU.

Governor's Budget, Financial Aid Assumptions

The current budget proposal includes funding for the Cal Grant Program and the CSU State University Grant Program consistent with the proposed fee increases so that financially needy students will not feel the affect of the increase. Altogether, an estimated 140,000 CSU students would be eligible to receive grant funding from these financial aid programs.

Legislative Analyst's Recommendations

The Legislative Analyst's Office (LAO) released their Analysis of the 2003-04 Budget on February 19th. The analysis makes significant recommendations in three areas of the CSU budget – enrollment growth, student fees, and financial aid.

Enrollment Growth: The LAO proposes to fund a 4% increase for enrollment growth while the Governor's budget provides approximately 7% for this purpose. The LAO contends that the Legislature has never funded over-enrollment, and the enrollment growth for CSU and UC should be more reflective of the growth in the high school graduation rate and adult population growth. The LAO proposes 4% funding for "new" enrollment growth because currently overenrolled students are already receiving instruction at the CSU.

CSU opposes this recommendation, which seems to suggest that student demand is not real and that enrollment growth should be restricted to the estimated growth in traditional age students. The CSU plays a critical role in ensuring the Master Plan's promise of access is met, serving 2/3 of all community college transfer students, re-entry and older students, in addition to first-time freshmen. CSU faculty and staff are serving 8,000 more full-time equivalent students (FTES) than were funded in the current year. The \$45 million provided in the Governor's budget recognizes – as the state has historically recognized – over-enrollment, to ensure that courses and services are available for these students.

Student Fees: The LAO recommends increasing undergraduate fees at CSU by 15% instead of the 25% proposed in the Governor's budget. The LAO also advocates a long-term fee policy to stabilize student charges. The Assembly Higher Education Committee has introduced legislation to implement a statutory fee policy, and CSU will be working closely with Assembly Member Carol Liu and others on this policy.

Financial Aid: The CSU has made a commitment in Board of Trustees policy to students and the state that one-third of all new fee revenues will be invested in the State University Grant Program (SUG). However, the LAO recommends against CSU using one-third of the fee revenue in this manner. Instead, this revenue would be used to offset the Governor's reduction of \$326.1 million, specifically to partially offset the unallocated budget reductions proposed for each segment (for CSU, \$142 million). Shifting financial aid resources to backfill the unallocated reduction would allow for a lower fee increase for undergraduate students and increase the net revenue from fee rate increases by \$4 million above the funding projected in the Governor's budget. The LAO proposal provides that any increase in student fee revenue associated with enrollment growth could be used for SUG's. However, student fee revenue associated with enrollment growth would only provide \$10 million in new SUG revenue versus the \$70.7 million proposed in the Governor's budget. If the LAO's proposal for a 15% increase in student fees was approved, without the one-third set-aside for SUG awards, over 7,000 current CSU students would not receive SUG awards.

The CSU opposes these two recommendations. Without sufficient revenues from the state, student fees need to play a part in maintaining the quality of education at CSU. Even with the increases assumed in the Governor's budget proposal, CSU student fees would remain the lowest among our CPEC-identified comparison group, and financially needy students would receive grant aid to fully cover the proposed increases. As noted above, if the LAO's recommendations on student fees (a 15% increase for undergraduates) and financial aid (no 1/3 set-aside) were adopted, over 7,000 current students would not receive financial aid.

The Messages

Impact of Proposed Cuts Significant. The proposed reductions to the CSU's budget will seriously impact the CSU's programs in the areas of instruction, academic support, student services, administrative services, and facilities maintenance and repair. All of these programs and services are important to the proper functioning of the university and no one area can shoulder all the cuts. Campuses are now evaluating what different budget scenarios may mean for them. The later in the fiscal year these cuts are finalized the harder they will be to implement.

Enrollment Growth Funding, Student Fees, and Financial Aid Investment Critical. The impact of the reductions will be much more severe if the CSU does not receive the new enrollment growth and student fee revenue (and accompanying increases in financial aid programs) that the governor has proposed. If the final budget does not include this funding, the CSU could not manage these cuts without significant impacts on its programs and personnel. The CSU would then be forced to repeat the situation of the early 1990s, when the university enrolled students and later received deep cuts in the state's final budget. During those years, the university did not have the means to offer the classes and services that students needed to stay on track to graduate. Many students left out of frustration and those that remained took longer than expected to graduate.

ACTION ITEMS

- 1. Protect CSU Funding Levels in Governor's Budget**
- 2. Reject LAO Recommendations on Enrollment, Financial Aid and Student Fees**