Faculty Senate Update
Division of Administration and Finance
March 6, 2017

<u>Status of the CSUSB 2017/18 Academic Year Budget</u>

It has come to our attention that at the February 7, 2017 Faculty Senate meeting, several Senators expressed concern for the university's budget situation in the 2017/18 year. My apologies again that I was at a systemwide meeting and not able to attend in person to answer questions. Much of the concern expressed seemed to be connected to the budget planning scenarios shared at the February 1 University Budget Advisory Council (UBAC) meeting, which showed that the campus could be facing a number of fiscal shortfalls. As was detailed in the UBAC meeting, these budget planning scenarios frequently change as we ramp up to a final budget on July 1. I would like to provide this updated overview of the 2017/18 budget for CSUSB. It has changed (to the positive) based on announcements since early February, but as is frequently the case, we must be prepared for additional changes over the coming months. It is my hope that by working collaboratively with all stakeholder groups, we will together build an acceptable budget plan for 2017/18 that seeks to address a number of wide-ranging priorities for the campus.

<u>Challenges Facing CSUSB in its 2017/18 Budget</u>

CSUSB faces a number of challenges in its budget planning for the upcoming 2017/18 fiscal year. In total, they represent more than $3 million in lost revenue or added expenditures that are outside of the university's decision making control.

- <u>Compensation</u>: While we remain supportive of the recent and future compensation agreements for faculty and staff negotiated through the collective bargaining process, we have made it clear to the campus, UBAC, and the Chancellor's Office that CSUSB was not financially positioned to absorb these increases without full funding from the State of California and/or the Chancellor's Office. The agreements were made and the funding received at CSUSB (and all CSU campuses) continues to fall far short of the actual cost. The accrued shortfall to date is <u>$970,000</u>.

- <u>General Liability Insurance</u>: The cost to the university to insure and protect the university will experience increased annual premiums in 2017/18. The accrued shortfall is <u>$145,000</u>.

- <u>Retirement Premiums</u>: In 2013, the State of California announced that they would no longer fund the university's portion of retirement obligations for any net new hiring by the campuses or for any increases in retirement costs associated with compensation increases. We will note later in the 2017-18 planning scenarios that the Chancellor's Office has announced it will appropriate additional funding in 2017-18 for prior-year additional obligations, the accrued shortfall after that remains at <u>$600,000</u>.

- <u>Non-Resident Enrollment</u>: Non-resident tuition and per unit fees that international and out-of-state residents contribute are built into the permanent base budget of CSUSB, based on historical enrollments and anticipated projections. Nationally, international student enrollments are dropping due to reduced/eliminated financial support from host countries, personal safety concerns in the U.S. due to gun violence and terrorism, and concerns over the U.S. federal government's proposed travel and visa restrictions. The College of Extended Learning is developing a strategy in partnership with the colleges on ways we can counteract this downturn. We anticipate a net drop with non-resident enrollments of 63 FTE students, resulting in $820,000 in lost permanent revenue.

- Student Success Initiatives: One of the unintended consequences of student success initiatives, like the Graduation Initiative 2025, is that the balance of headcount and average unit load changes to meet the same FTE enrollment target for the campus. As average unit load increases, headcount must decrease to reach the same FTE target. Tuition revenues are driven by headcount, not average unit load, since tuition is the same at any course load above 6.1 units. At CSUSB, our success in improving persistence and graduation rates has resulted in an increase in average unit load per student and a resulting decrease in headcount to make up our funded FTE target, resulting in $560,000 in lost permanent tuition revenue.

CSUSB Financial Planning Scenarios for 2017/18

As was shared at the February UBAC meeting, we are working from three different scenarios as we plan for the 2017/18 fiscal year. The updated (3/2/17 version) scenarios are attached to this report, including how CSUSB proposes to address them.

- Scenario 1 – Governor's Plan: This plan assumes CSUSB will receive its proportion (around 4%) of the total CSU additional allocation from the State of California ($157.2 million). It also assumes that there will be no tuition increase, no enrollment growth, no funding for deferred maintenance projects, and no additional funding for student success initiatives. If the CSU Board of Trustees were to approve a tuition increase, this scenario goes away, leaving just scenarios 2 and 3.

- Scenario 2 – Governor's Plan + Tuition: This plan assumes that in addition to our State allocation, CSUSB would receive additional tuition revenues from enrolled students, netting an additional $77 million total across the CSU. The additional funding would in turn be utilized to support current and additional CSUSB support for student success initiatives, including the Graduation Initiative 2025. As in scenario 1, no enrollment growth and no funding for deferred maintenance projects are assumed. If the CSU Board of Trustees were not to move forward a tuition increase, this scenario goes away, leaving just scenarios 1 and 3.

- Scenario 3 – Full CSU Trustee Request: The Board of Trustees submitted a request to the State of California for $343.7 million to support all new CSU commitments, including our campus shortfalls in compensation, benefit programs, and student success initiatives. This scenario assumes full funding of this request from the State of California. If this were to happen, this scenario assumes that enrollment would grow by 1%, tuition increases would not move forward, and student success initiatives and deferred maintenance projects would receive funding.

What's Changed in the Budget Scenarios Since the February 1 UBAC Meeting?

As mentioned earlier, it is common for additional information to be announced by the State and the Chancellor's Office as we go through the budget process that further clarifies our planning. Estimates of some costs (such as benefit programs) change from estimates to actuals as final rate structures are negotiated. The following changes have impacted our budget planning scenarios (see the attached 3/2/17 scenario update):

- Additional Funding for Retirement Obligations: As mentioned in the earlier section on challenges facing our budget, the CSU announced they will be releasing permanent funding to address retirement obligation shortfalls incurred to date, resulting in additional funding to CSUSB of $1.435 million.

- Additional Funding from Bond Refinancing: Taking advantage of lower interest rates, the CSU has been engaged over the last year in refinancing many of the public works bonds that constructed buildings historically across the CSU. The initial plan was to convert the savings from refinancing into funds for badly needed deferred maintenance projects. Instead, the CSU now intends to allocate this in permanent funding to the campuses to offset operating shortfalls and support student success initiatives. CSUSB would expect to receive additional funding of $1.3 million. If the CSU were to receive the full funding request made to the State (planning scenario 3), we believe the CSU would revert back to using these savings for deferred maintenance.

- Reduction in Mandatory Cost Projection: CSUSB's costs for projected compensation, benefit program, and insurance premium obligations continue to be revised and refined based on current employment levels. Some benefit costs are coming in lower than anticipated and we have adjusted anticipated compensation increases to what either has been negotiated through collective bargaining or what is anticipated. Anticipated expenditures in this area have been reduced by approximately $1.6 million.

Other smaller adjustments have been made as student enrollment is better understood. While all of these changes have improved our overall 2017/18 financial outlook since January/February, everyone is again reminded a lot more changes may occur between now and the start of the fiscal year.

Strategic Plan Implementation – Year 3

CSUSB intends to move forward with the third year of implementation of the CSUSB strategic plan goals and initiatives. In total, CSUSB intends to commit $1,178,000 in additional permanent funding towards the following year 3 initiatives, on top of existing commitments in these areas:

$ 750,000	Additional Tenure/Tenure Track Faculty
$ 125,000	CSUSB Capital Fundraising Campaign
$ 100,000	Faculty Center for Excellence
$ 100,000	Staff Development Center
$ 50,000	Entrepreneurship and Business Incubator
$ 25,000	Community Engagement New Program Development
$ 20,000	Faculty Research Support, Reassigned Time, and Faculty Recognition
$ 8,000	Community Engagement Support for Existing Programs

$1,178,000	

Contingency Planning if there were a Budget Shortfall

If the realities of the CSUSB 2017-18 budget present a budget shortfall for the campus, the following are the strategies the campus would deploy to manage this. These are one-time solutions which would resolve any 2017-18 budget shortfall, but may not be available again in future years.

- Over-Enrollment Tuition Revenue: When the university enrolls beyond the target established with the Chancellor's office, the one-time additional tuition revenue from these students is held in reserve and distributed one-time in the subsequent fiscal year. To date, the University Budget Office estimates that $3 million will be collected in this reserve by year end. This amount will fluctuate in future years. Currently, CSUSB is planning for no enrollment growth in 2017/18.

- Working Capital Reserve "Rainy Day Fund": In partnership with UBAC and members from the Faculty Senate Executive Committee, CSUSB established three university reserves at the beginning of the 2015-16 fiscal year. One of these, the Working Capital Reserve, was established to hold one-time funds during stronger fiscal years to be utilized during years of shortfall. This reserve currently has $5 million on deposit and only a portion of this might be needed in the worst of budget scenarios we may have to work through in 2017/18.

While these two strategies will more than take care of any fiscal situation we appear to be facing in 2017/18, there are a number of additional strategies the campus could look to, including using funds in the capital development and deferred maintenance reserves, hiring freezes, utilizing annual rollover funds for university need, redistribution of existing resources, and budget reductions. At this point, there is no reason to believe that fiscal management strategies of this severity would need to be considered with the actual range of financial scenarios we face in 2017/18.

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO
ESTIMATED OPERATING FUND BUDGET
FY 2017/18

Updated: 3/2/17

	Current Year 16/17		17/18 Scenarios: Governor's Plan No Fee Adj. No EG		Governor's Plan w/Fee Adj. No EG		Trustee Request w/1% EG. No Fee Adj.	
State Appropriation	$102,400,408		$109,497,408		$109,497,408		$116,517,408	
Prior-Year State Approp. - Retirement Adj.	$797,000		$1,435,000		$1,435,000		$1,435,000	
Public Works Bond Refinancing (CO Approp.)	$0		$1,300,000		$1,300,000		$0	
Tuition - Resident	92,139,250		91,603,512		95,721,552		92,519,547	
Tuition - Non-Resident	5,149,561		4,744,740		4,958,040		4,744,740	
Non-Resident Per Unit Fee	8,211,831		7,768,860		8,321,860		7,768,860	
Other Student Fees	900,000		900,000		900,000		900,000	
Total Budget	**$209,598,050**		**$217,249,520**		**$222,133,860**		**$223,885,555**	
Tuition Discount Requirement	34,164,900	35.12%	34,164,900	35.46%	35,594,242	35.35%	34,468,143	35.44%
Total Budget - Net Financial Aid	**$175,433,150**		**$183,084,620**		**$186,539,618**		**$189,417,412**	
Total Budget Increase Between Fiscal Years			**$7,651,470**		**$11,106,468**		**$13,984,262**	
Mandatory Costs (Employee Compensation/Benefits/Insurance)			(9,864,000)		(9,864,000)		(9,864,000)	
16/17 Compensation Shortfall			(882,761)		(882,761)		(882,761)	
Net Budget Surplus/(Deficit)			**($3,095,291)**		**$359,707**		**$3,237,501**	
Strategic Plan Implementation (Year 3)			(1,178,000)		(1,178,000)		(1,178,000)	
Net Budget (Including Strat Plan)			**($4,273,291)**		**($818,293)**		**$2,059,501**	
1x Funds - 16/17 Enrollment Overage ($3m available)			3,000,000		818,293		0	
1x Funds - Working Capital Reserve ($5m available)			1,273,291		0		0	
Net Budget w/1x Funds			**$0**		**$0**		**$2,059,501**	

Enrollment Targets (FTE)	
Resident (CO target)	15,287
Non-Resident	790