

**CFA Research Brief #8:  
The Governor's 2004/05 Budget Proposal**

**Summary**

- The Governor's 2004/05 budget proposes a net General Fund reduction of \$239.7 million for the CSU. The General Fund reduction is partially offset by new student fee revenue. In sum, the CSU administration projects a 2004/05 budget shortfall of \$191.5 million in 2004/05
- Under the Governor's plan, undergraduate student fees would increase by 10 percent and graduate fees would climb by 40 percent. Significant policy changes would restrict some students' access to financial aid.
- Between the enacted 2003/04 budget and the Governor's 2004/05 proposals, the CSU suffers a \$541.2 million reduction in state support.
- The entire CSU community will feel the impact of the proposed cuts. In addition, the California business community – especially businesses that contract with the CSU – will be impacted by the cuts to the CSU.
- The National Association of State Universities and Land-Grant Colleges estimates that, on average, universities return 5 dollars to the economy for every dollar invested in them. This means the CSU contributes well over **\$15 billion** to the California economy each and every year.

**General Overview**

Governor Arnold Schwarzenegger released his \$97.2 billion 2004/05 budget proposal on January 9, relying heavily on spending cuts and borrowing to close an estimated \$16.2 billion budget gap. Approximately \$5.9 billion, or 36.6 percent, of the budget shortfall is solved through spending reductions (see Table #1).

**Table #1—Governor's Proposed Solutions to the 2004/05 Budget Shortfall**

\$5.9 billion in spending reductions	36.6%
\$1.1 billion in fund shifts	6.7%
\$947 million in suspension of Proposition 42	5.8%
\$2.9 billion to re-base Proposition 98	17.7%
\$4.2 billion in savings/transfers/Deficit Recovery Bonds	25.8%
\$249 million in assorted loans and borrowing	1.5%
\$950 million in savings from a proposed pension reform package	5.9%
<b>\$16.2 billion in total savings</b>	<b>100.0%</b>

Virtually every major state program suffers significant spending cuts under the Governor's plan. Health and social services programs such as Medi-Cal, CalWORKs and services for the mentally and developmentally disabled are particularly hard hit. Local governments also take a significant reduction and stand to lose approximately \$1.3

billion under a proposal to shift local property tax revenue to the state to help pay for K-14 education.

The Governor’s plan also proposes to suspend Proposition 98, the state’s Constitutional minimum funding guarantee for K-12 education and the community colleges. The Prop. 98 suspension would save approximately \$2.0 billion in 2004/05. The \$2.0 billion saved by the suspension would eventually have to be restored.

Apart from student fee increases and various user fees (e.g. state park passes), the Governor proposes no increase in state revenues.

***CSU Overview***

The Governor’s 2004/05 budget proposal sharply reduces state support for the CSU. Under the Governor’s plan, cuts to the CSU’s General Fund allocation total \$311.1 million. These reductions are partially offset with the restoration of a \$69.5 million budget reduction taken by the CSU in 2003/04. However, even with the General Fund augmentations, the CSU still faces an overall cut in General Fund support of \$239.7 million, or about 9 percent (see Table #2).

**Table #2 – Impact of Governor’s Budget on the California State University**

Adjusted 2003/04 GF Base (excludes fee revenue)	\$ 2,649,219,000
Total 2004/05 Reductions	\$ (311,061,000)
Total 2004/05 Increases	\$ 71,400,000
<b>Total 2004/05 General Fund Impact</b>	<b>\$ (239,661,000)</b>
Proposed 2004/05 GF Base (excludes fee revenue)	\$2,409,558,000
Total 2004/05 General Fund Impact	\$ (239,661,000)
Net Increase in 2004/05 Student Fee Revenue	\$ 105,647,000
2004/05 Mandatory Costs	\$ (57,475,000)
<b>Total CSU 2004/05 Budget Shortfall</b>	<b>\$ (191,489,000)</b>

The Governor proposes increasing fees to partially offset the General Fund reduction (see below for additional detail). The CSU anticipates the student fee increase will generate approximately \$132.1 million. Typically, one third of this amount is set-aside for State University Grants, CSU’s in-house financial aid program. However, the Governor’s budget would reduce the SUG set-aside to 20 percent. Therefore, under the Governor’s plan, the fee increase would net approximately \$105.6 million, reducing the CSU’s overall budget shortfall from \$239.7 million to \$134.0 million.

In addition to the budget reductions detailed by the Governor, the CSU is also facing \$57.5 million in unfunded mandatory costs. In effect, these mandatory costs (health care

benefit premium increases, workers' compensation, etc.) operate like another budget reduction. In order to accommodate these necessary expenses, the CSU must eliminate a corresponding amount of discretionary spending (travel, equipment, employee positions, etc). The \$57.5 million in mandatory costs increases the CSU's overall budget gap to \$191.5 million in 2004/05.

***The Details***

While all of these reductions are significant, CFA is particularly concerned with five of the cuts. First, the increase in the student-to-faculty ratio (SFR) represents a direct threat to the CSU's instruction program and overall educational mission. The Governor's proposal would increase the CSU's SFR by 5 percent for the second straight year. Since the budget includes no increase in enrollment, the increase in SFR cannot be achieved solely through an increase in faculty workload. The result: the \$53.5 million in savings will most likely be achieved primarily through the elimination of faculty positions and the reduction of class sections. If achieved solely through layoffs, the proposal could result in the elimination of over 1,000 full-time equivalent lecturer positions.

**Table #3 – Detailed 2004/05 General Fund Budget Actions**

<b><i>Adjusted 2003/04 General Fund Base</i></b>	<b>\$ 2,649,219,000</b>
<b><i>2004/05 General Fund Reductions</i></b>	
Unallocated General Fund reduction to reflect student fee increase	\$ 78,494,000
Eliminate CSU General Fund Outreach and EOP Program	\$ 52,000,000
7.5% Reduction in Academic and Institutional Support	\$ 52,554,000
Defer 10% of CMS Implementation Costs	\$ 6,000,000
Increase Student Faculty Ratio by factor of 1	\$ 53,516,000
Eliminate General Fund Subsidy for Excess Course Units	\$ 24,402,000
Reduce New Freshmen Enrollment by 10 Percent	\$ 21,062,000
Unallocated Budget Reduction	\$ 23,033,000
<b>Total Budget Reductions</b>	<b>\$ 311,061,000</b>
<b><i>2004/05 General Fund Augmentations</i></b>	
Restoration of 2003/04 one-time reduction	\$ 69,500,000
Provide counseling to students enrolling in CCC in lieu of CSU	\$ 1,900,000
<b>Total Budget Augmentations</b>	<b>\$ 71,400,000</b>
<b><i>Governor's Proposed 2004/05 General Fund Base</i></b>	<b>\$ 2,409,558,000</b>
Net reduction in General Fund support	\$ 239,661,000
Percent decline from 2003/04	-9.0%

Second, the budget proposal actually reduces the CSU's enrollment by shifting 10 percent of CSU freshmen to the community college system. Under the proposal, freshmen eligible for enrollment in the CSU will self-select into the dual-admissions program in which they will complete lower division units at a community college and

then transfer to the CSU. While the idea is inventive, the net effect upon the CSU will nevertheless be a negative. The 10 percent decline in freshmen (a loss of approximately 3,800 full-time equivalent students) translates into a budget reduction of \$21.1 million, a cut the CSU can ill-afford. In addition, CFA is concerned that many students choosing dual admissions may “fall through the cracks” and never end up achieving their ultimate goal: admission to a four-year institution.

Third, the Governor would save \$24.4 million by eliminating the state subsidy for CSU students with excess units. If approved, the new plan would require students to pay the full cost of each unit above 110 percent of the total units required to earn their degree. The Governor’s plan does not spell out a specific unsubsidized cost for the CSU, however, CFA estimates it could be anywhere between \$575 to \$1,125 per 3-unit course. Besides cost, the proposal raises a host of other questions and concerns. For example, how will students with minors or double majors be treated? Will returning students who already have a bachelor’s degree be forced to pay the new unsubsidized rate? Is it fair to penalize students who have accumulated extra units because they took longer than anticipated to decide on a major?

Fourth, the two unallocated base reductions totaling \$101.5 million will most likely have a significant impact on teaching and learning in the CSU. The extent to which this reduction affects the CSU’s instruction program is largely contingent on exactly how the CSU administration would implement this proposal. If last year is any indication, the CSU administration may take a highly decentralized approach to the unallocated reduction, spreading the cut across the campuses and, ultimately, across the academic departments and administrative units. This approach could result in painful reductions to the CSU’s instructional program, student services programs and campus libraries.

Finally, the Governor has proposed eliminating the CSU’s student success programs, including the Educational Opportunity Program (EOP). The EOP program is essential if the CSU is to continue its proud tradition of serving low income and educationally disadvantaged populations. It ensures that non-traditional students are given the opportunity to succeed at the college-level. CFA applauds the Chancellor’s efforts to defend EOP and his unwillingness to make significant reductions in the program.

### ***Student Fee Increase***

In addition to the budget reductions, CFA has serious concerns over the Governor’s proposed student fee increase. If the spending plan were adopted, CSU students would see their student fees increase for the third time in less than two years (see Table #4). The 2004/05 budget proposes to increase undergraduate student fees by 10 percent to \$2,251 per year and graduate fees by 40 percent to \$3,158 per year. Non-resident students would see their out-of-state surcharge climb by 20 percent to \$10,152.

The cumulative effect of the last three fee increases is staggering (see Table #4). Over the course of less than two years undergraduate student fees will have increased by \$823,

or 58 percent. Graduate student fees will have more than doubled over this time, increasing by \$1,652, or 110 percent.

**Table #4 – Recent CSU Student Fee History**

	Fall 2002*	Spring 2003*	Fall 2003	Fall 2004 Proposed	Cumulative Increase
<b>Undergraduates</b>					
Percent Increase	--	10%	30%	10%	58%
Fee	\$ 1,428/yr	\$ 1,572/yr	\$ 2,046/yr	\$ 2,251/yr	\$ 823
<b>Graduates</b>					
Percent Increase	--	15%	30%	40%	110%
Fee	\$ 1,506/yr	\$ 1,734/yr	\$ 2,256/yr	\$ 3,158/yr	\$ 1,652

\*Two separate fee rates applied during the 2002/03 fiscal year due to the mid-year fee increase adopted in mid-December of 2002.

The Governor does propose to implement a “moderate and predictable” fee policy, aimed at avoiding dramatic fee increases in the future. Specifically, the administration loosely ties future student fee increases to the increase in per-capita income. The state would have some degree of flexibility to increase fees beyond this amount during bad economic times, however, student fee growth would be capped at 10 percent per year. This proposal would offer undergraduates some degree of protection against another crippling fee increase. However, in the short term, graduate students continue to be exposed to additional significant increases. Graduate student fees will not be subject to the cap until the graduate student fee reaches 150 percent of the undergraduate student fee. This means graduate fees could increase by up to 17 percent in 2005/06 (assuming undergraduate fees increase by 10 percent that same year).

***Major Changes In Financial Aid Policy***

The Governor has also proposed significant changes in student financial aid policies. Historically, the state’s main financial aid program, the CalGrant, has been tied to student fee levels: if student fees increase, the state would increase the CalGrant award to match fee levels. However, the administration plans to save \$23.7 million by decoupling the traditional link between student fees and the CalGrant award. Beginning in 2004/05, CalGrants will no longer automatically increase to match increases in student fees. There are still a host of unanswered questions about this new policy, one of the most important being: will the Legislature be willing/able to adjust the CalGrant amount to meet the increased fee? This is a significant policy change that could have a major impact on low-income students.

In addition, the Governor proposes to reduce the allowable income ceiling for CalGrant recipients by 10 percent, saving \$11.2 million. The California Student Aid Commission, the agency that administers the CalGrant program, estimates that 4,450 California students will no longer be CalGrant eligible in 2004/05 as a result of the proposal. It is not immediately clear how many CSU students will be affected. Existing CalGrant

recipients whose income falls between the old maximum and the new maximum will continue to receive their award.

### ***Additional Proposals Affecting the CSU***

In addition to the budget reductions and fee increases described above, the Governor has proposed a series of pension reforms that will affect CSU employees. Most notably, the budget includes a proposed 1 percent increase in the employee pension contributions. For CSU faculty this means CalPERS contributions will increase from 5 percent to 6 percent, thus decreasing take-home pay by 1 percent.

The Governor is also seeking a pared down pension formula for newly hired state employees.

### ***The Cumulative Affect of Budget Reductions***

The most important thing to understand about the Governor's 2004/05 budget proposal is that it does not exist in a vacuum. The true impact of the 2004/05 budget reductions should only be considered in the context of cuts already suffered by the CSU.

Excluding "pass-through" funds<sup>1</sup>, the CSU has suffered a total net General Fund reduction of \$541.2 million in 2003/04 and 2004/05 (see Appendix A). In other words, over this two-year period, the CSU has experienced a 20 percent reduction in state support. To get some sense of the scale of this reduction in General Fund resources, consider that in 2003/04 the CSU's three largest campuses (San Diego State, Long Beach and Northridge) received a combined total of \$515.0 million in state support in 2003/04.

Unfortunately, this decline in state support is not an isolated trend. Long-term trends clearly indicate that the CSU has become a secondary priority in the eyes of California policymakers. In the early 1970's, the state was spending approximately 6.5 percent of the General Fund on the CSU. Today, the CSU represents only around 3.5 percent of General Fund spending (see Appendix B, Chart #1). State expenditures per CSU student have also fallen off dramatically (see Appendix B, Chart #2). In 1980-81, the CSU received approximately \$10,742 per student (2002/03 dollars). By 2002/03 the state's contribution per student had declined to \$8,426, a decline of 21.6 percent.

In addition to the General Fund reductions, the CSU had to absorb \$78.6 million in unfunded mandatory costs (e.g. health care cost increases, workers comp. costs, etc.) in 2003/04 and anticipates having to absorb another \$57.5 in 2004/05. This two-year, \$136.1 million unfunded liability has placed additional pressures on the CSU budget.

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<sup>1</sup> Pass-through funds are allocated to the CSU by the state, but cannot be used to meet programmatic needs. Pass-through funds have a deceptive impact on the CSU's bottom-line – they are recorded as a budget increase, but are not available to help campuses meet their operating costs. The primary example in the CSU is money received for CalPERS payments. The state funds the CSU's increased retirement costs, but the CSU must send that money on to CalPERS.

The system has had to make additional reductions in discretionary spending in order to accommodate these necessary expenditures.

The CSU has backfilled a portion of this erosion in General Fund resources by shifting costs to students through increased student fees. However, increases in student fees have not come close to offsetting the drop off in state support.

### ***The Anticipated Impact of the Budget Reductions***

It is already clear that every single member of the university community will feel the impact of the Governor's proposals. Students, yet again, will be forced to pay more in 2004/05. And this year, fewer students will be able to count on CalGrants to help defray the cost of their education.

And what will the students get for their increased fees:

- Class size will increase;
- Class offering will shrink dramatically, meaning that graduation may be delayed;
- There will be fewer faculty on campus (cuts of this magnitude mean faculty layoffs);
- Faculty workload will increase, meaning student access to office hours and faculty advising will drop;
- Entire university programs may be eliminated;
- It will be more difficult to get counseling services;
- Libraries' journal subscriptions will be cancelled and book acquisition will drop significantly;
- It will be much more difficult to find student employment;
- Miscellaneous campus user fees may increase.

It would be bad enough if the impact of the cuts stopped here.

However, the students, faculty and staff that make up the CSU will not be the only ones to feel the pain of these cuts. The CSU is an absolutely vital contributor to the health of the California economy. The National Association of State Universities and Land-Grant Colleges (of which the CSU is a member) estimates that for every dollar invested in a state university, the institution returns five dollars into the economy. That means the 23-campus CSU system contributes well over \$15 billion to the California economy each and every year. CSU auxiliary organizations likely contribute several billion more each year.

Reducing the budget of such an important part of the economy will have a major impact on California's business community. Businesses that contract with the CSU may see their contracts cancelled or curtailed significantly. Budget cuts mean the CSU spending on paper, office supplies, lab equipment, computers, software, and construction/maintenance services will drop off dramatically. Businesses surrounding

CSU campuses that serve students, faculty and staff will see a drop in business volume: layoffs and enrollment declines will most definitely mean fewer patrons. Plus, the customers that remain will have less disposable income. Increased student fees mean less money for meals, services, entertainment, clothing, etc. The result: businesses that generate a portion of their revenue from CSU or members of the university community may not experience economic recovery as rapidly as other California businesses.

The businesses, school districts, hospitals, and other organizations that employ CSU graduates will also be affected. The 2004/05 budget reductions may mean the CSU will slow the number of graduates it sends out into the California workplace. What is certain is that the number of CSU students will not *increase*. CSU enrollment will not increase in 2004/05 and the Chancellor's Office estimates that up to 20,000 eligible California students will be denied admission to the CSU because of the budget reductions. This means hospitals will need to import nurses from other states if they are to meet new staffing ratio requirements. School districts will continue to be starved for new qualified teachers. Businesses ready for economic recovery may experience difficulties finding employees with the necessary preparatory education.

### ***Conclusion***

The Governor's budget is the first step in a very long and complex budgetary process. There is little doubt that many changes will occur as the budget winds its way through Legislative committees in the spring and summer of this year. CSU student, faculty and staff must engage themselves in this process and communicate the importance of the CSU to their elected state representatives.

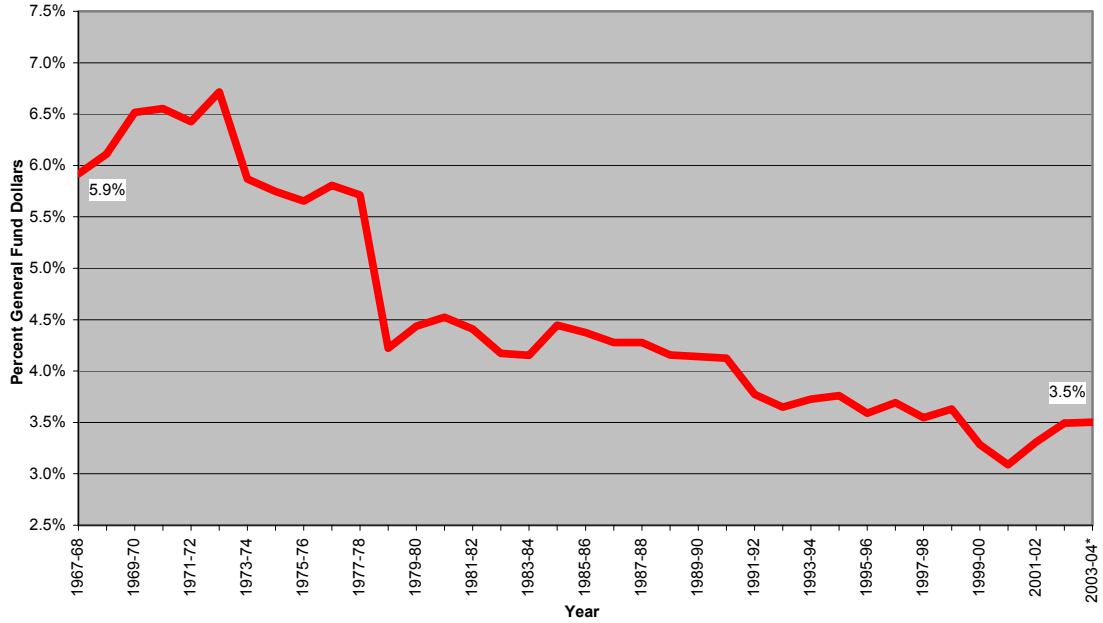
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**Appendix A -- CSU 2003/04 and 2004/05 General Fund Reductions**

<b>2003/04 General Fund Reductions</b>	<b>\$ (452,421,000)</b>	<b>2004/05 General Fund Reductions</b>	<b>\$ (311,061,000)</b>
Permanent Reduction in Long-Term Needs	\$ (43,000,000)	Eliminate CSU General Fund Outreach and EOP Program	\$ (52,000,000)
Unallocated base budget reduction	\$ (142,752,000)	7.5% Reduction in Academic and Institutional Support	\$ (52,554,000)
Reduction in student service funding	\$ (53,197,000)	Defer 10% of CMS Implementation Costs	\$ (6,000,000)
Reduction in academic and institutional support	\$ (58,091,000)	Increase Student Faculty Ratio by factor of 1	\$ (53,516,000)
Reduction in outreach funding	\$ (12,596,000)	Eliminate General Fund Subsidy for Excess Course Units	\$ (24,402,000)
Reduction in CalTeach funding	\$ (2,000,000)	Reduce New Freshmen Enrollment by 10 Percent	\$ (21,062,000)
Reduction in Bilingual Teacher Recruitment	\$ (2,000,000)	Unallocated Budget Reduction	\$ (23,033,000)
Increase student-to faculty ratio from 18.9:1 to 19.9:1	\$ (53,542,000)	Unallocated General Fund reduction to reflect student fee increase	\$ (78,494,000)
Reduction in Public Service funding	\$ (450,000)		
Reduction in Student Fellow Program	\$ (293,000)		
Additional Base Reduction	\$ (84,500,000)		
<b>2003/04 General Fund Increases</b>	<b>\$ 150,880,000</b>	<b>2004/05 General Fund Increases</b>	<b>\$ 71,400,000</b>
2003/04 Enrollment Growth (note 2)	\$ 105,880,000	Restore 2003/04 One-Time Budget Cut	\$ 69,500,000
2002/03 Over-enrollments (note 3)	\$ 45,000,000	Provide Counseling for Freshmen Enrolling in CCC in lieu of CSU	\$ 1,900,000
<b>2003/04 Net General Fund Reduction</b>	<b>\$ (301,541,000)</b>	<b>2004/05 Net General Fund Reduction</b>	<b>\$ (239,661,000)</b>
<b>Total 2003/04 and 2004/05 Net General Fund Reduction</b>		<b>\$ (541,202,000)</b>	

## Appendix B—Decline in CSU’s State Support Over Time

### Chart #1 -- Percentage California General Fund Devoted to the CSU: 1967/68 to 2003/04



### Chart #2 -- Inflation Adjusted General Fund Expenditures Per CSU Student: 1980-91 to 2002-03

