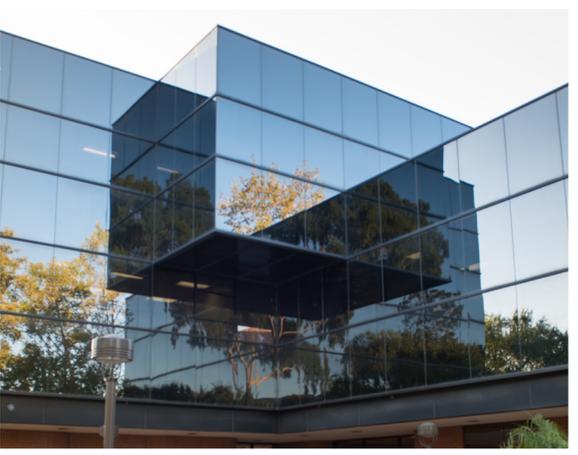


# OPERATING BUDGET REQUEST

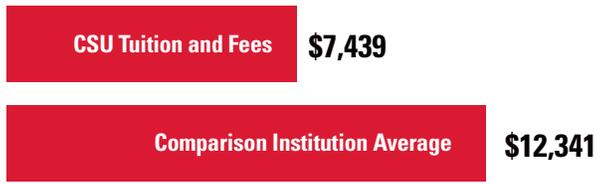
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2023-24

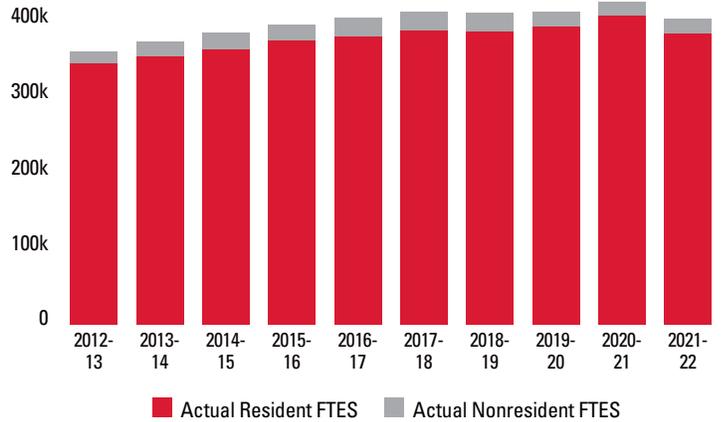


### CSU TUITION AND FEES REMAIN AFFORDABLE

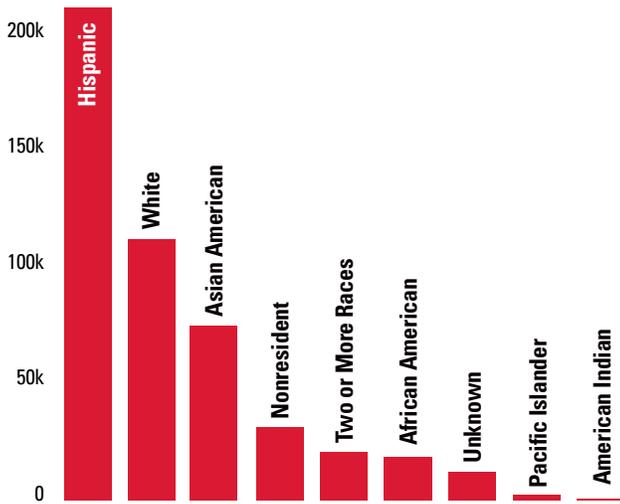
(Based on average resident undergrad)



### 95% OF CSU STUDENTS ARE FROM CALIFORNIA



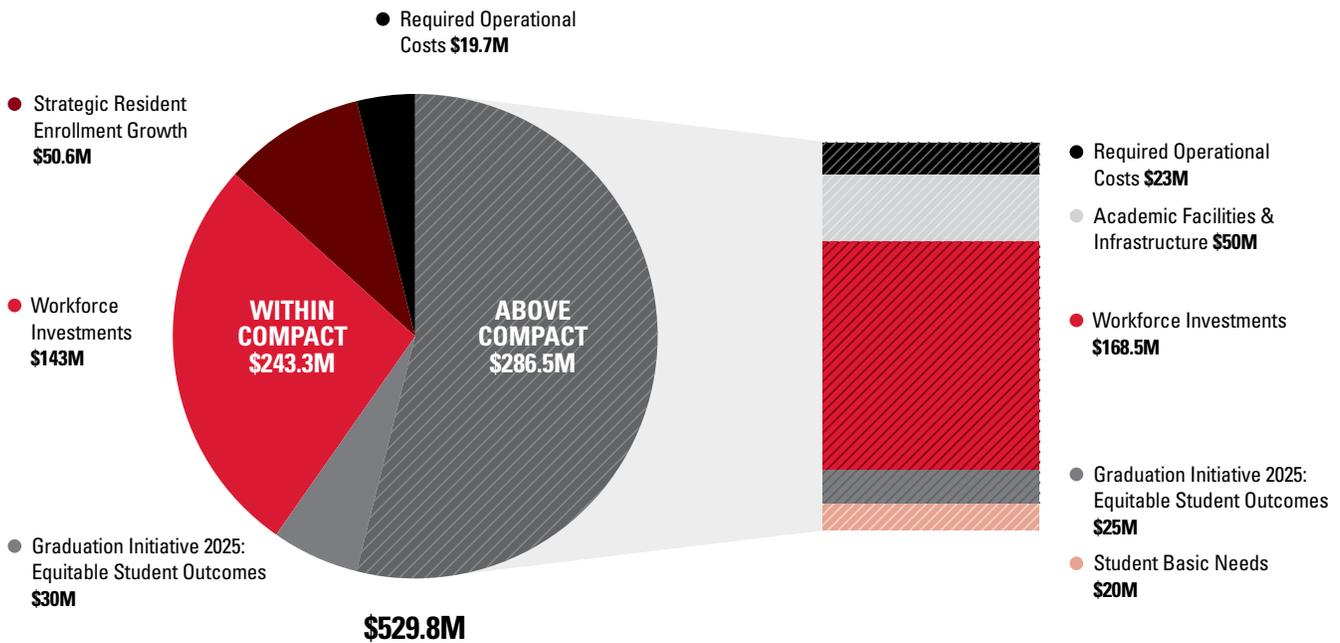
### CSU SERVES A DIVERSE STUDENT POPULATION



### CSU STUDENTS HAVE LOWER AVERAGE DEBT

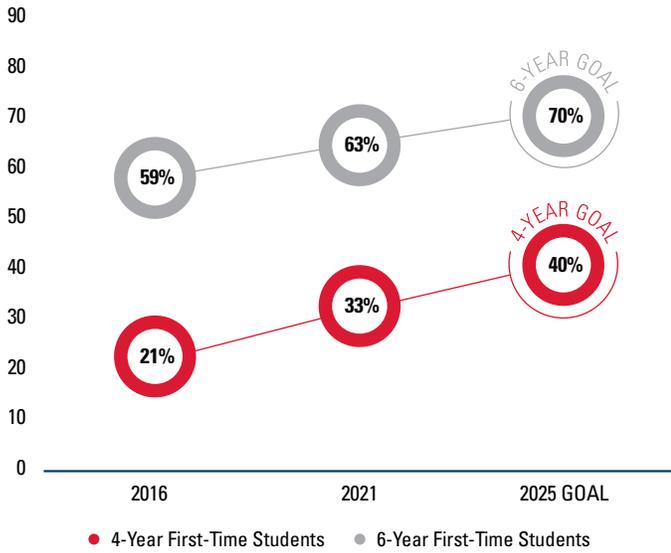


### 2023-24 PROPOSED OPERATING BUDGET

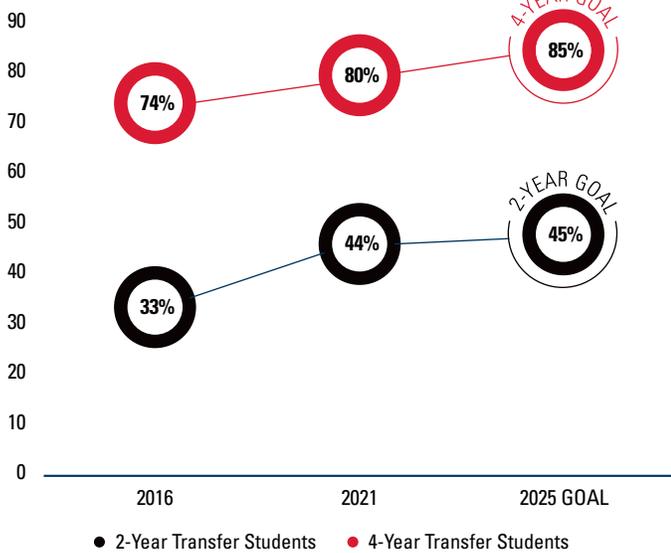


**CSU IS ON TRACK TO MEET ITS SYSTEMWIDE GRADUATION RATE GOALS BY 2025**

**FIRST-TIME STUDENTS**



**TRANSFER STUDENTS**



**EQUITABLE STUDENT OUTCOMES**



REENGAGE AND REENROLL UNDERSERVED STUDENTS



EXPAND CREDIT OPPORTUNITIES



ACCESS TO A DIGITAL DEGREE PLANNER



ELIMINATE BARRIERS TO GRADUATION



PROMOTE EQUITABLE LEARNING AND REDUCE HIGH FAILURE RATES

**81%**

OF ALL CSU STUDENTS RECEIVED FINANCIAL AID

**60%**

OF ALL CSU STUDENTS PAID \$0 TUITION

**56,000**

FACULTY AND STAFF ARE EMPLOYED BY CSU

**51%**

OF UNDERGRADUATES ARE FROM TRADITIONALLY UNDER-REPRESENTED MINORITIES

**95%**

OF NEW UNDERGRADUATE TRANSFERS ARE FROM CALIFORNIA COMMUNITY COLLEGES



College  
of  
Engineering  
and  
Computer

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S  
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# THE CSU TODAY

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In the 2022-23 final budget, the CSU received from the state a permanent base budget increase of \$365.7 million and will receive a \$68.5 million state-funded retirement adjustment in a subsequent General Fund appropriation. The 2022-23 total CSU operating budget of \$8.0 billion is composed of \$4.7 billion in state General Fund and \$3.3 billion in tuition and fees. New resources to fulfill the CSU's budget request for 2023-24 are \$529.8 million, as shown in Table 1.

**TABLE 1: OPERATING BUDGET AND INFRASTRUCTURE**

	2021-22 Past Year	2022-23 Current Year	2023-24 Budget Year	2023-24 Increase
General Fund, Operations	\$4,864,822,000	\$4,317,574,000	\$4,781,354,000	\$463,780,000
General Fund, Academic Facilities and Infrastructure	340,560,000	340,560,000	390,560,000	50,000,000
Tuition and Other Fee Revenue	3,240,100,000	3,302,044,000	3,318,112,000	16,068,000
<b>TOTAL OPERATING BUDGET AND INFRASTRUCTURE</b>	<b>\$8,445,482,000</b>	<b>\$7,960,178,000</b>	<b>\$8,490,026,000</b>	<b>\$529,848,000</b>

**TABLE 2: EXPENDITURES BY PROGRAM AREA**

	2021-22 Past Year	2022-23 Current Year	2023-24 Budget Year
Instruction	\$3,065,003,000	\$3,182,672,000	\$3,182,672,000
Research	34,614,000	25,822,000	25,822,000
Public Service	26,015,000	18,825,000	18,825,000
Academic Support	812,116,000	816,791,000	816,791,000
Student Services	863,084,000	858,315,000	858,315,000
Institutional Support	1,353,058,000	1,205,697,000	1,205,697,000
Operation and Maintenance of Plant	1,496,914,000	1,096,540,000	1,096,540,000
Student Grants and Scholarships	794,678,000	755,516,000	755,516,000
New Expenditures	0	0	529,848,000
<b>TOTAL EXPENDITURES</b>	<b>\$8,445,482,000</b>	<b>\$7,960,178,000</b>	<b>\$8,490,026,000</b>

The operating budget is focused on fulfilling the CSU's core mission: to serve students with a high-quality, affordable, and accessible education. As shown in Table 2, the CSU spends 71 percent, \$5.6 billion, of its total operating budget on instruction, academic support, student services, and financial aid. All these activities promote student success, enrich the academic experience, and ensure that each CSU graduate is prepared to succeed.



The CSU's core values of inclusive excellence, equity, access, and elevating lives through the transformative power of higher education are on exhibit every day across the 23 Cal State universities. University leadership, faculty, staff, and—importantly—students are accelerating the CSU's undeniable positive momentum evidenced by record numbers of graduates and student success measures at all-time highs for students from all backgrounds and walks of life.

The university is fertile ground for self-evaluation and commitment to transformation. To that end, more must be done to address existing inequities in academic preparation, retention, and graduation and to ensure that every Cal State student has the equal opportunity to earn the life-long and life-transforming benefits of a CSU degree. Based on the recommendations of an advisory committee comprised of a broad cross-section of faculty, staff, students, and community leaders, the university is implementing an equity action plan across the 23 universities. The plan includes:

- An immediate, systemwide reenrollment campaign to reach out to students who have stopped out and to connect them with the support they need to return to college and get back on track
- The implementation and wide usage of digital degree planners across the 23 campuses to give students an accurate, real-time roadmap of the courses they need to graduate
- Expanded resources for students to take courses over the summer and winter intersession to accumulate academic credits and remain on track for graduation
- Efforts to dramatically improve outcomes in key courses with the highest number of underserved students receiving Ds, Fs, or withdrawals
- The elimination of administrative barriers that disproportionately impede low-income and first-generation students from progressing toward their degrees

As the CSU continues to advance its educational mission, strategic work groups are currently assessing our operations in key areas and developing recommendations for continuous improvement. These collaborative partnerships will drive success at the system and campus levels by addressing four of the CSU's most critical strategic challenges: 1) creating a sustainable financial model; 2) managing enrollment to ensure that every qualified student can have access to a high-quality Cal State degree; 3) meeting Graduation Initiative 2025 goals to graduate more students and eliminate inequities in student outcomes; and 4) recruiting, hiring, and retaining the diverse, world-class human talent that the CSU's students deserve.

The recommendations developed by the CSU's leadership and foremost subject matter experts will offer rich resources and actionable strategies to tackle the institution's most pressing strategic and operational challenges.

Financial sustainability and predictability are critically important for the CSU to accomplish its mission and to overcome its challenges. The State of California has been and is poised to remain a vital partner. California is underwriting the CSU's efforts in two extremely important, and foundational ways. The first includes the sustainable, new financial investments by state lawmakers and governors over the past decade. The second is the multi-year compact between the governor and the CSU. The compact provides predictable funding over the next five years for our shared commitments to access, equity, and student success. Further, the compact is a critical safety net to protect the university from economic fluctuations. The CSU is grateful for both the past sustainable investments as well as the future financial commitments by state leaders.

The 2023-24 budget plan will allow the CSU to grow student enrollment, provide additional investment in Graduation Initiative 2025 (with particular emphasis on ensuring equitable student outcomes), improve compensation for all employee groups, cover required operational cost obligations, begin or continue initiatives included in the multi-year compact, and make progress on facility and infrastructure needs and critical capital renewal. Funding commitments included in the multi-year compact would support significant portions of the preliminary plan. State general fund *above* the compact would support other portions of the plan if the state's budget condition were to allow it and if state leaders were to choose to invest more in the CSU.

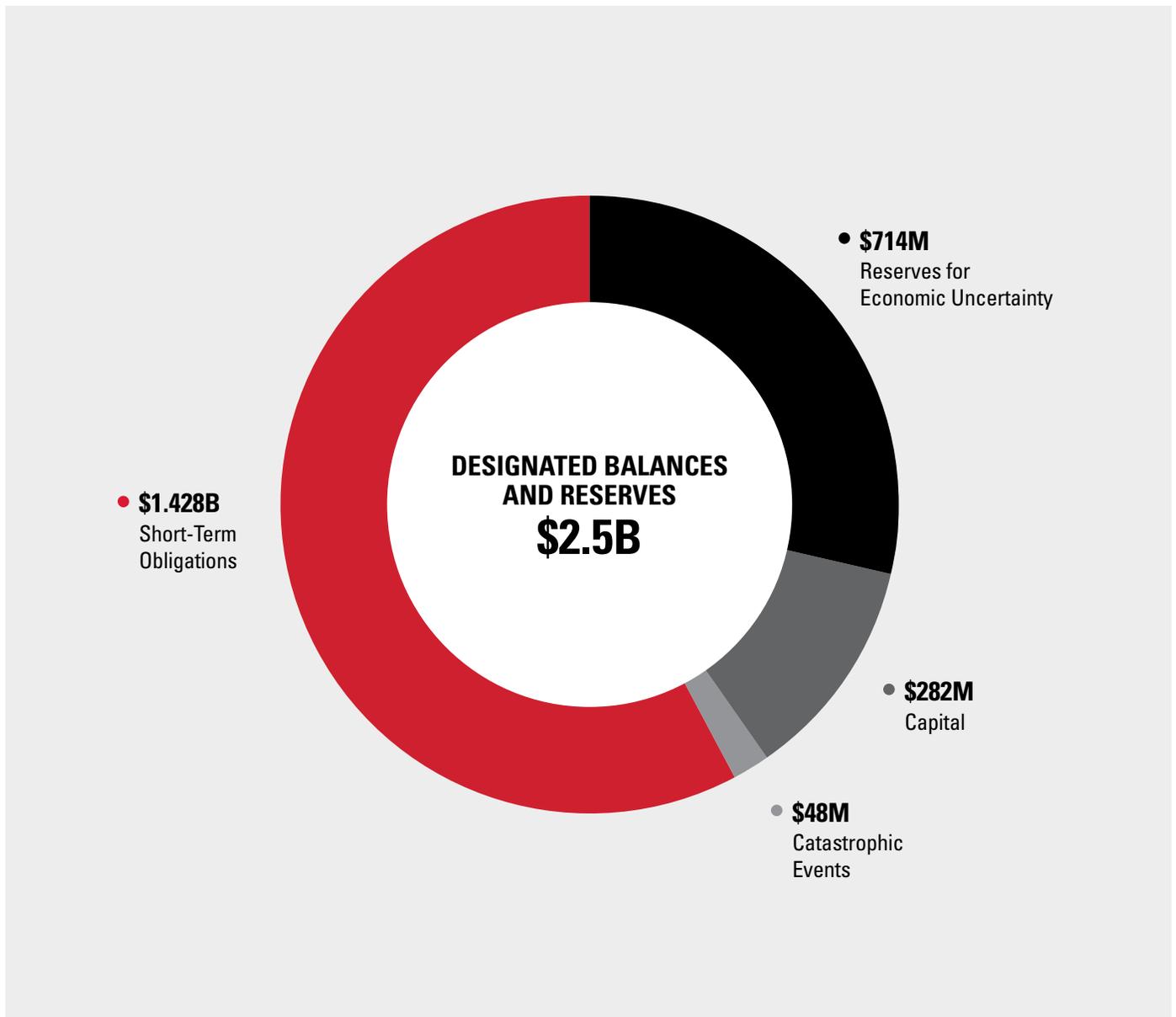
The budget priorities included in this plan are critical to the university, consistent with our core values, promote student success, and advance our mission. Understanding this, stakeholders from across the CSU and throughout the state will continue to advocate with a powerful and unified voice for the needed resources to continue to transform lives, families, and communities as we help drive California to its brightest future.

**DESIGNATED BALANCES AND RESERVES: \$2.5 BILLION**

Designated balances and reserves in the CSU operating fund represent equity balances that are held or designated for specific purposes. They are used to address non-recurring expenses by managing short-term obligations and commitments; provide funding for capital projects, infrastructure repairs, and facility maintenance; and help to ensure that operating costs can be paid during times of catastrophic events and economic and budgetary uncertainty. Designated balances and reserves are determined and reported annually by the campuses and the system office and are published on CSU's financial transparency portal ([calstate.edu/transparency](https://calstate.edu/transparency)).

Designated balances and reserves are not used to fund recurring expenses, such as salary increases. The use of one-time monies to pay ongoing, permanent expenses can lead to structural deficits.

The CSU has prudently managed designated balances and reserves to meet certain strategic goals. As of June 30, 2022, designated balances and reserves in the operating fund totaled \$2.5 billion. They are held for economic uncertainty, catastrophic events, capital needs, and short-term obligations as displayed in the chart below.





### **Reserves for Economic Uncertainty**

Reserves for economic uncertainty are part of the university's prudent fiscal strategy. Reserves are held for costs that may occur due to short-term recessionary cycles or state budget fluctuations. As of June 30, 2022, reserves for economic uncertainty totaled \$714 million and represent about 33 days of operation for all 23 campuses and the Chancellor's Office. This is significantly below the need to maintain three to six months of operating expenses.

### **Designated for Catastrophic Events**

These designated balances are to be used in the event of a natural disaster or other catastrophic event. Typically, these balances are used to pay for costs not covered by insurance. Balances designated for catastrophic events totaled \$48 million, which is sufficient to cover expected needs.

### **Designated for Capital**

Balances designated for capital are for new projects and to repair current buildings that include planning costs and

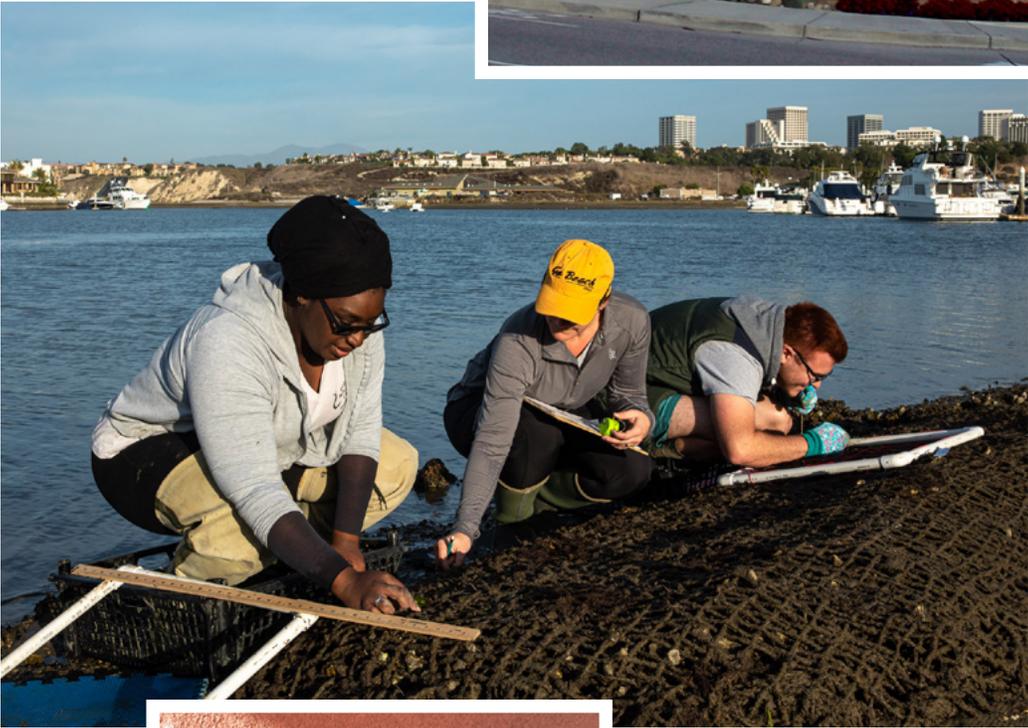
equipment acquisition associated with those buildings. Capital reserves fall well short of the expected need, which is at least ten percent of the cost of academic projects approved in the most recent multi-year capital plan. With over \$16.5 billion of academic facility and infrastructure needs identified in the 2022-23 through 2026-27 multi-year capital program, over \$1.6 billion is required. Balances designated for capital totaled \$282 million.

### **Designated for Short-Term Obligations**

Amounts designated for short-term obligations are for open contracts and purchase orders, near-term debt service payments, financial aid obligations, and programs that are in development. Balances designated for short-term obligations totaled \$1.4 billion at the end of last year, which are sufficient to cover expected needs and are typically paid in the following fiscal year.

# 2023-24 OPERATING BUDGET PLAN

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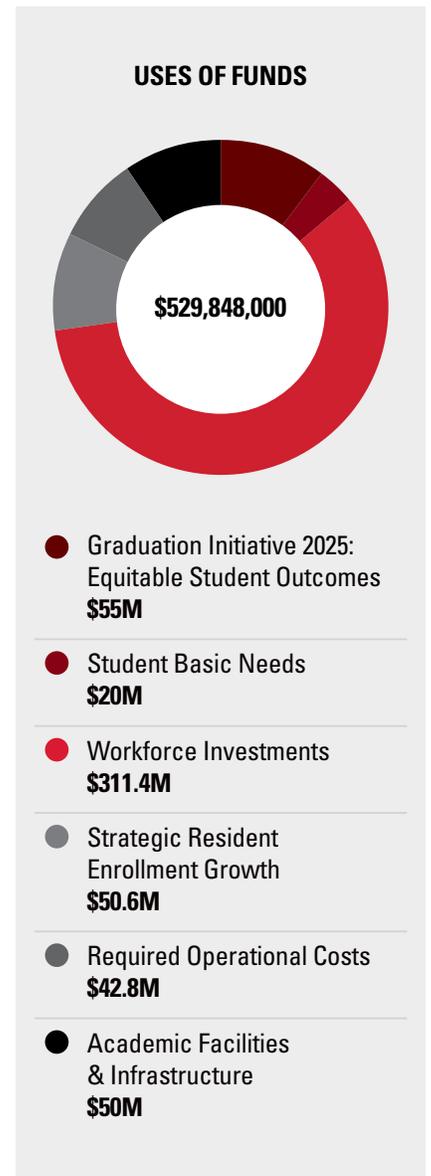
The CSU proposes an \$8.5 billion operating budget for 2023-24, with \$5.2 billion from the state General Fund and \$3.3 billion from tuition and fee revenue. As shown in Table 1, this budget plan is an increase of \$529.8 million over the 2022-23 operating budget. It includes significant investments so the CSU can continue to serve as the key to California’s prosperous economy, consistently ranked as one of the top ten largest in the world. Table 3 outlines the sources and uses of funds that make up the \$529.8 million increase. Because of the multi-year compact, the 2023-24 budget plan is different than past budget plans: it indicates sources and uses of funds within the limits of the multi-year compact and sources and uses of funds above the compact. The 2023-24 budget plan reveals that within the compact, the CSU would prioritize Graduation Initiative 2025, provide workforce investments for all employee groups, grow student enrollment, and cover required operational costs. All budget priorities included in the plan could be supported by a combination of sources from within and above the compact.

**TABLE 3: SOURCES AND USES OF FUNDS**

SOURCES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
<b>Incremental New Revenue</b>			
State General Fund: Compact	\$227,302,000		<b>\$227,302,000</b>
Tuition from Strategic Resident Enrollment Growth	16,068,000		<b>16,068,000</b>
State General Fund: Above Compact		\$286,478,000	<b>286,478,000</b>
<b>TOTAL NEW SOURCES</b>	<b>\$243,370,000</b>	<b>\$286,478,000</b>	<b>\$529,848,000</b>

USES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
<b>Incremental New Expenditures</b>			
Graduation Initiative 2025	\$30,000,000	\$25,000,000	<b>\$55,000,000</b>
Student Basic Needs		\$20,000,000	<b>\$20,000,000</b>
Workforce Investments			
Faculty & Staff Compensation Pool	92,466,000	168,444,000	<b>260,910,000</b>
Health Premium Increases	50,524,000		<b>50,524,000</b>
Academic Facilities and Infrastructure		50,000,000	<b>50,000,000</b>
Strategic Resident Enrollment Growth	50,648,000		<b>50,648,000</b>
Required Operational Costs			
Maintenance of New Facilities	6,032,000		<b>6,032,000</b>
Liability and Property Insurance Premium Increases	13,700,000		<b>13,700,000</b>
Inflation on Non-Personnel Costs		23,034,000	<b>23,034,000</b>
<b>TOTAL NEW USES</b>	<b>\$243,370,000</b>	<b>\$286,478,000</b>	<b>\$529,848,000</b>



## GRADUATION INITIATIVE 2025: EQUITABLE STUDENT OUTCOMES: \$55 MILLION

As it enters its seventh year, Graduation Initiative 2025 is well on its way to meeting many of its bold systemwide goals with the highest graduation rates for first-time and transfer students since the launch of the initiative. Still, the CSU is committed to doing more, which means ensuring that all students, regardless of background, receive a high-quality education and have the same opportunity to earn a CSU degree. Since 2015-16, the CSU has dedicated an estimated \$420 million of ongoing funding to the initiative. The CSU expects to invest \$55 million more through the 2023-24 operating budget request to meet these ambitious goals.

Graduation Initiative 2025 reflects the CSU's commitment to not only improve student success but to advance equity. To that end, in 2021, the CSU redoubled its efforts to support equitable student outcomes by developing a targeted equity action plan through consultation with an advisory committee comprised of faculty, staff, and students from across the university. Within the newly defined equity priorities, the CSU has established goals and metrics for supporting equitable student outcomes.

Campus teams and system leaders have shown exceptional collaboration and creativity in addressing this critically important systemwide goal. The additional \$55 million investment will support the Graduation Initiative 2025 goals by advancing these priorities. The equity priorities website ([calstate.edu/equity-priorities](https://calstate.edu/equity-priorities)) contains updates on systemwide progress and showcases some of the best practices and initial success stories emerging from the action plan. The website will be updated frequently on CSU efforts in the identified priority areas:

- Reengage and Reenroll Underserved Students**  
 Reflecting a nationwide trend exacerbated by the COVID-19 pandemic, student retention decreased disproportionately among historically-underserved students. Efforts are focusing on reengaging with students of color, Pell Grant recipients, and first-generation students to support their reenrollment to the CSU and assist them in meeting their academic goals. Targeted systemwide and campus reenrollment campaigns have begun for spring, summer, and fall 2022 terms. These efforts will continue over the next three years with the goal to identify and implement effective outreach to students who left the CSU before earning a degree. Each CSU campus is charged to leverage all available resources and strategies, including leading change management initiatives and re-imagining reenrollment processes and academic policies as well as addressing administrative barriers.

- Expand Credit-Earning Opportunities**  
 Summer sessions and intersessions provide an opportunity to gain additional academic credits. This is particularly important for students of color and first-generation students who may have had fewer opportunities to earn academic credits. Additional funding will support students falling behind in academic credits and help facilitate timely degree completion.
- Access to a Digital Degree Planner**  
 Digital degree planners, or roadmaps, help students navigate the registration process, select core courses, and stay on track for timely graduation. The CSU is committed to making a digital degree planner available to all students.
- Eliminate Administrative Barriers to Graduation**  
 Administrative barriers disproportionately impact underserved students who are often more susceptible to academic disruptions, such as fee assessments, registration holds, and cumbersome processes. Campuses are reviewing practices to eliminate barriers to timely graduation.
- Promote Equitable Learning and Reduce DFW Rates**  
 Earning a non-passing grade negatively impacts a student's academic trajectory. Without compromising academic rigor, the CSU is addressing equitable learning practices for classes with persistent high failure rates (D, F, or withdrawal) and providing opportunities for additional learning when needed.

***Ensuring that every Californian has an equal opportunity to earn the life-long, life-transforming benefits of a CSU degree***

**Graduation Rates Continue to Climb**

Four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students continue to improve and have reached all-time highs. These increases are notable because of the commitment of CSU faculty, staff, and other campus leaders to student success despite the challenges of the pandemic.

- Every year, more and more students graduate from the CSU and enter the workforce. Since 2015, the number of students who annually earn a baccalaureate degree has increased by nearly 25,000.
- The systemwide four-year graduation rate increased two percentage points to 33 percent from the previous year and 14 percentage points since 2015.
- The systemwide six-year graduation rate increased one percentage point to 63 percent, continuing to exceed the national average for public four-year universities.
- The CSU is on track overall to meet its systemwide graduation rate goals by 2025.

Additional state funding for Graduation Initiative 2025 is critical to maintain this momentum. These new investments will be used to advance innovative student success practices. Specifically, campuses will focus on addressing a number of equity priorities within the framework of the six operational pillars of the Graduation Initiative: academic preparation, enrollment management, student engagement and well-being, financial support, data-informed decision-making and administrative barriers.

Increased state funding will allow campuses to accelerate existing Graduation Initiative 2025 efforts, support equitable student outcomes, and scale programs that have demonstrated success to ensure all California students have the same opportunity to earn a degree. More information about specific systemwide and campus priorities can be found at the Graduation Initiative 2025 website ([calstate.edu/graduationinitiative](https://calstate.edu/graduationinitiative)).

**TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE 2025 PROGRESS**

			2016	2017	2018	2019	2020	2021	2025 Goal
<b>GRADUATION RATES</b>	<b>First-Time Students</b>	4-Year	21%	23%	25%	27%	31%	33%	40%
		6-Year	59%	59%	61%	62%	62%	63%	70%
	<b>Transfer Students</b>	2-Year	33%	35%	38%	40%	44%	44%	45%
		4-Year	74%	75%	77%	77%	79%	80%	85%
<b>EQUITY GAPS (in percentage points)</b>	<b>Underserved Students of Color</b>		12.0	12.2	10.5	11.1	10.5	12.4	0.0
	<b>Pell Grant Recipients</b>		10.0	10.6	9.5	10.2	9.2	10.2	0.0

**STUDENT BASIC NEEDS: \$20 MILLION**

The CSU requests \$20 million to sustain and expand its Basic Needs Initiative in support of Graduation Initiative 2025. Critical to student success at the CSU, the Basic Needs Initiative takes a holistic look at students' well-being both inside and outside the classroom, from food and housing insecurity to mental health. These efforts are intended to find better ways to support

CSU students on their path to graduation. While the primary mission is educational in nature, the CSU recognizes that students cannot be fully engaged in, or out of, the classroom if they are preoccupied with hunger, housing insecurity, personal safety, mental and physical health, transportation, technology, broadband or childcare to attend to educational responsibilities.

**WORKFORCE INVESTMENTS: \$311 MILLION**

The CSU Board of Trustees recognizes that competitive salary and benefits for faculty, staff, and management is a key element to the university’s success. Continued investment in competitive salary and benefits is critical for the CSU to provide access to an affordable, high-quality education and graduate a well-prepared workforce. A competitive compensation package is essential to recruit and retain a world-class workforce.

Faculty and Staff Compensation Pool	\$260,910,000
Health Premium Increases	50,524,000
<b>TOTAL</b>	<b>\$311,434,000</b>

***Recognizing the CSU is a people-driven institution—people who support, inspire, and uplift the diverse and talented students who are California’s future leaders***

**Faculty and Staff Compensation Pool**

The faculty and staff compensation pool is funding that, under mutual agreement by the CSU and each CSU bargaining unit, could be used for different elements of compensation, such as salary and benefit changes for all employees of a bargaining unit; to address specific market, salary structure, or job framework issues for certain groups of employees within a bargaining unit; or for a wholesale change from one salary structure to another (e.g., market, traditional, job family, or step rate). The mutual agreement between the CSU and each CSU bargaining unit will determine the form of compensation that the compensation pool will support.

With some minor exceptions, no collective bargaining agreements have salary and benefit provisions that extend beyond 2022-23. This budget plan includes \$260.9 million to fund 2023-24 compensation increases for all employee groups. The compensation pool is subject to collective bargaining and contingent on the state providing the funding to support this priority.

**Health Premium Increases**

Permanent base budget costs associated with January 2023 employer-paid health care premium increases are \$50.5 million, reflecting an eight percent increase in costs. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU currently invests over \$600 million per year in health care premiums for its employees. The CSU is governed by California Government Code Section 22871, which defines the employer-paid contribution rates.

**ACADEMIC FACILITIES AND INFRASTRUCTURE: \$50 MILLION**

To provide students with the best educational experience, it is necessary to regularly invest in critical infrastructure and academic facilities. The CSU proposes using \$50 million of the request to finance needed facility and infrastructure projects. These projects will address critical infrastructure needs, renovate existing buildings, and expand capacity for growth in new student enrollment. The CSU five-year capital plan identifies the priority needs of each of the 23 campuses and is based on the categories and criteria approved by the Board of Trustees. The priorities are consistent with the state’s priorities of critical infrastructure, energy efficiency, and life safety projects.

The five-year plan identifies a systemwide need in 2023-24 alone that exceeds \$4.2 billion to address academic infrastructure and facility needs. The \$50 million in the 2023-24 budget request will help finance approximately \$750 million of the priority projects identified by the campuses and the Chancellor’s Office. While the 2023-24 Capital Plan is still being developed, the table below summarizes some of the CSU’s highest priority projects that could be funded with this additional support.

Category	Project Description	Total Budget
Existing Infrastructure	Statewide Infrastructure Improvements	\$510,000,000
Existing Facility	Replacement Facilities (Seismic)	\$170,000,000
New Facility	Sciences & Engineering—Growth	\$71,000,000

For more information on specific projects and priorities, please reference the CSU five-year capital plan ([calstate.edu/major-capital-outlay](https://calstate.edu/major-capital-outlay)).

**STRATEGIC RESIDENT ENROLLMENT GROWTH:  
\$51 MILLION**

The CSU aims for steady and strategic increases in enrollment to meet student demand for a CSU education and to ensure a solid foundation for California’s economy with a well-educated, degree-holding workforce. Aligned with the state’s expectations in the multi-year compact, the CSU plans to increase resident undergraduate enrollment by one percent or 3,434 full-time equivalent students (FTES) for 2023-24. Using the marginal cost rate, which is the cost of education per FTES, the funding required to support these new students is \$50.6 million.

As was done in 2022-23, it is the CSU’s intent to strategically place new enrollment at campuses that are experiencing significant prospective student demand and can expand more seats in academic programs that support high-demand career fields in California.

<b>2022-23 Resident FTES Base</b>	<b>383,680</b>
1% Proposed Growth	3,434
<b>2023-24 TOTAL RESIDENT FTES</b>	<b>387,114</b>
Marginal Cost Rate per FTES	\$14,749
<b>TOTAL COST OF ENROLLMENT GROWTH</b>	<b>\$50,648,000</b>
<b>State’s Share of Marginal Cost Rate</b>	<b>\$10,070</b>

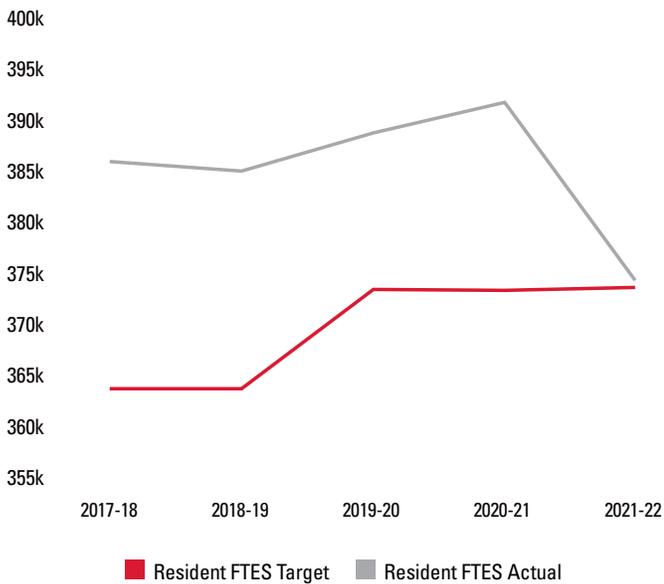


In 2015, the Public Policy Institute of California (PPIC) concluded that the state would fall about 1.1 million college graduates short of economic demand by 2030. Of the 1.1 million-degree gap, the PPIC calculated the CSU would need to graduate an additional 480,000 students to meet its share of the state’s need. The CSU’s commitment to Graduation Initiative 2025 will help meet workforce demand by increasing access and completion outcomes, but the other part of the equation necessary to shrink the gap is funded enrollment increases each year over the next several years. The multi-year compact includes a commitment by the CSU to grow resident undergraduate enrollment by one percent each year so that by 2026-27, CSU’s enrollment will grow by approximately 14,000 FTES.

***Transforming the lives of more deserving and qualified students—and meeting California’s growing need for a diverse, highly educated workforce***

For decades, California has encouraged generations of young Californians to pursue higher education, and during that time, the CSU has been a beacon of access to that opportunity. For many years now, the CSU has educated many more students than expected—approximately 76,000 more students over the past five years (cumulative) beyond the funded enrollment targets agreed to by the CSU and the state.

**STUDENT ENROLLMENT EXCEEDS TARGET**



Higher education enrollment declined across the country during the pandemic, but CSU campuses collectively fared better than other institutions. The 2021-22 academic year ended with actual resident enrollment tracking very closely to the resident enrollment target. As the state emerges from the pandemic, CSU campuses have returned to in-person outreach and recruitment efforts, but challenges exist including those related to the national sentiment about the value of a college degree and decreasing enrollment in California K-12 and community colleges. With 95 percent of CSU undergraduate student population enrolling from California schools, the system and campuses will need to carefully monitor application and enrollment numbers in future years.

**REQUIRED OPERATIONAL COSTS: \$43 MILLION**

Required operational costs (or mandatory costs) are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase despite the level of state support. The 2023-24 operating budget request includes \$42.8 million for increases due to inflation on non-personnel expenditures, maintenance of new facilities, and liability and property insurance premiums.

Maintenance of New Facilities	\$6,032,000
Liability and Property Insurance Premium Increases	13,700,000
Inflation on Non-Personnel Costs	23,034,000
<b>TOTAL</b>	<b>\$42,766,000</b>

**Maintenance of New Facilities**

The CSU is scheduled to open 284,405 square feet of new facilities in 2023-24. The cost to fund regular maintenance of these facilities is \$21.21 per square foot, for a total of \$6 million in 2023-24. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape, and administrative support.

**Liability and Property Insurance Premium Increases**

The CSU requests \$13.7 million, equivalent to a 14 percent increase, in costs related to property and liability coverage. The insurance markets for property and liability coverage are emerging from nearly a decade of low premiums. Insurance premiums are on the rise across the country and more so for California public entities. There are many factors causing this significant rise in premiums in California, including an overall rise in claims and inflated values of settlements and verdicts. California higher education faces some of the toughest challenges in the liability insurance market due to higher physical abuse and molestation, law enforcement, and employment practice exposures. Additionally, sizable liability settlements at other higher education institutions are resonating throughout the insurance industry. Wildfire losses are also a factor; the CSU has experienced multiple losses, and these contribute to property insurance premium increases.

**Inflation on Non-Personnel Costs**

Inflation impacts all areas of the university. Over the past decade, the CSU operating budget request and the final state budget have not included funding explicitly dedicated to cost increases on a variety of expenses, such as technology, instructional equipment, library subscriptions, software subscriptions, contracts, and other supplies. Utilizing the California Consumer Price Index of three percent for 2023-24, the CSU requests \$23 million for expenditure increases due to inflation.



# ONE-TIME REQUEST

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**CRITICAL CAPITAL RENEWAL: \$1.3 BILLION**

The CSU seeks \$1.3 billion of one-time funding to continue to address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. More than half of the CSU's academic buildings are over 40 years old, and many of these buildings are overdue for major renovation. The CSU has an estimated \$5.8 billion critical capital renewal backlog and accumulates approximately \$284 million of additional critical capital renewal costs per year.

As buildings and their associated systems age, the cost to operate, maintain, and renovate the facilities increases. Although CSU facilities staff does an admirable job of keeping these aging facilities operational with limited financial resources, increased funding is necessary. Over the past two years, the state has provided \$450 million in one-time funding to address a portion of the deferred renewal backlog. This is a substantial amount of funding, and it is being put to good use on the most pressing campus projects. It should be noted, however, that two significant factors are exacerbating this budget challenge: year-over-year growth in the CSU backlog and construction inflation exceeding ten percent in 2021-22.

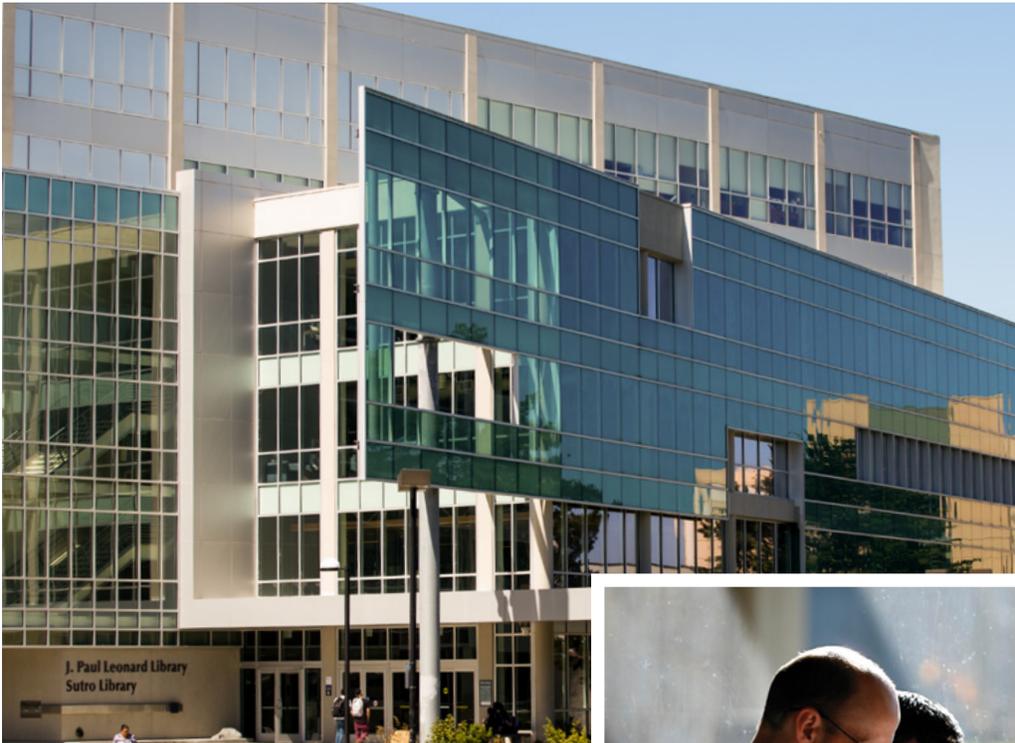
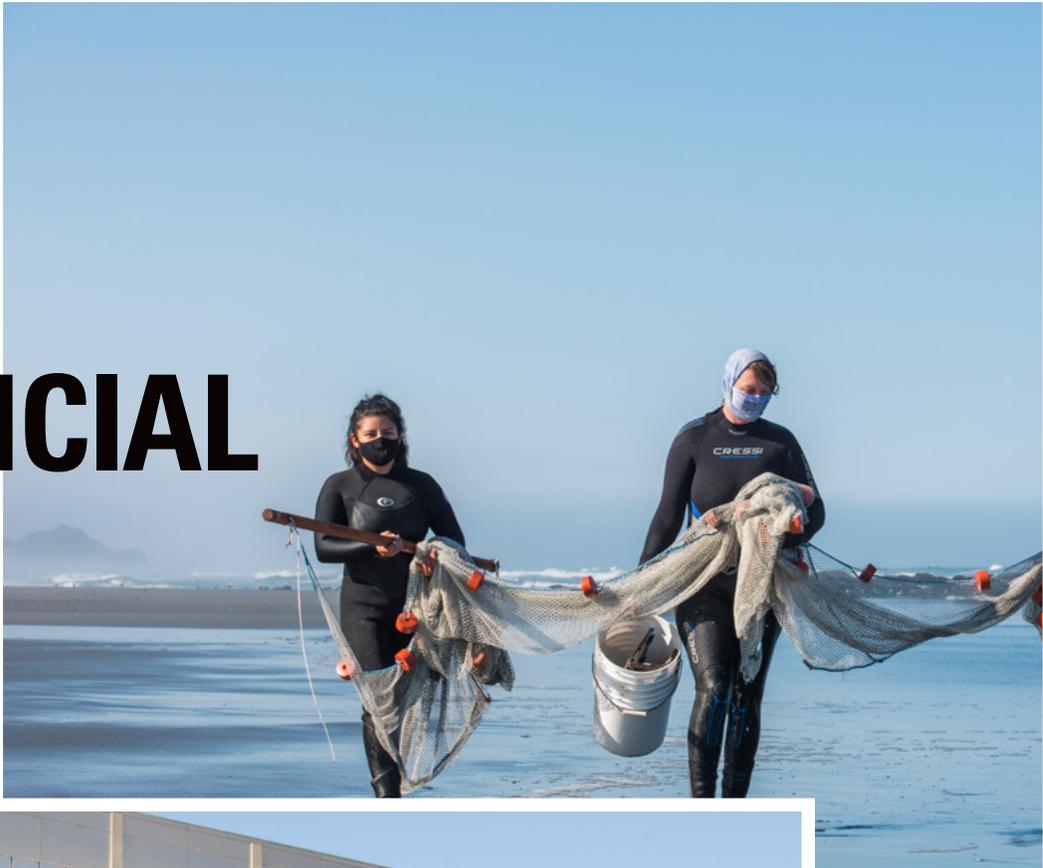
The \$1.3 billion one-time funding request will allow the university to address additional systemwide deficiencies, improve the reliability of systems, and prevent costly and disruptive outages caused by system failures. Aligned with the CSU's overarching academic mission, system repairs, and replacements will provide safer and healthier environments that support teaching and learning across all 23 campuses.



***Providing safe and modern facilities for students, faculty, and staff—spaces where teaching, learning, and student well-being can thrive***

# CSU FINANCIAL AID

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The CSU understands the impact financial aid has on social mobility—a student’s ability to attend college, earn a baccalaureate degree, and enter the California workforce in a position to attain greater lifetime earnings. The CSU strives to keep costs to a minimum by offering institutional aid in addition to federal and state grant and loan programs. Financial aid allows CSU students to better focus on their academics by easing the pressure of educational and personal costs. Although CSU tuition is among the lowest in the nation at \$5,742 per year for a resident undergraduate student, 81 percent of all CSU students receiving financial aid and 60.5 percent of all enrolled undergraduate students receive non-loan aid to cover the full cost of tuition. The CSU currently provides nearly \$945 million of institutional aid, which includes \$701 million for the State University Grant program. An additional \$821 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition, fees, and some personal expenses. These CSU, state, and federal financial aid programs help defray the cost of attendance for the lowest-income students and keep CSU student debt well below the national average. In 2020-21, CSU baccalaureate degree recipients have lower average debt (\$17,966) than other students in California (\$21,125) compared to the 2019-20 national average (\$28,950).

### **STATE UNIVERSITY GRANT PROGRAM**

To further the CSU’s mission to provide an affordable, high-quality education to all students, the CSU launched the State University Grant (SUG) program in 1982-83 to assist students with the greatest financial need. Each year, the CSU awards need-based grants to eligible California residents and Dream Act applicants who enroll at CSU campuses in undergraduate, postbaccalaureate, teaching credential, and graduate programs. Financial need is determined by the Expected Family Contribution based on the Free Application for Federal Student Aid application. Financial need is determined for Dream Act students through the California Dream Act Application. The SUG program has grown considerably since its inception, from \$4 million in 1982-83 to \$701 million in 2022-23. Over 140,000 students received a SUG award in 2020-21. Currently, nearly nine percent of the CSU’s total operating budget is dedicated to financial aid for students with the greatest need. The SUG program remains one of the largest commitments in the CSU operating budget.

# ADDITIONAL BUDGET CONSIDERATIONS

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Although the state has provided significant investments in the CSU over the past two years, it is important to point out several remaining fiscal challenges the university system still faces.

### **STAFF AND FACULTY COMPENSATION STUDIES**

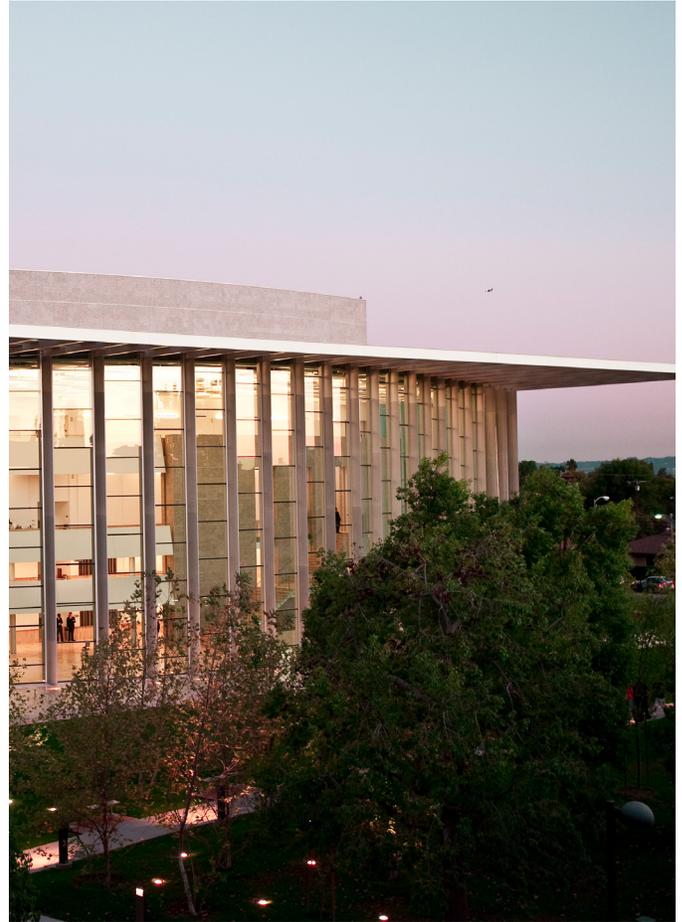
The Budget Act of 2021 included funding for the Chancellor's Office to evaluate the existing salary structure for CSU non-faculty, represented staff employees. The study, executed by consulting firm Mercer, found that median salaries in the CSU lagged market median salaries for most employees. Mercer recommended changes to increase median salaries and implement a salary step structure with initial ongoing costs of \$287 million in year one and over \$50 million additional each year thereafter for the implementation of salary steps. The CSU and employee unions advocated together for state funding to support the implementation costs of the study. However, the Budget Act of 2022 did not include funding for this item.

In December 2021, the CSU initiated a faculty employee salary study. The work is underway, and the study findings and recommendations are expected in 2023. The study's recommendations could include solutions that require additional funding. The CSU may request in Spring 2023 additional funding for these purposes.

Future collective bargaining agreements between the CSU and employee bargaining units are required to implement recommendations of the Mercer staff study and any similar recommendations that might be made based on the results of the faculty study. The CSU will require additional, ongoing funding beyond the amount requested in this plan to implement any cost-creating recommendations of either study.

### **CHANGES TO FEDERAL AND STATE FINANCIAL AID PROGRAMS**

Recent changes to federal and state financial aid programs could impact access to the CSU and put financial pressure on the State University Grant program. Financial aid programs complement one another to provide maximum financial support for students. Program changes have cascading effects that must be considered and potentially addressed. Several of the approved changes will streamline processes, remove barriers, and expand access. But these changes come with certain tradeoffs, such as a lower income eligibility threshold, removal of non-tuition awards for all CSU students, and a drop in aid for transfer students. As the CSU strives to maximize access to aid and balance the federal and state changes, the CSU will be pressed to change or expand the State University Grant institutional aid program to make up some of the losses in the state financial aid programs. The financial implications are currently unknown.



### **ENERGY**

Across the 23 campuses, the CSU estimates recent energy cost increases of approximately \$15.4 million. The war in Ukraine, other geopolitical dynamics, and market conditions are some of the many complex factors contributing to energy cost increases. However, it is not yet clear if the recent energy cost increases are permanent and require base, ongoing funding or are temporary one-time funding obligations. The CSU will monitor conditions and continue analyzing the situation over the coming months to determine the appropriate funding source to address these required operational costs.

### **MINIMUM WAGE**

In January 2022, the California minimum wage reached \$15 per hour. Senate Bill 3 of 2016, which raised the state's minimum wage to \$15 per hour over consecutive years, includes a provision for the state to adjust the rate in subsequent years for inflation. Due to high rates of inflation, it is likely that the minimum wage will increase to \$15.50 in January 2023. The estimated annualized cost of the increase on CSU campuses is \$3.9 million.



### RETIREMENT BENEFITS (BEYOND STATE-FUNDED)

Beginning with the 2013-14 fiscal year, the legislature placed a limit on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. CalPERS employer contribution rates increased significantly for 2022-23. While rates are estimated to drop again in the next few years, the increase is a significant financial burden to the CSU. It is estimated that the unfunded cost to the CSU will be \$28 million in 2022-23 and will require the reprioritization of existing one-time campus resources to fund this required cost until rates drop again in the next few years.

Although the state's statutory obligation to adjust retirement funding based on annual rates set by CalPERS continues (Government Code Section 20814), the salary base applied to the incremental rate change is fixed at the CSU 2013-14 pensionable payroll level in the state budget. Final 2021-22 pensionable payroll for the CSU was \$738 million (32 percent) above the 2013-14 frozen pensionable payroll level. The retirement increase amount above the frozen payroll level is an unfunded cost for the CSU, and it continues to increase each year when pensionable payroll or retirement contribution rates increase.

This practice is problematic and unsustainable. Throughout the years that this budget practice has been in effect, the state or

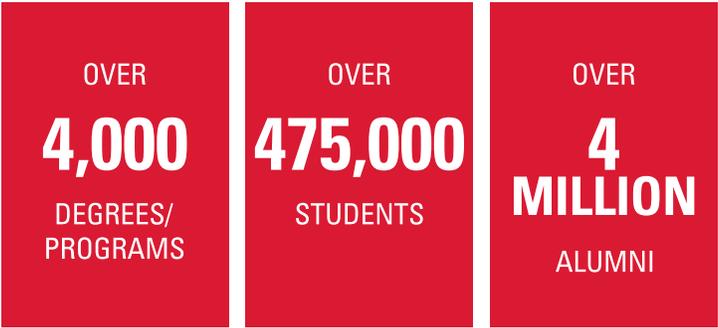
students ultimately covered the unfunded liability above frozen pensionable payroll because retirement costs are required and unavoidable. The CSU must balance the need to serve students with the level of funding available to the university, particularly as tuition rates have remained relatively constant.

### UNFUNDED 2022-23 COMPENSATION

Following two years without salary increases, nearly all CSU employees received, at minimum, a seven percent general salary increase over 2021-22 and 2022-23. However, the CSU did not receive sufficient funding in the Budget Acts of 2021 and 2022 to cover all necessary budget priorities during the two fiscal years. Consequently, it is estimated that campuses will be required to redirect approximately \$44 million from existing campus budgets to cover some of these new compensation costs. The commitment to fair and competitive employee compensation requires budgetary tradeoffs and nearly all other operating budget request priorities will only receive some or none of the new funding in 2022-23 (enrollment growth is the exception). For example, the CSU is unable to fully invest in the Graduation Initiative 2025 or finance some of our highest priority academic facilities and infrastructure projects as identified by the CSU's five-year capital plan.



**23 UNIVERSITIES THROUGHOUT THE STATE**



**THE CSU HAS CALIFORNIA COVERED**

