



CALIFORNIA STATE UNIVERSITY, FULLERTON

Mildred García, Ed.D., President

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Mr. Dave Mickey, MFA
Associate Professor and Chair, Department of Theatre and Dance (Theatre)
Chair of the Planning, Resource, and Budget Committee
California State University, Fullerton

Dear Mr. Mickey:

Happy New Academic Year and thank you for serving as Chair of the Planning, Resource and Budget Committee (PRBC). I look forward to working with you and all of your colleagues on the PRBC in our ongoing ascension toward becoming the model public comprehensive university of the nation.

As you heard at Convocation, I am eager to celebrate our 60th Anniversary by continuing to Reach Higher with the development of a new five-year strategic plan and the preparation of the University's Self-Study and Institutional Report for our fall 2019 reaccreditation visit with the WASC Senior College and University Commission — both of which will revolve around the ongoing efforts that align with the goals of Graduation Initiative 2025 (GI 2025).

Indeed, GI 2025 is a central theme to this year's budget process, and the passage of the student tuition increase last spring facilitated \$75 million in additional funding to expand upon the many student success programs that were integral to the year-over-year gains in both 4- and 6-year graduation rates for our diverse graduates in 2016-2017. With the expansion of such efforts, I am confident we will hit our GI 2025 goals, but we must be strategic in our allocations, and I applaud the well-crafted and intentional recommendations provided by the PRBC. This coming year, mandatory costs, especially employee compensation and retirement, make up the bulk of our allocations, and while we have sufficient funds to cover these costs, doing so leaves very little baseline funds for other critical needs such the 1% salary increase each campus was required to self-fund last year. As such, we will need to carry it on a one-time basis this year.

With all of this in mind, below you will find my response to the budget recommendations provided to me by the PRBC, my decisions for our FY 2017-2018 budget, and the ways in which we will work together to allocate a budget that reflects the priorities put forth by the PRBC and that align with our strategic plan — both current and future.

FY 2017-18 Funds Available – CSU Level

The Governor's Budget Act of 2017 (Assembly Bill 97, Chapter 14) for the CSU includes a \$179.2M baseline appropriation increase for operations, \$5.1M for annual debt service on lease

revenue bonds, and \$129.9M tuition revenues as a result of the 2017-18 tuition rate increase and enrollment growth. While the total budget increase under the act is \$314M, large portions are designated for mandatory cost increases, financial aid (university grants), and Graduation Initiative 2025, leaving only \$26M to fund other operating needs across 23 campuses. This amount is woefully inadequate and limits allocations of funds for our budget process. The following table summarizes the designation of these allocations.

\$314M base augmentation

\$3.3M	Employer Paid Health Care & Dental
\$0.8M	Operation & Maintenance of New Facilities
\$27.7M	Other Mandatory Costs & Lease Revenue Bonds
\$141.1M	Employee Compensation (current contracts)
\$26.5M	Budgeted Enrollment Increase (2,487 additional full time students)
\$75.0M	Graduation Initiative 2025
\$40.0M	State University Grant

FY 2017-18 Funds Available – Fullerton

Final allocations for Fullerton include a new baseline increase of \$22M from state and tuition revenues. Unfortunately, mandatory cost increases (\$14M), Graduation Initiatives (\$4.3M), and State University Grant (\$3M) leave very little for other campus priorities. Included in the total is a modest resident enrollment increase of 100 FTES compared to last year’s 385 FTES.

As in the past, the campus will continue to sustain additional students beyond our baseline FTES, thereby increasing revenue, albeit in one-time funds. We have been using this strategy to fund on-going priorities to avoid reducing budgets in other areas and anticipate this approach to continue into the foreseeable future. Total one-time funding from over-enrollment will be approximately \$15M. Unfortunately, this amount will not be sufficient to fund current commitments. Last year’s decision to not draw from campus-wide reserves has allowed us to sustain a \$20M balance by the end of FY16-17; thus I will access these funds to balance the budgets this year. Our reserves are far from the Chancellor’s Office’s goal for campuses to maintain a balance equivalent to six months of operating expenses (or \$200M for our campus), and we will continue to monitor and use them strategically as necessary.

2017-18 Budget Allocations

In making my allocation decisions, I relied on PRBC’s recommendations and the operational priorities established by the University’s senior leadership team. As in the past, I adhered to the following principles: 1) the budget must be balanced; 2) the budget must be aligned with the University’s strategic priorities and mission; and 3) the University reserves should be at a sufficient level to address contingencies.

This year, I will supplement the budget process with \$6M from university-wide reserves. Last year’s compensation increases — part of which remains permanently unfunded due to insufficient baseline funds, additional instructional costs associated with enrollment increases, new faculty startup and search costs, and the doctoral programs (Ed. D, DNP, KDN) we have been funding on a one-time basis since inception, to name a few — created a funding gap relative to our allocations from the state and local revenues. Thus, as mentioned previously, we will need to draw from campus reserves to balance our budgets this year.

I appreciate and concur with the recommendations and priorities put forth in the PRBC recommendations for FY 2017-18. However, insufficient resources obviously make it impossible to address all of the recommendations, particularly those that require baseline funds. For example, the 1% salary increase associated with bargaining agreements will continue as one-time rather than addressing it permanently with baseline funds.

For this year’s budget cycle, each vice president assembled their budget needs beyond mandatory costs and prior year commitments. These divisional budget requests totaled \$25M, including \$10M related to GI 2025. As you are aware, the amount CSU has designated specifically for GI 2025 is \$4.9M (including \$600,000 in one-time allocations – see below), and for undesignated funds is roughly \$700K. I have emphasized during the past year that the onus to ensure our GI 2025 goals are realized is not just on Academic and Student Affairs, but rather it is a campus-wide responsibility that all divisions must participate in to make our students successful.

Thus, the GI 2025 funds will be allocated across campus divisions, with academic programs receiving the bulk of funding as shown on the table below, to accommodate the highest priorities established by each division that not only meet the desired outcomes of GI 2025, but also overlap with operating needs that align with the budget categories and priorities outlined by the PRBC. For example, from the \$4.3M baseline, \$1.1M will be set aside for new faculty hires which address the instructional costs related to student success and the budget category, “Faculty Hiring, Retention, and Tenure Track Density.” The Division of Administration and Finance will receive \$168K to support general classroom renovation projects which also meets PRBC’s Capital and Facilities Infrastructure Project category.

Division	Amount	% of Total
Academic Affairs (incl \$1.14M for Faculty Hires)	\$3,246,416	66.0%
Information Technology	\$360,424	7.3%
Student Affairs	\$872,313	17.7%
University Advancement	\$163,667	3.3%
Admin and Finance (classroom improvement)	\$168,914	3.4%
HRDI	\$110,173	2.2%
Total (including \$600K one-time)	\$4,921,907	100.0%

The following table summarizes my allocations organized by PRBC budget categories developed for this year's process:

Summary of FY 2017-18 Budget Allocations:

	Baseline	One-time	Total
Compulsory Allocations	17,410,602	-	17,410,602
Graduation Initiative 2025	4,361,000	560,000	4,921,000
Operationalizing the University's Strategic Plan	681,670		681,670
Capital and Facilities Infrastructure Projects	250,000	2,500,000	2,750,000
Faculty Hiring, Retention, and Tenure Track Density	355,233	10,516,808	10,872,041
Reinvesting in Instructional & Support Infrastructure		400,000	400,000
Mission Critical and Compliance Initiatives		116,609	116,609
Strategically Addressing Structural Deficits	-	3,831,337	3,831,337
WASC Accreditation		151,414	151,414
Core Operations Critical to Advancing Institutional Mission		3,061,903	3,061,903
Total	\$ 23,058,505	\$ 21,138,071	\$ 44,196,576

Compulsory Allocations

One-time amount of \$17,410,602 will support mandatory cost increases such as employer-paid health care and dental premiums, retirement, faculty and staff compensation increases (current contracts), operation and maintenance of new facilities, and state university grant:

- **Compensation:** \$10,770,000 baseline to fund compensation increases.
- **Benefits:** \$2,845,000 baseline to cover increased retirement, health and dental benefits costs.
- **New Space:** This allocation includes baseline increase of \$250,000 for regular operations and maintenance of new facilities, which include the cost of utilities, building maintenance, custodial, landscape, and administrative support.
- **Prior Year Base Adjustment:** \$454,602 to adjust prior year baseline for increased risk pool premium obligations and other rate adjustments.
- **State University Grant:** \$3,091,000 baseline for providing additional state university grant to cover the increase resulting from the 2017-18 tuition increase.

Graduation Initiative 2015

- **Improve Graduation Rates:** \$4,361,000 baseline for implanting student success initiatives to improve graduation rates.

- Design or Redesign GE Math: \$300,000 one-time funding to be allocated over two years for course redesign, faculty development or other curriculum and instruction-related activities.
- Academic Preparation: \$140,000 one-time funding to support work on restructuring academic preparation in English and Mathematics.
- Data Driven Decision Making: \$120,000 one-time funding to either invest in technology to further support data-driven decision making or to expand financial literacy programs.

Operationalizing the University's Strategic Plan

- Faculty Promotions: \$681,670 (all baseline) to fund the additional salary costs of faculty promotions. This budget allocation is a contractual obligation that is directly linked to the University Strategic Plan Goal #3.

Capital and Facilities Infrastructure Projects

\$2,750,000 (\$250,000 baseline and \$2,500,000 one-time) is allocated for capital and facilities infrastructure projects as follows:

- Capital Financing Authority Obligations: Campus Capital Reserves: \$2,500,000 in one-time funds in support of the new capital financing authority reserve requirements. With the delegation of financing authority from the State for capital projects, CSU has been developing financial strategies and related policies for issuing system-wide bonds. One element of the policy would require each campus to cover a portion of the project costs. Campuses have been informed to begin establishing a capital reserve fund. Current five-year capital outlay program consists of academic buildings (e.g. McCarthy Hall Renovation and Critical Infrastructure projects) that would require the use of campus capital reserves to satisfy the campus match requirements for CSU financing.
- Deferred Maintenance: \$250,000 in baseline funds for deferred maintenance to fund the highest priority needs, focusing on health and safety.

Faculty Hiring, Retention, and Tenure Track Density and Instruction

\$10,872,041 (\$355,233 baseline and \$10,516,808 one-time) is allocated for faculty hiring, retention and tenure track density as follows:

- Continue to Invest in High-Quality and Diverse Faculty Hiring Plan: \$2,083,421 in one-time funds for faculty searches/start-up in order to continue and support the faculty hiring plan. This year, we plan to fill 36 faculty positions. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1.
- Increased Instructional Costs Related to Baseline Enrollment Increase: \$355,233 (all baseline) to support additional instructional costs (salaries and benefits) related to the enrollment increase of 100 new FTES. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1 and #4.

- **Over-Enrollment:** \$8,433,387 one-time allocation to support additional instructional costs (salaries and benefits) to be funded based on actual enrollment. This budget allocation is directly linked to the University Strategic Plan Goals #2 and #3, indirectly supports Goals #1 and #4.

Instructional and Support Infrastructure

\$400,000 one-time funding is allocated for the instructional and support infrastructure and is distributed as follows:

- **Classroom refurbishment:** \$400,000 one-time to renovate classrooms including computers and equipment. This is year five of a five-year commitment. This budget allocation is directly linked to the University Strategic Plan Goal #2.

Mission Critical and Compliance Initiatives

One-time funding of \$116,609 is allocated to fund emergency notification system and serves as part of campus compliance with maintaining data related to litigation holds. This budget allocation indirectly supports the University Strategic Plan Goal #1, #2, and #3.

Strategically Addressing Structural Deficits

\$3,831,337 in one time funds to address structural deficits and on-going commitments funded as one-time in the past. One-time funding of \$2,600,000 to cover employee compensation shortfall from fiscal 16-17 and \$1,231,337 to address prior year enrollment increases that were one-time funded.

WASC Accreditation

- \$151,414 one-time to fund WASC reaccreditation to support campus efforts associated with preparing our reaccreditation submission to WASC.

Core Operations to Advance Institutional Mission

One-time amount of \$3,061,903 is allocated for core operations critical to advance institutional mission as follows:

- **Special Academic Programs:** Total one-time amount of \$2,889,903 to fund special academic programs such as Ed.D, DNP, and KDN. 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. Last fiscal year, \$800,000 was allocated to provide permanent funding for these programs.
- **Athletics – Concession Revenue:** \$76,000 one-time. This allocation represents an on-going commitment to reimburse athletics for contributing to the financing of the Mihaylo

College of Business and Economics building. This budget allocation is directly linked to the University Strategic Plan Goal #2.

- Children Center Subsidy: \$96,000 one-time. This allocation represents a continuing support as agreed upon in prior years to expand enrollment for staff and faculty's children. This budget allocation is directly linked to the University Strategic Plan Goal #2.

Beyond FY 2017-18 Budget Process

Beyond 2017-18 there continues to be critical budgetary matters that require our attention and we must develop plans for the future as follows:

Equity in State Funding

During the past three years we have continued our advocacy to narrow the gap in state funding per student relative to our sister campuses. We are still at the bottom after reflecting 2017-18 allocations. However, there has been a slight improvement associated with the way in which the Chancellor's Office funded additional enrollment increases. Rather than using a model that typically disadvantages Fullerton, the funds were allocated across the board. While its impact on funding rate was minimal, this is a good start in the right direction for our campus. In addition, the Chancellor's Office has indicated that it will continue to shift towards performance based allocations in the future, i.e. reward campuses that achieve graduation rate goals. I remain hopeful that our successes in this arena will have a positive impact on our funding rate.

Deferred Maintenance and Capital Programs

Our deferred maintenance needs continue to be challenging. We have made some gains this past year, particularly with the successful realization and authorization of \$40M from CSU capital programs to address the deficiencies of McCarthy Hall, one of the most critical needs requiring over \$120M to fully correct all of its problems. While we have made gains in addressing critical needs, particularly around health and safety, there is still much work to do. For example, there are many elevators across the campus that do not operate consistently which not only impedes access to buildings but also classrooms and other areas students and faculty need to get to. I have asked Vice President Kim to assess all of the elevators and develop funding and operational strategies to renovate or replace them as necessary. This plan will be developed and executed in 17-18. As in the past, we will continue to set aside campus funds to supplement funding from the Chancellor's office for deferred maintenance and future capital programs.

Funding Shortfall for Compensation Increases

Unfortunately, this year's funding from the Chancellor's office does not include provisions to cover the 1% baseline salary increase granted last year that campuses were asked to fund. We

will continue to fund it on a one-time basis from one-time revenues in 17-18 and determine a baseline solution, if any, for 18-19.

Conclusion

As you all know, much of our work together revolves around budgets measured in dollars and cents. And while the importance of these numbers and percentages cannot be overstated, it is imperative that we not forget the far more critical measurements our collaborative efforts have led to over the past five years: a 30% improvement in six-year graduation rates and a 65% improvement in four-year graduation rates for first-time freshmen; the achievement gap eliminated for transfer students and cut in half for first-time freshmen; and the conferral of nearly 11,000 degrees to one graduating class for the first time in University history.

We've also honored our strategic plan's goal to recruit and retain a high-quality and diverse faculty and staff with nearly one in three faculty members having been hired in the last four years. Our administrative appointments and staff hiring has been no less impressive, and today, the diversity of our faculty, staff, and administrators — along with their commitment to Reach Higher — better reflects the passion of our students and the changing face of Orange County.

These are the numbers I'm most proud of because behind every one of them is a changed life, a family legacy transformed, a community lifted, and of course, PRBC and its collaborative effort to ensure our budgets aligns with our goal to ensure every student has equitable access to enroll in, succeed at, and graduate from Cal State Fullerton. This year and beyond, I look forward to working with the PRBC and the broader campus community to build upon this success by not only creating our new five-year strategic plan and the University's first ever Physical Master Plan that address the campus' needs and GI 2025 initiatives, but also aligning budget processes in accordance with the goals set forth in these documents.

Thank you, fellow Titans, and let's continue to Reach Higher.

Sincerely,

A handwritten signature in blue ink that reads "Mildred García". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Mildred García, Ed.D.
President