

California State Budget CSU Support Budget

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Board of Trustees

Goals in Closing CSU Budget Gap

- Serve as many students as possible with quality instruction and related services
- Protect as many jobs as possible
- Preserve the university's financial integrity
- Plan beyond 2009-10 Fiscal Year

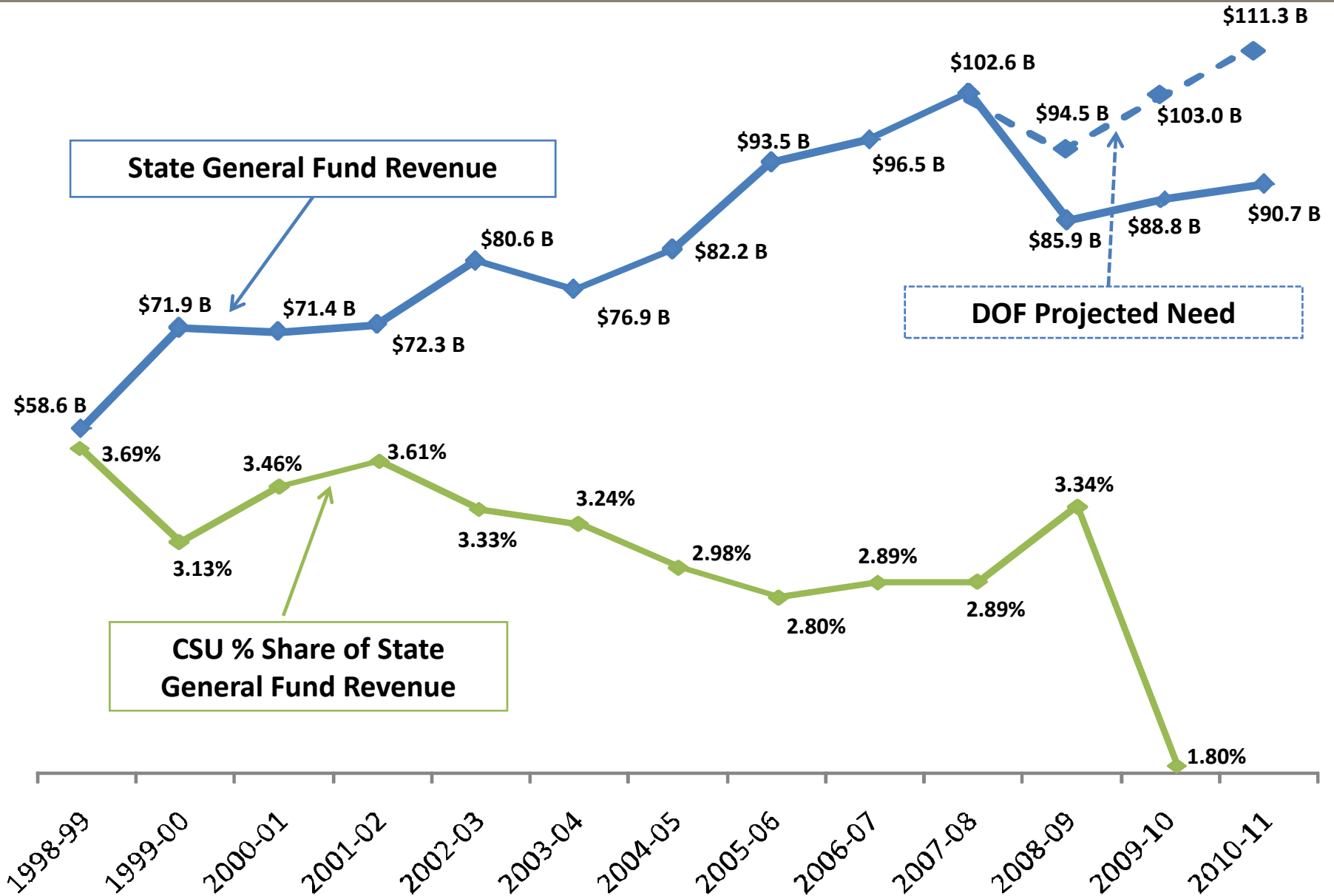
Fundamental Parameters

- Problem is enormous
- Problem extends beyond 2009-10
- The gap must be closed
- Uncertainty is high; potential for smaller deficit extremely limited while potential for bigger deficit is great.
- Realities of operating campuses require moving forward, even if state action is delayed
- All options must be on the table
- No single option can solve the problem

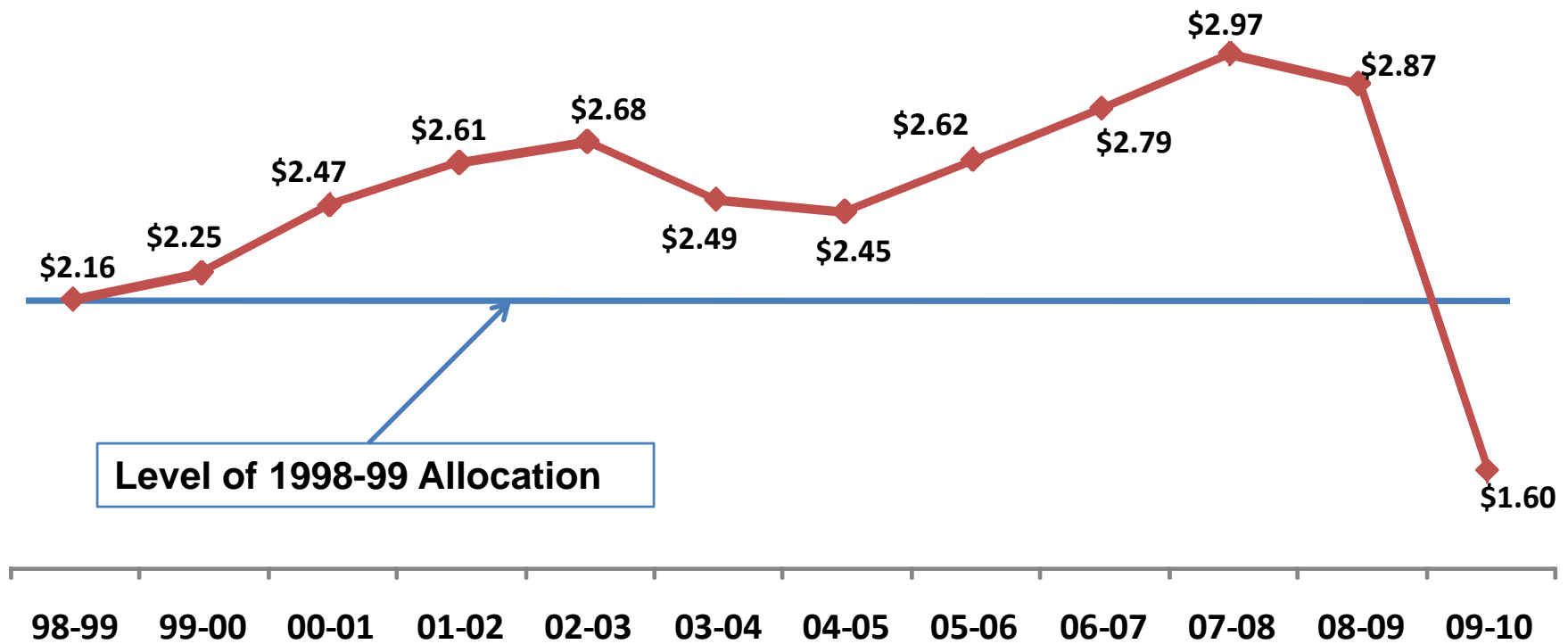
Historic Downturn in State Revenues

- The next slide illustrates graphically how the state's General Fund revenues have fared, both recently and over the last decade
- The slide also shows the downward trend in the share of the General Fund that the state allocates to the CSU, as other claims on the General Fund – such as prisons and debt service - grow

State General Fund Revenue and CSU Percentage Share In Billions



CSU General Fund Allocation In Billions

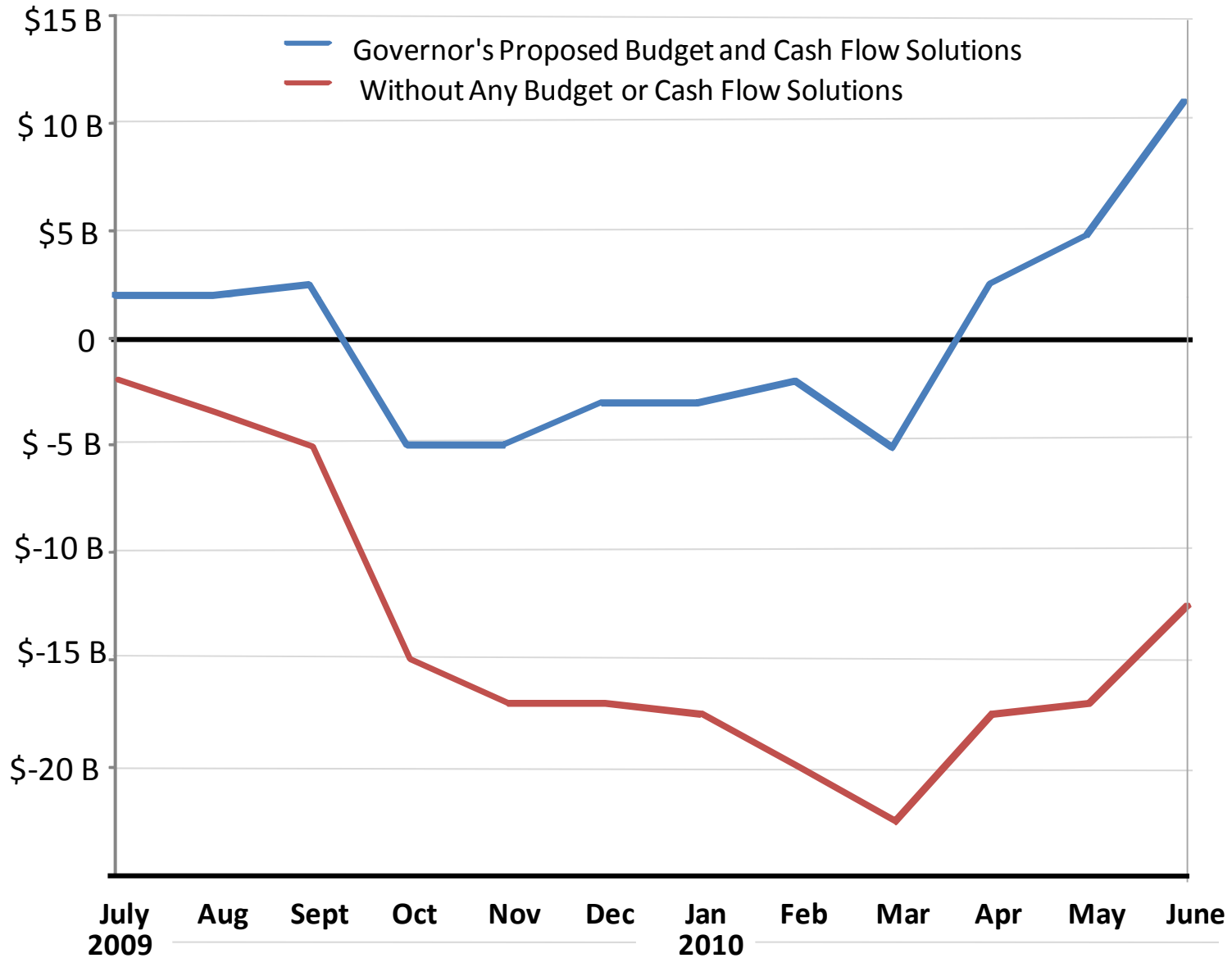


2008-09 and 2009-10 amounts assume \$717.5 million “retroactive” cut to 2008-09 appropriation, proposed by the Governor on July 1, 2009, will take effect in 2009-10.

State is in a Cash Crisis

- California is not only facing a daunting budget deficit...
 - As it enters the summer, it also faces an unprecedented cash flow crisis. The LAO has called the situation a “cash flow abyss”
 - Even if the Governor’s budget-balancing proposals are enacted right away, the state must borrow extensively, as shown in the next slide.

State Must Borrow Externally to Pay its Bills – Without Balanced Budget, Cannot Borrow at All



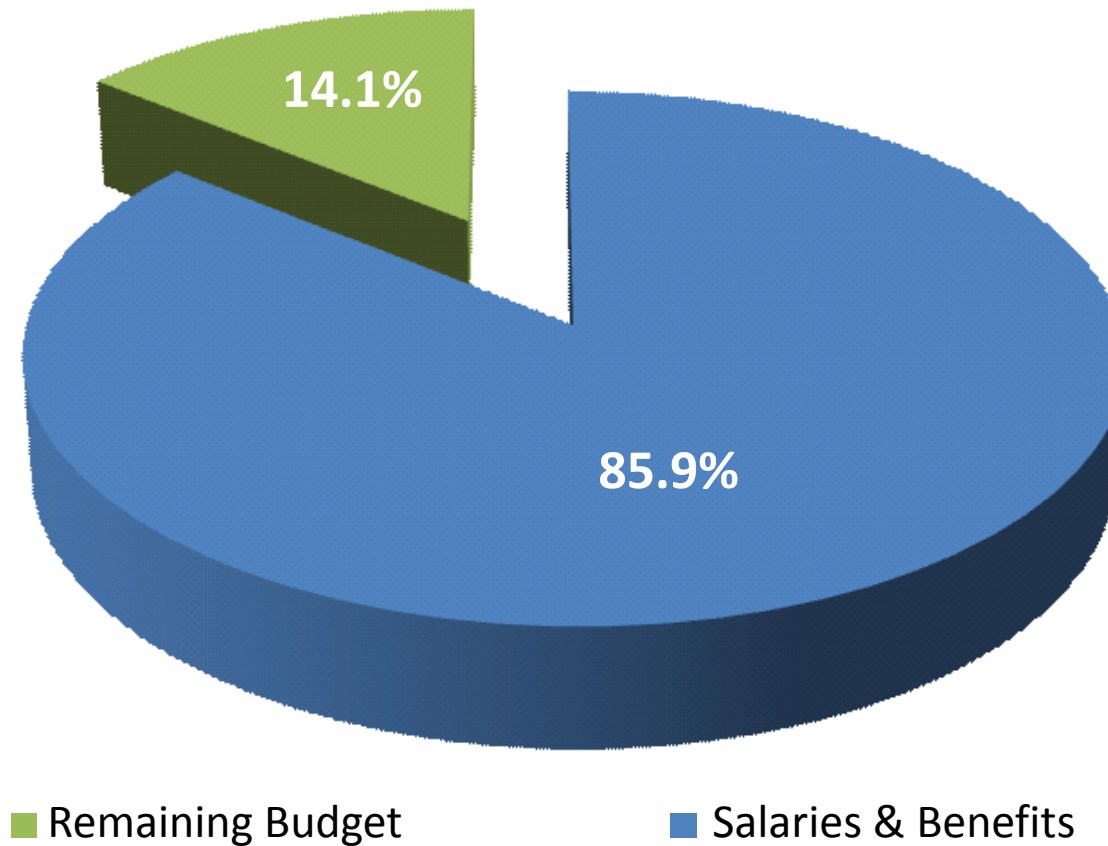
Crisis is Affecting CSU's Own Cash Flow

- Various measures taken by the State have already put pressure on CSU's cash balances, including the state's suspension of interim financing of capital projects
- Current proposals by the Governor and Legislature for retroactive cuts and payment deferrals create larger challenges.

Most University Spending is for Salaries and Benefits

- Like all education institutions, the CSU is highly labor-intensive.
- As the next slide shows, over 85% of CSU's operating budget is spent on salaries and benefits
- This means that large expenditure cuts inescapably require significant reductions in labor costs.

Salaries & Benefits as a Percent of Total Operating Budget



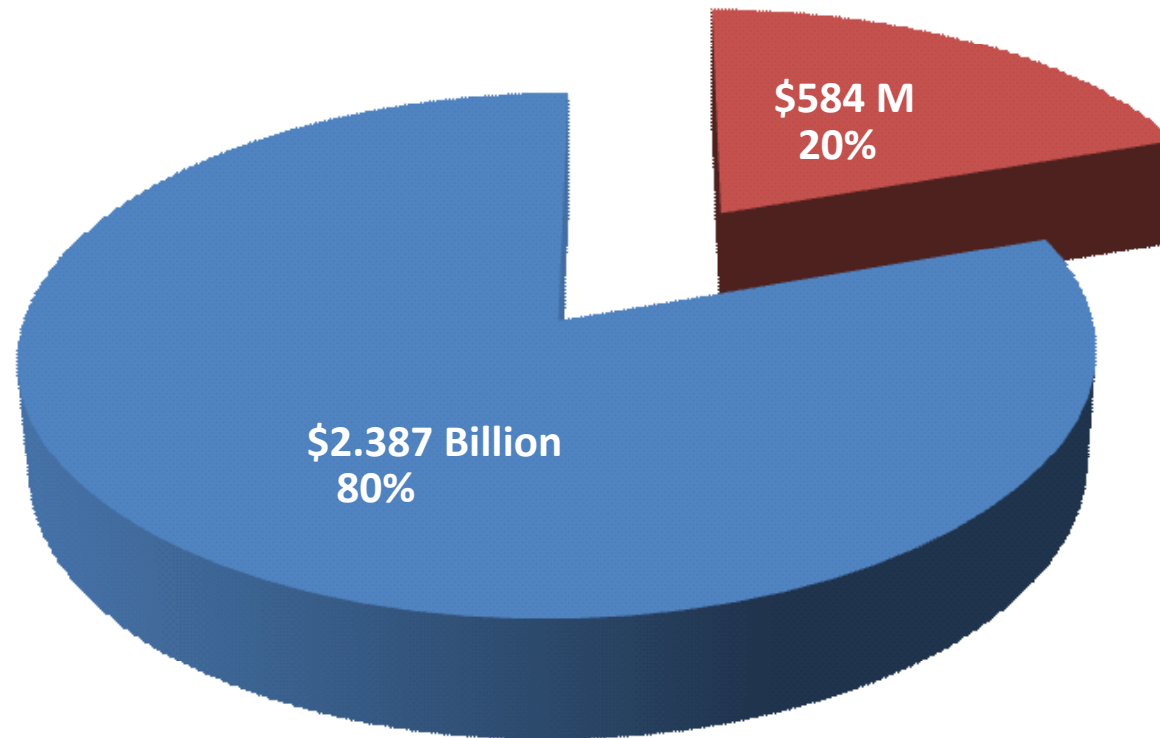
Total Budget is adjusted to remove financial aid, lease bond payments and retiree dental payments.

CSU Faces Major Operating Deficit in 2009-10

- The huge reductions in state General Fund for the CSU shown in a previous slide are offset somewhat by anticipated federal stimulus funds and by the 10% fee increase approved by the Board of Trustees last May.
- Even accounting for this, the CSU faces an operating deficit of \$584 million – over half a billion dollars – as illustrated in the next slide.

Net Fiscal Impact of Budget Reduction in 2009-10

Total General Fund Budget = \$2.97 Billion



■ Remaining Budget

■ 2009-10 Deficit

Total budget based on original 2008-09 Budget Act

\$584 million deficit understates full fiscal impact

- The \$584 million is relative to the budget enacted by the state last February. (We used this as a starting point because presidents and vice presidents were already working off of that budget.)
- It therefore does not include the \$66.3 million permanent cut to the CSU that was made in the February budget.
- It also does not include \$40.5 million of new mandatory costs.

\$584 Million in Perspective

- \$584 million is the combined sum of the operating budgets of CSU Long Beach and CSU Sacramento (Including General Fund and student fee revenue).
- \$584 million is equivalent to the marginal cost funding provided by the state for instruction of about 95,000 students.

Planning Needs to Anticipate at least 24 Months

- It will take the state a long time to recover from its current fiscal problem.
- Three large tax increases from the February budget package expire in 2011. Increases in personal income tax expires January 1, 2011; sales tax and vehicle license fee on July 1, 2011.
- A \$16 billion loss over three fiscal years starting with 2010-11.

Major Factors for 2010-11

- Federal stimulus funds will already be spent.
- Can the Governor and Legislature replace the \$255 million line-item veto of 2009-10?

CSU The California State University

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