Funds for the California State University system are derived from state and non-state sources. State funds and student tuition fees, provide for faculty and staff positions connected with the instructional mission of the system, for administrative operations, and maintenance of classroom and laboratory facilities. Non-state funds support residence halls, parking facilities, and student unions. State funds are provided in two categories: support and capital outlay.

The support budget recommended to the Board of Trustees is a product of extensive consultation involving all campuses and the various systemwide groups. The process for developing this annual budget was revised in 1994. After adoption by the Board, the budget is submitted to the Department of Finance, which reviews it and with appropriate consideration of state revenues, program alternatives, and the mission of the CSU, recommends a budget to the Governor for submission to the Legislature. Legislative committees review this budget and, after action by both houses, Senate and Assembly versions of the budget are passed. A joint conference committee resolves any differences between the two versions and submits a single version to the Governor for signature. After exercising line item vetoes, the Governor signs the Budget Act.

After the final budget for the system is approved, changes to budget provisions can be made. Certain provisions are allocated to the entities (e.g., campuses) that will use the funds. Additional funding may become available (e.g., student tuition fees in excess of what was expected, additional state funding for emergency requirements). Funds may be transferred among campuses, among programs, among subprograms within a program, or between object categories (e.g., personal services and operating expenses and equipment). Some budget actions are subject to certain guidelines.

By resolution, the Board of Trustees has required each of the campuses to develop a Campus Physical Master Plan based on its academic programs, existing and projected. The Campus Physical Master Plan is to serve as a guide for the physical development of the campus, to accommodate enrollment at a target date in accordance with the approved academic plan and adopted educational policies and objectives. All state agencies, including the California State University, must submit projected capital outlay needs, by project, for five years beyond the current year. The Capital Outlay Budget includes both facility projects and equipment.

Campuses initiate capital outlay requests deemed necessary to accommodate their approved programs and submit them annually, according to the schedule of submissions published each year by the Chancellor's Office. Requests have been based on enrollment, capacity, and utilization data and on the requirements of each academic program. Requests are reviewed by several divisions in the Chancellor's Office, as well as by state agencies. The Chancellor's Office submits a recommendation on each request to the Board of Trustees. Approved projects are then forwarded to the Department of Finance and the state legislature for review and approval.

Salary and benefit increases are determined through the collective bargaining process as provided by the Higher Education Employer-Employee Relations Act. Since 1985-86, the CSU has had an additional source of funds generated by the operation of the California Lottery. State law explicitly restricts the use of lottery revenue to support of instruction; the use of these funds for research, capital outlay, or non-instructional activities is explicitly prohibited. In principle, lottery revenues are to supplement, not supplant, state funding. The lottery revenue budget is approved annually by the Board of Trustees. It includes a few systemwide programs (e.g., the California Pre-Doctoral Program), but most of the funds are allocated to campuses to spend as needed to enhance instruction.