

CORRECTED

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:15 p.m., Tuesday, November 5, 2013
Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Lou Monville

Consent Items

Approval of Minutes of Meeting of September 24, 2013

Discussion Items

1. Approval of the 2014-2015 Support Budget Request, *Action*
2. 2014-2015 Lottery Revenue Budget, *Action*
3. 2013-2014 Student Fee Report, *Information*
4. California State University Annual Investment Report, *Information*
5. California State University Investment Policy Clarification, *Action*
6. ~~Review of Management and Purchase Option Agreements for a Student Housing Project on Private Property Adjacent to California State University, San Bernardino, *Action*~~ **Deferred**

MINUTES OF THE MEETING OF COMMITTEE ON FINANCE

**Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

September 24, 2013

Members Present

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville
Timothy P. White, Chancellor
Bob Linscheid, Chair of the Board

Approval of Minutes

The minutes of July 23, 2013 were approved by consent as submitted.

Planning for the 2014-2015 Support Budget Request

Mr. Robert Turnage, assistant vice chancellor for budget, reported on the planning framework for the system budget within the context of the state's continuing fiscal challenges. He indicated that a more comprehensive proposal is forthcoming in November and that if the economy continues its recovery the state may have more distributable revenue looking forward. He displayed a chart illustrating general fund appropriations over a ten-year period, including future projections through 2016-2017 based on the multi-year plan released by the governor and the Department of Finance. He presented data evidencing an increase in undergraduate applications among California residents, many of which could not be accommodated owing to shortfalls in state funding, emphasizing that while the California State University system represents just one part of the state's social ecology, it is a critical component in that it trains the state's next generation workforce. To that point, he noted that a major area of emphasis in the budget planning process is to provide funding to address enrollment demand. He next commented on critical backlogs of maintenance needs and infrastructure repair, citing specifically a priority backlog approaching \$500 million and infrastructure improvement needs exceeding \$1.1 billion as identified in the CSU's five-year capital outlay plan. In addition, he remarked, are needs related to IT infrastructure, instructional equipment replacement and \$175 million related to seismic safety upgrades. To mitigate the aforementioned and to arrest the perennial deferral of maintenance

needs, Mr. Turnage related a plan to allocate \$15 million over three years for debt service on a bond issuance to ultimately allow for up to \$800 million in project work and repairs.

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, clarified that the proposal involves a base adjustment of \$15 million per fiscal year over a three-year period, and that the first allocation would enable the issuing of bonds for approximately \$250 million, after which time a second or third allocation and bond issuance could be contemplated in phase, contingent upon the current financial situation, thereby not obligating the general fund for monies not guaranteed.

By way of illustration, Mr. Turnage displayed a photograph of an emergency chiller installed at CSU Los Angeles after the campus' primary chiller failed, and noted that this emblematic stopgap solution comes at considerable cost, \$1.9 million annually, to the university.

Mr. Turnage next discussed the preliminary budget increase request for fiscal year 2014-2015, noting that the total anticipated request from the state is net of tuition revenue realized from projected enrollment growth. He commented that the total request of \$250 million includes mandatory costs, the compensation pool, funding for student success efforts, enrollment demand mitigation, and financing for critical maintenance and infrastructure needs. He added that the enrollment request would represent a per-student investment by the state of \$3,750.

In response to a question from Trustee Hauck, Ms. Elvyra F. San Juan, assistant vice chancellor for capital planning, design and construction, affirmed that contracts to assess and inventory critical infrastructure and maintenance needs, in dollar amounts, have been prepared. She further commented that a utility master plan will be developed for each campus along with prioritized infrastructure needs.

Dr. Quillian added that his staff is working with global financial services provider Barclays to explore the privatization of certain infrastructure, where practicable.

Trustee Monville expressed concern regarding the state of disrepair of the campuses' oldest buildings, and how it compounds the problematic dearth of classroom space, and particularly laboratory instructional space.

Mr. Turnage commented that the figures presented represent base funding requests, augments over existing state allocation, and not one-time cash infusions. In response to a question from Trustee Faigin, he speculated as to bonding amounts over the coming decades.

In response to a question from Trustee Hauck, Ms. San Juan commented on critical capital needs surrounding facilities in danger of failure or collapse.

Governor Jerry Brown opined that to safely maintain buildings ought to take precedence over increasing enrollment. Given all competitors for public monies, he cautioned that the suggested

base increase request of \$250 million is unlikely to come to fruition and therefore the board should consider alternate remedies.

Trustee Hauck commented that the board is responsible, and can be counted on to proceed responsibly, and that the students are its highest priority. He averred that the university will adapt its approach to balance enrollment with facilities needs and will ensure critical maintenance and repairs are performed within the parameters of what funding is received from the state.

2014-2015 Lottery Revenue Budget

Mr. Turnage explained that the lottery budget amounts to approximately \$41 million per year, and therefore represents just one percent of the university's core funding. He directed the board's attention to a table in the board materials comparing the lottery revenue budget adopted for 2013-2014 with that proposed for 2014-2015. He noted that the only significant changes are a proposal to restore the reserve to its historical level following a one-time dip authorized the previous year and to infuse a few million dollars of anticipated additional lottery receipts into various campus-based programs that afford campuses flexibility in subsidizing various instructional programs. He reiterated that the current item is informational in nature and that a related action item will be brought before the board in November.

In response to a question from Trustee Glazer, Mr. Turnage clarified that the campus-based funding would be limited-term, versus one-time, and consistent with the provisions of the Lottery Act. In response to additional questions from Trustee Glazer, he commented on vehicles for reporting back to the board, including a broad-level annual report and more detailed reports with a breakdown by campus generated by his staff. Mr. Turnage agreed to bring a report on recent expenditures to the board together with the action item in November.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project

Mr. George Ashkar, assistant vice chancellor for financial services, reported on the proposed acquisition of a privately owned apartment complex, the Granada on Hardy, by San Diego State University. He detailed the facility's makeup and capacity, noting that it comprises forty-nine units and 189 beds in a single four-story building constructed over two levels of underground parking, and that it currently houses students. He further noted that the acquisition would support the campus' objective of being less of a commuter school. He cited a purchase price of \$25,370,000 and affirmed the amount to be in line with the appraised market value of \$26 million as of May 2013. Mr. Ashkar then discussed the related amortization of debt service, as per CSU program standards, and compared projected housing program net revenue debt service coverage at SDSU to its CSU benchmark.

Dr. Elliot Hirshman, president, San Diego State University, expressed gratitude to the Chancellor's Office for its support of the acquisition and commented that his campus currently

houses greater than one thousand students in triple occupancy rooms. He added that the transaction would be cash flow positive within the first year.

Upon motion duly made and seconded, the committee approved the issuance of systemwide revenue bonds and related debt instruments for the San Diego Granada Apartments Acquisition.

Partnership for Student Housing on Private Property Adjacent to California State University San Bernardino

Mr. Ashkar reported on a proposal from California State University, San Bernardino to enter into a long-term management agreement with Capstone Development Partners, LLC, for services related to a housing project across the street from the campus. He also explained how the partnership with the development company would serve the interests of the campus by creating additional student housing for freshman and promoting increased participation in on-campus student activities.

Dr. Tomás Morales, president, California State University, San Bernardino, stated that the proposal would support the objective of increased academic and personal success for students, and in turn help to attract the region's best and brightest applicants while creating a stronger sense of community.

Mr. Ashkar related that the structure constitutes a 510-bed student housing project, with 1-bedroom, 1-bath suites and semi-suites, each with a two-person capacity, and that the proposal involves a management agreement with the option to purchase. He clarified that Capstone will finance the project on private lands and that no campus funds will be utilized. Among items critical to entering into the proposed management agreement, Mr. Ashkar cited the adoption of campus residential life policies and programs, that student discipline procedures be in place, that the housing option be appropriately marketed, and that no injunction preventing the campus from constructing additional housing in the future be levied.

In response to a request from Trustee Hauck, Mr. Ashkar agreed to amend the board resolution to reflect that the management agreement will be reviewed and approved by the board prior to its execution.

In response to a question from Trustee Faigin, Mr. Ashkar stated that the CSU stands to save up to \$5 million dollars by entering into the management agreement and that Capstone views the association with the university as both attractive and necessary to govern residents' comportment and make parents comfortable.

Ms. San Juan commented on the estimated developer fee of 5 percent, or \$1.4 million, and financing cost and fees of approximately \$1.2 million.

Trustee Garcia expressed concern that all due diligence be performed prior to entering into any contract, including a partnership with Capstone, to ensure the absence of conflicts of interest. President Morales commented that Capstone is one of the premiere developers of student housing in the country and that he has worked with them previously, with success. He emphasized that a great need exists, since there is 100 percent occupancy of the campus' current 1,300 beds.

Mr. Ashkar concurred with Trustee Garcia's request and proposed generating a checklist prior to bringing a final agreement before the board for approval.

Ms. San Juan estimated that "long-term" in the context of this agreement would mean twenty to thirty years duration.

Upon motion duly made and seconded, the committee approved the resolution, RFIN 07-13-05.

Campus President Housing – Assessments and Immediate Maintenance Needs

Dr. Quillian reported that the board owns facilities on eleven of its twenty-three campuses that are used by campus presidents as residences, noting that the houses are also used to host fundraising events and other activities in support of the university's mission. He further reported that a significant backlog of maintenance and repairs has amassed in recent years, and that his staff is developing a systemwide policy to address it. To that end, he announced that a design firm in Los Angeles, Cannon Design, has been engaged to assess projects and code compliance, and define priorities, but meanwhile two present situations demand immediate attention.

With respect to the Miller House in Long Beach, residence of the president of CSU Long Beach, Dr. Quillian described pressing basic interior repairs and upgrades needed to reduce energy consumption, meet current code requirements, prevent further damage and preserve the value of the property. He reported that the repairs would be completed by October 2014 and will cost a projected \$586,000, to be funded out of the campus deferred maintenance budget.

With respect to the El Dorado Ranch property in Fullerton, residence of the president of CSU Fullerton, Dr. Quillian expressed concern that no gate encircles the property to restrict use of the driveway to access the home and no perimeter fencing is present to increase security and thwart intrusion. He reported that security fencing would be installed together with an intercom, camera, key pad and remote opening device for the gate, to be funded out of the campus interest earnings.

In response to a question from Trustee Hauck, Dr. Quillian affirmed that funding for both projects is already generated and in-hand. In response to a question from Trustee Monville, Dr. Quillian clarified that the proposed fencing at the El Dorado Ranch property would complete a full perimeter around the residence.

Trustee Glazer expressed concern about allocating funds for the two projects in light of the earlier discussion of critical systemwide infrastructure needs. Trustee Hauck remarked that the Fullerton house was near unlivable, and that the board has a responsibility to maintain the properties as presidents are required to live in them. Trustee Glazer questioned whether alternate means of funding for the maintenance needs related to presidential residences could be explored, to retain the greatest amount possible of public monies to allocate to campuses. Dr. Quillian responded that fundraising has been discussed with the campuses as an alternate means of funding, however due to the immediate nature of the repairs there is a need to move quickly and fundraising is not feasible for these two projects. He added that, for El Dorado Ranch, the recommendation to add security fencing and cameras came from the campus public safety department in order limit unauthorized access to the property as soon as possible.

There being no further questions, Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Approval of the 2014-2015 Support Budget Request

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

At its meeting of September 24-25, 2013, the board was presented with preliminary revenue and expenditure assumptions for purposes of crafting the CSU's support budget request for the governor's 2014-2015 budget. This item presents for the board's review and approval a recommended support budget request for 2014-2015.

State Budget Overview

The State Constitution requires the submittal of the Governor's budget proposal to the legislature each year by January 10.

The significant tax revenues produced by Proposition 30 and the ongoing economic recovery allowed the state to begin anew to invest in public higher education, including a \$125.1 million programmatic funding increase for the CSU in the recently enacted 2013-2014 budget.

The state, however, may continue to experience fiscal challenges in 2013-2014 as well as 2014-2015. The enacted 2013-2014 budget included an estimated General Fund reserve of \$1.1 billion. Already, however, up to \$315 million could be drawn from the 2013-2014 reserve to respond to federal court rulings regarding prison overcrowding, with another \$400 million estimated for possible expenditure in the 2014-2015 fiscal year. Also, it is already clear that state firefighting costs will draw down the General Fund reserve to a significant extent. There are also risks on the revenue side of the state's ledger. National and state economic recovery remains stubbornly sluggish, in part due to the economic drag created by the prolonged federal budget sequestration. There are growing concerns among many economists that political impasse on the federal budget and the federal government's borrowing authority (the debt ceiling) could shock the national economy back into recession.

On the other hand, if the state's economic recovery continues, state revenues could grow by as much as 7.5 percent in 2014-2015, according to projections by the Legislative Analyst's Office.

Thus, the outlook for 2014-2015 at this point ranges from continuing constraint to significant opportunity.

The Governor's Multi-year Funding Plan for the UC and CSU

Last January Governor Brown's budget proposal included his call for a multi-year plan to provide funding stability to the University of California (UC) and the CSU. This plan, reiterated in the Department of Finance's enacted budget summary reflecting the signed 2013-2014 Budget Act, calls for state funding increases to the two universities totaling \$511 million each over the course of four years culminating with the 2016-2017 fiscal year. This recognizes the fact that both universities endured state funding reductions in equal dollar amounts during the recent half decade of fiscal crisis. The cumulative increase occurs in annual increments as follows:

- \$125.1 million in 2013-2014
- \$142.2 million in 2014-2015
- \$119.5 million in 2015-2016
- \$124.3 million in 2016-2017
- Cumulative increase in annual funding = \$511.1 million

Although the legislature has not adopted this plan, it did approve the first-year increase of \$125.1 million in 2013-2014.

Recommended 2014-2015 CSU Support Budget

In this agenda item we share with the board a recommended support budget request for 2014-2015 for the university. The planning approach is tempered by recognition of the state's ongoing fiscal challenges, yet represents a credible statement of the university's key funding needs.

Expenditure Plan.

The recommended expenditure plan, shown as increases to the CSU's current baseline from state funds, tuition and other systemwide fees, is summarized below. These recommended items would require new ongoing revenues from the state of \$237.6 million. This expenditure plan does exceed the minimum \$142.2 million increase specified for 2014-2015 under the Governor's multi-year plan. However, it is a statement of the university's true funding needs and—given the possibility that 2014-2015 state revenues could grow substantially above current levels—presents worthy opportunities for the state to invest further in the students, faculty and staff of the CSU. The 2014-2015 Support Budget book, intended for ultimate distribution to legislators and other policy-makers in the capital, is included in the board members' mail-out as a supplemental document and can also be accessed through the following link:

<http://www.calstate.edu/budget/fybudget/2014-2015/executive-summary/documents/2014-15-Support-Budget.pdf>

• 5% Enrollment Demand (from tuition revenue)	\$84.6 million
• 5% Enrollment Demand (from state)	\$79.2 million
• Augmentations for Student Success and Completion	\$50.0 million
• Financing maintenance and infrastructure needs	\$15.0 million
• Mandatory costs (health benefits, new space)	\$13.7 million
• Compensation increase (3 percent “pool”)	\$91.6 million
• Center for California Studies—cost increases	0.2 million

Total ongoing expenditure change	\$334.3 million
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This expenditure plan would bring annual spending for support of the CSU to approximately \$4.6 billion, including student fee revenues (net of financial aid).

The enrollment demand item would accommodate not only growth in the number of students admitted and served, but would also help accommodate demand by current students for additional courses (allowing improved time-to-degree). The costs of accommodating additional enrollment would be partially offset by the additional tuition fee revenue generated by the extra enrollment. This additional fee revenue – estimated at \$84.6 million, net of financial aid – is factored into the budget plan. Thus, the amount needed from the state to fund the enrollment demand would be \$79.2 million. This amount would enable campuses to enroll approximately 20,000 additional students (headcount), translating into a requested investment by the state in its economic and social future of less than \$4,000 per student. It should be noted that this plan, summarized above, assumes no increase in tuition fee rates for the 2014-2015 academic year.

The recommended expenditure plan includes a \$50 million augmentation under the title of Student Success and Completion for a variety of efforts and strategies to close achievement gaps and facilitate student success and degree completion. These funds would be used in six initiative areas:

1. *Tenure/track Faculty Hiring.* \$13 million for campuses to hire tenure-track faculty and begin reversing the declining ratio of tenured and tenure-track faculty to lecturers, as well as to improve student/faculty ratios. These funds would augment state funds and fee revenue related to enrollment growth to enable campuses to hire more than 500 full-time tenure-track faculty systemwide. More tenure-track faculty, added to current faculty numbers, mean more sections of high-demand courses taught and more faculty mentoring/advising of students.
2. *Enhanced Advising.* \$8 million, with half the funds to hire 70 more professional staff advisors systemwide, and half the funds to leverage the work already underway with

various e-advising technologies that provide clear and accurate “real time” information for students and advisors related to graduation and major requirements, and the efficient scheduling of classes.

3. *Augment Bottlenecks Solution Initiative*. \$2.5 million to expand annual initiative to \$12.5 million, a 25 percent increase over the current base. The added funding would support more online concurrent enrollment courses.
4. *Student preparation*. \$8 million augmentation to help incoming freshmen attain college readiness before arriving on CSU campuses.
5. *High-Impact Practices for Student Retention*. \$12 million to “scale up” a wide range of successful “high-impact” practices, including service learning projects, undergraduate participation in applied research, first-year learning communities (a cohort or shared academic focus for groups of first-year students), and peer mentoring (upper division students mentoring lower division students).
6. *Data-Driven Decision Making*. \$6.5 million to accelerate completion of the Data Dashboard project. Implementing “data dashboard” technologies on all campuses will dramatically improve implementation of various student success initiatives by providing the tools for quick assessments of the efficacy of different efforts.

The CSU’s backlog of facility maintenance and infrastructure needs, even if restricted to the highest priority needs, is massive and growing. State funding for capital outlay has reached critically low levels in recent years and constrained annual support budgets cannot keep up with maintenance needs. This preliminary plan would attack the problem by building up—with annual increments of \$15 million over the three remaining years of the Governor’s multi-year plan—an ongoing “base” of \$45 million available for annual debt service on bonds. This option would allow the CSU to finance an estimated \$750 million to \$800 million, depending on interest rates, of vitally needed work—addressing deferred maintenance priorities, but also upgrading and replacing basic infrastructure (such as campus electrical systems and water systems dating back more than a half century). Such a program could also address key needs in terms of technology infrastructure and instructional equipment replacement. A similar approach was approved by the legislature in the mid-1990’s, although on a smaller scale and focused solely on deferred maintenance. Each of the three annual increments would be associated with its own “round” of bond financing, with each round generating an estimated \$250 million or more of bond proceeds to fund projects. Under this approach, the board, in each of the next three years, can review the annual increment as part of the annual budget before committing to a new round of bond financing.

When the support budget plan was reviewed at the September 24-25, 2013, board meeting, mandatory cost increases were estimated on a preliminary basis at \$20 million. This estimate has been revised to \$13.7 million, largely due to a recommendation to shift the budgeting of energy

cost increases from a prospective basis to an in-arrears basis. This shift makes sense because energy prices are highly variable and exceedingly difficult to predict in advance of an upcoming fiscal year. An in-arrears approach on energy costs will result in a far more accurate matching of budget allocations with actual costs.

Revenue Plan. The following plan for increased revenue would provide the resources needed to meet the expenditure plan.

Total State General Fund Increase **\$237.6 million**

Tuition Fees Revenue Adjustments:

- Net tuition fee revenue from enrollment growth **\$84.6 million**
- Change in enrollment patterns **\$12.1 million**

Total Tuition Fee Revenue Increase **\$96.7 million**

Total Revenue Increase **\$334.3 million**

Each year the “mix” of students attending part-time or full-time, or attending at undergraduate or graduate levels, shifts slightly, in the process shifting fee revenue estimates as well. Based on most recent data, we estimate a revenue increase of \$12.1 million due to this effect. Although slight (about 0.6 percent) in the context of annual systemwide fee revenues of close to \$2 billion, this \$12.1 million helps meet expenditure needs and reduce by a corresponding amount what is needed from the state.

This recommended revenue plan strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition fee revenues generated by enrollment growth. Development of a 2014-2015 budget request on these lines would provide the governor and legislature with an achievable plan for investment in the CSU for the sake of California’s economic and social future. The plan is capable of reprioritization if, ultimately, the university must budget within the minimum \$142.2 million funding increase specified for 2014-2015 under the Governor’s multi-year plan. At this stage, however, the recommended budget focuses on stating needs and being positioned for opportunity.

Recommendation

This following resolution is presented for approval.

RESOLVED, by the Board of Trustees of the California State University that the 2014-2015 support budget request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that any changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, that copies of this resolution be transmitted to the governor, to the director of the Department of Finance and to the legislature.

COMMITTEE ON FINANCE

2014-2015 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget recommendation for fiscal year 2014-2015 is presented as an action item following the September 2013 board review of the proposal. The lottery revenue projection for 2014-2015 is \$46 million. After setting aside \$5 million for CSU's systemwide reserve, \$41 million is available for allocation. The 2014-2015 Lottery Revenue Budget reflects an increase in projected support from fiscal year 2013-2014 as a result of higher trends in lottery receipts with the addition of Powerball to the list of California Lottery offerings. It is recommended that \$2 million in projected revenue increases be used to increase funding for campus-based programs.

Beginning CSU lottery reserves are restored to their historical \$5 million figure in the 2014-2015 proposed lottery budget as a result of higher annual trends in lottery receipts and diminishing carry forward balance previously used to assist with program need. CSU does not anticipate any additional carry forward funds at the onset of the 2014-2015 fiscal year above the \$5 million proposed reserve. The \$5 million beginning reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. Campuses' interest earnings from lottery allocations are distributed to the campuses individually in accordance with CSU Revenue Management Program guidelines and procedures.

2014-2015 Lottery Budget Proposal

After setting aside the \$5 million beginning reserve, the \$41 million 2014-2015 lottery budget proposal remains principally designated for campus-based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral Program, and CSU Summer Arts Program. Of the \$41 million available for expenditure, \$3.9 million funds: the Chancellor's Doctoral Incentive Program (\$2 million) which provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program (\$714,000) which supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; and, the CSU Summer Arts Program (\$1.2 million) which offers academic credit courses in the visual, performing, and literary arts.

The remaining \$37.1 million in 2014-2015 lottery funds will continue to be used for campus based programs (\$31.5 million), financial aid for the trustee-approved Early Start program (\$5 million) and system administration of the lottery fund (\$544,000). Campus-based program funding is undesignated and allows presidents considerable flexibility in meeting unique campus needs. Traditionally, projects receiving campus-based funds have included the purchase of new instructional equipment, instructional equipment replacement, curriculum development, and scholarships. Early Start program funds will provide campus-based financial aid as need-based fee waivers to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first time freshman students who are deficient in math and English skills through remedial instruction during the summer term prior to matriculation at any of the CSU campuses. Although Summer 2014, is the leading term for the 2014-2015 college year, it is necessary to pre-fund the waivers by setting aside funds each year in advance of the upcoming summer term. Campuses receive reimbursement funding based on actual student enrollment following the end of the summer instructional program.

In the 2012-2013 fiscal year, 92 percent of lottery allocations were spent on supplemental instructional and instructionally related programs and services for students and faculty. The following table summarizes how lottery funds allocated for the 2012-2013 fiscal year were expended. A campus detail of lottery expenditures is provided as an appendix to this item.

2012-13 Lottery Expenditure Report			
(in 000s)			
		Percentage of	
		Total	
Program Support Area	Expenditures	Expenditures	
Academic	\$ 16,292	40.7%	
Library Services	11,477	28.7%	
Student Services	2,816	7.0%	
Administrative	3,025	7.6%	
Financial Aid	6,074	15.2%	
Classroom Maintenance	100	0.3%	
Community Relations	203	0.5%	
Total Expenditures	\$ 39,987	100.0%	

The CSU lottery revenue budget recommended for 2014-2015 is as follows:

2014-15 Proposed Lottery Revenue Budget

	2013-14 Adopted Budget	2014-15 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 3,000,000	\$ 5,000,000
Receipts	39,000,000	41,000,000
Total Revenues	\$ 42,000,000	\$ 46,000,000
<i>Less Systemwide Reserve</i>	<i>(3,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 39,000,000	\$ 41,000,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
	\$ 3,914,000	\$ 3,914,000
<i>Campus-Based Programs</i>		
Campus Programs	\$ 29,555,000	\$ 31,542,000
Campus Early Start Financial Aid	5,000,000	5,000,000
	\$ 34,555,000	\$ 36,542,000
<i>Lottery Fund & System Programs Administration</i>	\$ 531,000	\$ 544,000
Total Uses of Funds	\$ 39,000,000	\$ 41,000,000

This item is an action item and the following resolution is recommended for adoption:

RESOLVED, by the Board of Trustees of the California State University, that the 2014-2015 lottery revenue budget totaling \$46 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery revenue budget and to phase expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that a portion of campus-based program allocations will be used to support student financial aid for the trustee-approved Early Start program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need; and be it further,

RESOLVED, that the chancellor is hereby granted authority to adjust the 2014-2015 lottery revenue budget approved by the Board of Trustees to the extent that receipts are greater or lesser than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2014-2015 lottery revenue budget receipts and expenditures be made to the Board of Trustees.

APPENDIX A: 2012-13 Lottery Expenditure Report
Detail by Campus Subprogram

Bakersfield

Counseling and Career Guidance	\$98,125
Fiscal Operations	30,812
General Academic Instruction	125,948
Libraries	100,304
Scholarships	121,248
Student Services Administration	72,985

Bakersfield Total	\$549,422
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Chancellor's Office

Community Service	\$191,104
Fiscal Operations & Systemwide Lottery Admin.	877,003
Pre-Doctoral Scholars	154,649
Summer Arts	633,281
Systemwide E-Library Journal Subscriptions	919,352
Scholarships	4,042,239

Chancellor's Office Total	\$6,817,628
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Channel Islands

Academic Administration	\$99,776
General Academic Instruction	19,977
Libraries	83,849

Channel Islands Total	\$203,602
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Chico

Academic Administration	\$325,426
Academic Personnel Development	45,116
Academic Support Information Technology	12,551
General Academic Instruction	205,108
Instructional Information Technology	9,354
Libraries	781,970
Scholarships	124,000

Chico Total	\$1,503,525
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Dominguez Hills

Academic Administration	\$3,932
Academic Support Information Technology	573,322
Counseling and Career Guidance	3,198
General Academic Instruction	85,720
Libraries	24,123
Scholarships	140,225
Student Services Administration	119,709

Dominguez Hills Total	\$950,229
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East Bay

Academic Administration	\$16,095
Executive Management	80,000
General Academic Instruction	46,653
Libraries	815,016

East Bay Total	\$957,764
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Fresno

Counseling and Career Guidance	\$83,220
Instructional Information Technology	1,482,227
Fellowships	10,158
Libraries	686,819
Scholarships	29,970
Student Services Administration	89,456

Fresno Total	\$2,381,851
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Fullerton

Counseling and Career Guidance	\$145,006
Financial Aid Administration	15,119
General Academic Instruction	95,167
Instructional Information Technology	138,720
Libraries	1,448,092
Scholarships	411,948
Student Services Administration	61,114

Fullerton Total	\$2,315,166
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Humboldt

Academic Administration	\$73,134
Academic Support Information Technology	80,717
Counseling and Career Guidance	19,753
Executive Management	2,325
General Academic Instruction	118,375
Instructional Information Technology	110,622
Libraries	281,120
Oper and Maint Information Technology	1,279
Scholarships	46,500
Social and Cultural Development	23,986
Student Services Administration	25,079

Humboldt Total	\$782,890
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Long Beach

Academic Administration	\$41,692
Academic Personnel Development	4,033
Academic Support Information Technology	408,159
Counseling and Career Guidance	135,808
General Academic Instruction	338,119
Instructional Information Technology	69,374
Libraries	484,848
Preparatory/Remedial Instruction	17,068
Scholarships	24,500
Student Admissions	12,435
Student Services Administration	40,278
Student Services Information Technology	13,261

Long Beach Total	\$1,589,575
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Los Angeles

Counseling and Career Guidance	\$252,979
General Academic Instruction	1,386,857
Libraries	829,608
Scholarships	26,300
Student Services Administration	138,515

Los Angeles Total	\$2,634,259
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Maritime Academy

General Academic Instruction	\$156,155
Libraries	748
Scholarships	11,084

Maritime Academy Total	\$167,987
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Monterey Bay

Academic Administration	\$72,572
Academic Personnel Development	35,640
General Academic Instruction	497,893
Student Admissions	47,415
Student Services Administration	127,602

Monterey Bay Total	\$781,122
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Northridge

Academic Administration	\$302,471
Academic Personnel Development	1,576
Academic Support Information Technology	31,031
Counseling and Career Guidance	80,951
Educational Media Services	57,686
Executive Management	2,088
Financial Aid Administration	7,212
Fiscal Operations	11,482
General Academic Instruction	689,512
General Administration	3,479
Individual and Project Research	35,576
Institutes and Research Centers	1,632
Libraries	1,175,000
Preparatory/Remedial Instruction	6,419
Public Relations/Development	3,192
Social and Cultural Development	23,720
Student Health Services	9,951
Student Records	100,613
Student Services Administration	102,347

Northridge Total	\$2,645,938
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Pomona

Academic Support Information Technology	\$343,939
Administrative Information Technology	46,251
General Academic Instruction	147,449
Libraries	813,211
Scholarships	31,176

Pomona Total	\$1,382,025
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Sacramento

Academic Administration	\$200,352
Academic Personnel Development	74,920
Academic Support Information Technology	262,946
Counseling and Career Guidance	58,432
General Academic Instruction	1,288,067
Libraries	120,470
Social and Cultural Development	17,205
Student Services Administration	517,506

Sacramento Total	\$2,539,898
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San Bernadino

Academic Support Information Technology	\$53,325
Counseling and Career Guidance	144,761
General Academic Instruction	138,844
Libraries	36,358
Scholarships	366,884
Student Services Administration	57,590

San Bernadino Total	\$797,762
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San Diego

Counseling and Career Guidance	\$344,453
General Academic Instruction	1,947,981
Student Services Administration	233,485

San Diego Total	\$2,525,918
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San Francisco

Academic Personnel Development	\$114,161
Counseling and Career Guidance	71,113
Executive Management	39,936
General Academic Instruction	2,474,643
Instructional Information Technology	15,072

San Francisco Total	\$2,659,428
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San Jose

Academic Administration	\$2,880
Academic Personnel Development	2,811
Community Service	5,603
General Academic Instruction	211,145
General Administration	6,132
Libraries	1,900,000

San Jose Total	\$2,128,571
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San Luis Obispo

Academic Administration	\$157,417
Academic Personnel Development	85,693
Academic Support Information Technology	64,515
Ancillary Support	101,482
Counseling and Career Guidance	31,328
Executive Management	2,937
General Academic Instruction	493,027
Instructional Information Technology	195,038
Libraries	172,787
Scholarships	3,500
Student Services Administration	252,269
Student Services Information Technology	23,123

San Luis Obispo Total	\$1,583,117
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San Marcos

Academic Administration	\$29,334
Academic Personnel Development	2,935
Academic Support Information Technology	1,467
Administrative Information Technology	2,935
Ancillary Support	1,467
Community Service	4,402
Course and Curriculum Development	2,935
Executive Management	5,870
General Academic Instruction	540,186
General Administration	1,996
Individual and Project Research	1,467
Institutes and Research Centers	5,870
Instructional Information Technology	1,467
Libraries	4,402
Scholarships	66,493
Social and Cultural Development	19,146

San Marcos Total	\$659,952
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Sonoma

Academic Administration	\$16,846
Academic Personnel Development	4,014
Academic Support Information Technology	18,066
Community Service	35,369
Counseling and Career Guidance	116,758
Executive Management	6,551
General Academic Instruction	206,039
General Administration	7,468
Instructional Information Technology	72,266
Libraries	291,228
Scholarships	26,225

Sonoma Total	\$800,831
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Stanislaus

Academic Administration	\$24,973
Libraries	508,513
Scholarships	27,500
Student Admissions	67,221

Stanislaus Total	\$628,206
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Grand Total	\$39,986,665
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COMMITTEE ON FINANCE

2013-2014 Student Fee Report

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As required by California State University student fee policy, the Board of Trustees is presented with an annual campus student fee report to consider the level and range of campus-based mandatory fees charged to CSU students.

2013-2014 CSU Student Fee Report

Campus-based mandatory fees are charged to all students in order to enroll at a particular university campus. In addition, campuses charge miscellaneous course fees for some courses in order to add materials or experiences that enhance the basic course offerings. Campuses also charge fees for self-support programs, such as parking, housing and extended education. As required by the CSU student fee policy, this annual report focuses primarily on the campus-based mandatory fees.

The following table displays the 2013-2014 academic year campus-based mandatory fee rates by campus and by fee category.

2013-14 California State University Campus-Based Fee Rates							
	Health Facilities	Health Services	Instruction- ally Related Activities	Materials Services & Facilities	Student Body Association	Student Body Center	Total Campus Fees
Bakersfield	\$6	\$279	\$162	\$57	\$357	\$444	\$1,305
Channel Islands	6	162	240	135	134	324	1,001
Chico	6	262	272	74	128	758	1,500
Dominguez Hills	6	150	10	5	135	326	632
East Bay	6	225	129	243	129	345	1,077
Fresno	6	206	264	46	69	224	815
Fullerton	6	148	72	72	148	268	714
Humboldt	6	402	674	304	101	185	1,672
Long Beach	6	90	50	277	88	358	869
Los Angeles	6	165	123	249	54	275	872
Maritime Academy	14	680	130	30	210	0	1,064
Monterey Bay	0	126	60	165	96	44	491
Northridge	6	116	30	217	172	512	1,053
Pomona	6	234	40	237	105	261	883
Sacramento	32	231	348	0	126	419	1,156
San Bernardino	39	221	146	177	123	372	1,078
San Diego	50	300	350	50	70	474	1,294
San Francisco	6	280	236	184	108	164	978
San Jose	111	272	0	660	169	659	1,871
San Luis Obispo	9	290	289	1,722	296	646	3,252
San Marcos	50	288	80	449	100	630	1,597
Sonoma	30	360	436	30	194	712	1,762
Stanislaus	15	347	293	267	118	152	1,192
Systemwide Average	\$19	\$254	\$193	\$246	\$140	\$372	\$1,223

The following table shows total campus-based mandatory fees by campus for the 2012-2013 and 2013-2014 academic years. As shown in the table, the Systemwide average of campus-based mandatory fees increased by \$85, or 7.5 percent, from \$1,138 in the 2012-2013 academic year to \$1,223 in 2013-2014. Increases in campus-based mandatory fees occurred for various reasons; including the construction/expansion of new/existing student recreation centers or student union buildings, the consolidation of miscellaneous course fees into a campus-wide mandatory fee, the

implementation of a mental health services fee (per Executive Order 1053) at some campuses, or at some campuses the establishment of enhanced programs to improve student success. For example, the Student Body Center fee was increased at Sonoma State through student referendum, which accounts for most of the increase at that campus. In addition, some campuses have authorized annual incremental increases for certain mandatory fees that are tied to either the California Consumer Price Index or Higher Education Price Index.

2012-13 and 2013-14 Campus-Based Fee Rates			
Campus	2012-13	2013-14	Increase
Bakersfield	\$1,210	\$1,305	\$95
Channel Islands	844	1,001	157
Chico	1,468	1,500	32
Dominguez Hills	623	632	9
East Bay	1,078	1,077	-1
Fresno	791	815	24
Fullerton	706	714	8
Humboldt	1,658	1,672	14
Long Beach	768	869	101
Los Angeles	869	872	3
Maritime Academy	1,064	1,064	0
Monterey Bay	491	491	0
Northridge	1,032	1,053	21
Pomona	639	883	244
Sacramento	1,130	1,156	26
San Bernardino	1,063	1,078	15
San Diego	1,106	1,294	188
San Francisco	968	978	10
San Jose	1,656	1,871	215
San Luis Obispo	3,035	3,252	217
San Marcos	1,395	1,597	202
Sonoma	1,426	1,762	336
Stanislaus	1,154	1,192	38
Average	\$1,138	\$1,223	\$85

2013-2014 CSU Comparison Institution Tuition Fees

The 2013-2014 academic year is the third consecutive year with the same tuition fee rates in effect at CSU. Although not required by the CSU student fee policy, prior annual student fee reports have included comparisons of CSU tuition fee rates with other institutions, based on a list of institutions developed over twenty years ago by the former California Postsecondary Education Commission (CPEC). The tables that follow outline the systemwide average tuition and campus-based mandatory fees at the CSU as compared with other institutions tuition and mandatory fees.

2013-2014 CSU Fees Benchmark

The 2013-2014 CSU comparison institution academic year *resident, undergraduate*, student fees are provided below. The total of the CSU's tuition fees and average campus-based fees is lower than all of the 15 comparison public institutions selected by the former CPEC. The 2013-2014 comparison institution student fee average is \$10,066, and the CSU student fee average is \$6,695, or 34 percent below the comparison average. The following table lists the 2013-2014 tuition and fee rates with a comparison to 2012-2013 rates:

2013/14 Comparison Institution Academic Year - Undergraduate Resident Tuition and Fees				
Campus	2012/13	2013/14	Increase	
Rutgers University (Newark, NJ)	\$13,073	\$13,499	\$426	3.3%
Illinois State University (Normal, IL)	\$12,726	\$13,009	\$283	2.2%
University of Connecticut (Storrs, CT)	\$11,362	\$12,022	\$660	5.8%
Wayne State University (Detroit, MI)	\$10,781	\$12,014	\$1,233	11.4%
University of Maryland, Baltimore County	\$9,764	\$10,068	\$304	3.1%
Comparison Average	\$9,758	\$10,066	\$309	3.2%
Arizona State University at Tempe	\$9,724	\$10,002	\$278	2.9%
Georgia State University at Atlanta	\$9,664	\$9,928	\$264	2.7%
George Mason University (Fairfax, VA)	\$9,620	\$9,908	\$288	3.0%
University of Colorado at Denver	\$8,056	\$7,658	-\$398	-4.9%
Cleveland State University	\$9,264	\$9,448	\$184	2.0%
University of Wisconsin at Milwaukee	\$9,187	\$9,300	\$113	1.2%
University of Texas at Arlington	\$8,878	\$8,878	\$0	0.0%
State University of New York at Albany	\$8,483	\$9,230	\$747	8.8%
North Carolina State University	\$7,788	\$8,206	\$418	5.4%
University of Nevada at Reno	\$6,623	\$7,824	\$1,201	18.1%
California State University	\$6,610	\$6,695	\$85	1.3%

The 2013-2014 CSU comparison institution *graduate resident* student tuition and fees are listed with prior-year tuition and fee levels in the tables below. The CSU is ranked among the bottom fifth for *graduate* tuition and fee rates among comparison institutions and has the second lowest rate of the 15 comparison institutions. The CSU's 2013-2014 graduate tuition and fee average is \$7,961, or 31 percent below the comparison average rate of \$11,582.

2013/14 Comparison Institution Academic Year - Graduate Resident Tuition and Fees				
Campus	2012/13	2013/14	Increase	
University of Maryland, Baltimore County	\$15,000	\$15,576	\$576	3.8%
Wayne State University (Detroit, MI)	\$14,155	\$14,848	\$693	4.9%
Rutgers University (Newark, NJ)	\$14,119	\$14,596	\$477	3.4%
Cleveland State University	\$13,280	\$13,544	\$264	2.0%
University of Connecticut (Storrs, CT)	\$12,866	\$13,662	\$796	6.2%
George Mason University (Fairfax, VA)	\$11,690	\$12,038	\$348	3.0%
University of Wisconsin at Milwaukee	\$11,482	\$11,596	\$114	1.0%
Comparison Average	\$11,319	\$11,582	\$263	2.3%
University of Colorado at Denver	\$10,602	\$10,726	\$124	1.2%
State University of New York at Albany	\$10,579	\$11,295	\$716	6.8%
Arizona State University at Tempe	\$10,518	\$10,818	\$300	2.9%
University of Texas at Arlington	\$10,200	\$10,200	\$0	0.0%
Georgia State University at Atlanta	\$10,192	\$10,480	\$288	2.8%
Illinois State University (Normal, IL)	\$7,313	\$8,034	\$721	9.9%
North Carolina State University	\$8,934	\$9,352	\$418	4.7%
California State University	\$7,876	\$7,961	\$85	1.1%
University of Nevada at Reno	\$6,774	\$6,958	\$184	2.7%

CSU ranked among the bottom fifth for *nonresident undergraduate* tuition and fees of the CSU's public peer comparison institutions. CSU nonresident undergraduate tuition (which includes the systemwide tuition charge) is \$17,855 per academic year in 2013-2014. This amount is 20 percent below the comparison average rate of \$22,212.

2013/14 Comparison Institution Academic Year - Undergraduate Non-Resident Tuition and Fees				
Campus	2012/13	2013/14	Increase	
University of Connecticut (Storrs, CT)	\$29,194	\$30,970	\$1,776	6.1%
Georgia State University at Atlanta	\$27,874	\$28,138	\$264	0.9%
George Mason University (Fairfax, VA)	\$27,764	\$28,592	\$828	3.0%
University of Maryland, Baltimore County	\$19,870	\$21,642	\$1,772	8.9%
Rutgers University (Newark, NJ)	\$26,393	\$27,523	\$1,130	4.3%
Wayne State University (Detroit, MI)	\$25,494	\$25,996	\$502	2.0%
Arizona State University at Tempe	\$22,978	\$23,654	\$676	2.9%
Comparison Average	\$21,493	\$22,212	\$719	3.3%
University of Colorado at Denver	\$21,986	\$21,781	-\$205	-0.9%
North Carolina State University	\$20,953	\$21,662	\$709	3.4%
University of Nevada at Reno	\$20,523	\$21,734	\$1,211	5.9%
Illinois State University (Normal, IL)	\$20,016	\$20,450	\$434	2.2%
University of Texas at Arlington	\$14,143	\$14,188	\$45	0.3%
University of Wisconsin at Milwaukee	\$18,915	\$19,028	\$113	0.6%
State University of New York at Albany	\$17,633	\$19,550	\$1,917	10.9%
California State University	\$17,770	\$17,855	\$85	0.5%
Cleveland State University	\$12,386	\$12,628	\$242	2.0%

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2012-2013 for funds managed under the California State University Investment policy.

Background

The bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash, from the Chancellor's Office and campus-controlled bank depository and disbursement accounts, is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT. For investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, US Bancorp Asset Management and Wells Capital Management.

The state treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the state treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. Pursuant to an agreement with the state, CSU maintains a minimum balance of \$310 million in the SMIF to assist in the funding of payroll. The Local Agency Investment Fund (LAIF) is used by the state treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment A.

In July 2011, the state legislature created a new investment vehicle at the state level in which CSU may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. Pursuant to a memorandum of understanding dated July 20, 2011 between CSU and the Department of Finance, CSU deposited \$700 million in the SAIF in late September 2011. The funds were

returned in April 2013. The deposit of \$700 million earned an annual rate of 2.0 percent. The year-end results for this fund are also reported in Attachment A.

The California State University Investment Policy in effect during fiscal year 2012-2013 is included as Attachment B.

Market Summary

In the fiscal year ending June 30, 2013, U.S. Gross Domestic Product grew at a modest 1.4 percent rate. Despite this modest level of expansion, the unemployment rate fell from 8.2 percent at the end of June 2012 to 7.6 percent at the end of June 2013, with non-farm payrolls adding a respectable 2.267 million jobs over the year. Inflation remained well within the Federal Reserve's (Fed) 2 percent target range with the Personal Consumption Expenditure Core Index increasing 1.2 percent year-over-year as of June 2013. This measure of inflation fell meaningfully from the June 2012 year-over-year rate of 1.9 percent. The economy benefitted from strong growth in the housing sector, as average home prices, existing home sales and housing starts all improved measurably over the year.

Given the continued sub-standard growth rate of the U.S. economy, the Fed maintained the federal funds target rate in the 0.0 to 0.25 percent range, the same level targeted since December 2008. The Fed did alter its forward looking interest rate guidance by suggesting the current "exceptionally low" range would be appropriate as long as the unemployment rate remained above 6.5 percent and forward-looking inflation is below 2.5 percent. To further ease financial conditions, the Fed embarked on an \$85 billion asset purchase program in January in an effort to lower interest and mortgage rates, encourage risk-taking and inflate asset prices. Late in the fiscal year, investors began to focus on a potential "tapering" of these large-scale asset purchases after comments made by Chairman Bernanke suggested the Fed could begin unwinding their program should the economy continue to improve. This resulted in a significant jump in interest rates in May and June, highlighted by ten-year U.S. Treasury yields rising from 1.626 percent on May 2, 2013, to 2.487 percent at year-end. Foreign central banks continued to battle slow global economic growth as the European Central Bank maintained its commitment to keeping interest rates at record low levels and the Bank of Japan began a massive monetary stimulus program.

The U.S. federal budget deficit improved significantly in the past year with the Congressional Budget Office forecasting a deficit of \$642 billion for the 2013 fiscal year ending September 30, 2013, versus a deficit of \$1.087 trillion for 2012. The fiscal improvement is in large part due to tax increases and mandatory spending cuts that began in January 2013.

Investment Account Performance

As of June 30, 2013, the asset balance in the SWIFT portfolio totaled \$2.55 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the Investment Policy and State law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2013, the SWIFT portfolio's holdings by asset type were as follows:

Asset Breakdown as of June 30, 2013

Cash	0.36%
US Treasuries	20.61%
US Government Agencies	33.00%
Corporate Securities—Long Term	33.71%
Corporate Securities—Short Term	<u>12.32%</u>
	100.00%

The SWIFT portfolio provided a return of 0.41 percent during the 12 months ended June 30, 2013. This return was greater than the benchmark for the portfolio, which is a treasury based index.

	<u>SWIFT Portfolio</u>	<u>SWIFT Benchmark¹</u>	<u>LAIF</u>
1 Month Return	-0.147%	-0.045%	N/A
3 Months Return	-0.151%	-0.066%	0.063%
12 Months Return	0.406%	0.292%	0.308%
Annualized Return since SWIFT Inception	1.573%	2.267%	1.401%

(1) Bank of America Merrill Lynch 0-3 Year Treasury Index

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used and managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. Cash in this account is available on a daily basis. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2013, the amount of CSU funds invested in SMIF was approximately \$371 million.

SMIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/03 - FYE 06/30/13	
FYE 06/30/13	0.30%	Average	2.11%
FYE 06/30/12	0.37%	High	5.24%
		Low	0.25%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used and managed by the State Treasurer to invest local agency funds. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2013, there were no CSU funds invested in LAIF.

LAIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/03 - FYE 06/30/13	
FYE 06/30/13	0.31%	Average	2.12%
FYE 06/30/12	0.38%	High	5.25%
		Low	0.25%

State Agency Investment Fund (SAIF)

The State Agency Investment Fund (SAIF), created in July 2011, is a vehicle used and managed by the State Treasurer which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. CSU funds in SAIF earn an annual rate of 2.0 percent. CSU deposited \$700 million in SAIF in late September 2011 which was returned on April 26, 2013.

SAIF Performance

Annualized Return		Quarterly Yield Rate	
FYE 06/30/13	2.00%	FYE 06/30/13	0.50%

The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Sections 16330 and 16430 and Education Code Section 89724 listed in Section A, subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)
- State Agency Investment Fund (SAIF)

Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;

- Bonds or warrants of any county, city, water district, utility district or school district;
 - California State bonds, notes, or warrants, or bonds, notes, or warrants, with principal and interest guaranteed by the full faith and credit of the State of California;
 - Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
 - Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
 - Bankers’ acceptances eligible for purchase by the Federal Reserve System;
 - Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
 - Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
 - Student loan notes insured by the Guaranteed Student Loan Program;
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;
- B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio.

Furthermore, the CSU:

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;
- Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

- A. Annually, the chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor's Office, including market values.
- B. Each campus will provide no less than quarterly to the chancellor a report containing a detailed description of the campus's investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:
 - to be submitted to the chancellor within 30 days of the quarter's end
 - to contain a statement with respect to compliance with the written statement of investment policy; and
 - to be made available to taxpayers upon request for a nominal charge.

(Approved by the CSU Board of Trustees in January 1997 and as amended in September 2011)

COMMITTEE ON FINANCE

California State University Investment Policy Clarification

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board to approve updates for clarification to the California State University Investment Policy.

Background

In 2007, the CSU investment structure changed from a single investment portfolio, where campuses made the day to day decisions on how much to invest in the portfolio, to a single investment portfolio where day to day investment decisions are made centrally at the Chancellor's Office based on the systemwide cash position each day. This current structure allows for the efficient use of cash and maximizes the amount of systemwide cash that can be invested, thereby increasing investment earnings for the campuses. The California State University Investment Policy (Investment Policy) still contains language that reflects the pre-2007 investment structure that called for campuses to make the day to day investment decisions. This item requests minor changes to the Investment Policy, so that it will be consistent with the current CSU investment structure. A revised Investment Policy, marked to reflect the proposed changes, is presented as Attachment A.

Recommendation

RESOLVED, by the Board of Trustees of the California State University, that the California State University Investment Policy, as amended and presented herein as Attachment A of Agenda Item 5 of the November 5-6, 2013 meeting of the Committee on Finance, is approved.

The California State University Investment Policy

The following investment guidelines have been developed for ~~CSU campuses to~~ use when investing California State University funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide ~~to each campus president~~the Chancellor and his designees with the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, ~~campus presidents~~the Chancellor and his designees must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing ~~campus~~CSU funds, the primary objective of the ~~campus~~CSU shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the ~~campus~~CSU. The third objective shall be to return an acceptable yield.

Investment Authority

The ~~California State University~~CSU may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Sections 16330 and 16430 and Education Code Section 89724 listed in Section A, subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)
- State Agency Investment Fund (SAIF)

Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;

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- Bonds or warrants of any county, city, water district, utility district or school district;
 - California State bonds, notes, or warrants, or bonds, notes, or warrants with principal and interest guaranteed by the full faith and credit of the State of California;
 - Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
 - Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
 - Bankers’ acceptances eligible for purchase by the Federal Reserve System;
 - Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
 - Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
 - Student loan notes insured by the Guaranteed Student Loan Program;
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;
- B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in ~~campus~~CSU investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio.

Furthermore, the CSU:

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;
- Limits reverse repurchase agreements to unencumbered securities already held in the purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all the CSU campuses and the Chancellor's Office, including market values.

~~B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus's investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:~~

- ~~• to be submitted to the Chancellor within 30 days of the quarter's end~~
- ~~• to contain a statement with respect to compliance with the written statement of investment policy; and~~
- ~~• to be made available to taxpayers upon request for a nominal charge.~~

COMMITTEE ON FINANCE

Review of Management and Purchase Option Agreements for a Student Housing Project on Private Property Adjacent to California State University, San Bernardino

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Summary

This item requests the Board of Trustees to authorize the chancellor or his designee to enter into agreements relating to the management of, and future option to purchase, a student housing project to be developed on private property adjacent to the California State University, San Bernardino campus.

Background

At its September 24-25, 2013 meeting, the board passed a resolution indicating the Finance Committee supported the approval of the concept for CSU San Bernardino to enter into an arrangement for the development of student housing on property adjacent to the campus, provided the Committee had the opportunity to review the management agreement and other related documents. Working drafts of those documents have been shared with members of the Finance Committee. Under the plan, Capstone Development Partners, LLC ("Capstone"), will purchase privately owned land directly across the street from the campus and will develop an approximately 510 bed student housing project designed primarily for freshman. Capstone will finance and construct the project utilizing its own financial resources, and no CSU funds will be used in the construction or financing of the construction for the project. The campus will manage all "residential life" aspects of the project as part of its inventory of student housing, thereby increasing the available supply of beds to approximately 1,900, and providing housing for approximately 20 percent of the freshman student population. As part of the plan, the campus will have a non-binding option to purchase the project in the future at a previously agreed upon price.

This item summarizes the key agreement terms related to the project. The parties have not concluded their negotiations of these agreements; however material changes to the agreements

are not expected. The University has retained outside counsel to advise the campus and finalize the terms of the management agreement, option to purchase, and related documents.

Residential Life Program Management Agreement ("RLP Agreement")

Under an RLP Agreement, the campus shall provide the following services to the project:

1. Branding the premises as a campus residence and including it in references to promotional and other materials describing the campus;
2. Leasing/contracting with students for residential accommodations, including associated marketing of this private dormitory option;
3. Residential life oversight and programming, including the provision of trained resident assistants, on-site activities for students, programming of the type offered in on-campus housing, coordination of social events and other residential services;
4. Responsibility for housing administration, including rent collection, assessing room charges and surcharges, working with students on room changes, oversight of residential arrangements, adoption and enforcement of residential rules and regulations, and coordination of programming; and
5. Delivery to Capstone of the balance of rents collected.

Payment to the campus for the above services will be in an amount of approximately \$600,000 per year, adjusted annually to reflect increases in costs.

Capstone will be responsible for all appropriate maintenance and repairs, security, utility, janitorial, and landscaping services, trash collection, and other reasonable and necessary services for the premises. Capstone will pay all taxes or in-lieu payments required by applicable law.

In order for the RLP Agreement to be effective, Capstone must construct the project to campus standards (including all fire and life safety requirements and green building requirements) and in accordance with plans and specifications approved by the campus. Construction is subject to monitoring by the campus for compliance with such standards, plans and specifications.

Purchase Option Agreement

A non-binding purchase option agreement will provide the campus with the option to purchase the project on the following major terms and conditions:

1. The purchase price will be \$29,315,000;
2. The campus shall have the right to exercise the option for a period from 180 days to 360 days after completion of the project;
3. Completion of the project will be documented appropriately, including a completion notice to be delivered by Capstone to the campus after the improvements are completed, recording of the completion notice, issuance of final certificates of occupancy, and completion of all construction and punch list items to the satisfaction of the campus;

4. The campus shall have a period of 180 days after receipt of the completion notice and all due diligence documents to conduct its due diligence on the project (including, without limitation, environmental testing and the testing of any structural and mechanical systems within the project, and any other matters as the campus/CSU in its sole discretion shall wish to inspect and review), and to secure any and all such approvals as it deems to be necessary or appropriate in order for it to exercise the option and, if exercised, complete its purchase of the project;
5. Closing will occur 60 days after exercise of the option;
6. The option to purchase will occur by execution of a purchase agreement containing customary representations and warranties by Capstone; and
7. At closing, Capstone will transfer all third party warranties to the campus/CSU.

In order to exercise the option to purchase, the campus would first seek financing approval from the board.

Conflicts of Interest

At its September 2013 meeting, the board inquired about possible conflicts of interest related to the project. The campus, in consultation with the CSU Office of General Counsel, has undertaken to identify any conflicts of interest between the principals involved in developing the student housing project and members of the campus's auxiliary boards (including, but not limited to, the president of the CSUSB Philanthropic Foundation who currently owns the land that Capstone will purchase for the development), other relevant University personnel, and members of the Board of Trustees. This due diligence analysis has revealed no conflicts of interest.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the Trustees:

1. Acknowledge their review of the key provisions of the management agreement and other key documents related to the development of student housing on privately owned property adjacent to California State University, San Bernardino.
2. Authorize the chancellor, or his designees, to finalize negotiations for agreements, including, as necessary, any subsequent amendments, related to the project as outlined in this Agenda Item 6 of the November 5-6, 2013 meeting of the Committee on Finance.