

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:15 a.m., Wednesday, January 28, 2015
Glenn S. Dumke Auditorium

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe C. Garcia

Consent Items

Approval of Minutes of Meeting of November 13, 2014

Discussion Items

1. Working Group on Category II Student Success Fee, *Action*
2. Policy on Voluntary Statewide Student Involvement and Representation Fee (SIRF), *Action*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California State Polytechnic University, Pomona, *Action*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Systemwide Infrastructure Improvement Projects, *Action*
5. Approval of the Final Development Agreement for a Commercial Office Facility on Real Property at California State University, Bakersfield, *Action*
6. Report on the 2015-2016 Support Budget, *Information*
7. California State University Investment Authority, Policy, and Portfolio Review Initiative, *Information*
8. Implementation of Governmental Accounting Standards Board Statement No. 68—Accounting and Financial Reporting for Pensions—an amendment of Governmental Accounting Standards Board Statement No. 27, *Information*

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**

November 13, 2014

Members Present

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe Garcia
Timothy P. White, Chancellor
Lou Monville, Chair of the Board

Trustee Achtenberg called the meeting to order.

Approval of Minutes

The minutes of September 9, 2014 were approved by consent as submitted.

Public Comments

Trustee Achtenberg introduces eighteen public speakers. The majority were students, faculty and alumni speaking in favor of the student success fees provided there is a transparent process and campuses and students define and implement the student success in a fashion that is efficient and effective and takes into consideration the uniqueness of each campus. One former student, two current students and two community college students spoke out against the fees. Additionally, two speakers spoke in support of housing at Cal Poly San Luis Obispo.

Approval of the 2015-2016 Support Budget Request, *Action Item*

Mr. Steve Relyea, Executive Vice Chancellor for Budget, stated that this item seeks approval of the recommended 2015-2016 CSU Support Budget Request. He added that at the September meeting, staff presented a preliminary support budget plan for 2015-2016. Input from that meeting was considered and incorporated into the proposed 2015-2016 CSU Support Budget. He remarked that as discussed at the last board meeting, there is a gap between what is expected to be in the Governor's Budget and what is believed to be necessary to achieve the University's

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goals for the year. Mr. Relyea stated that in keeping with the Board's direction, staff will do their best to advocate for a budget that will allow the University to fulfill its obligations to the people of the State of California.

Mr. Ryan Storm, Interim Assistant Vice Chancellor for Budget, stated that at the last meeting, staff discussed many aspects of the CSU budget and previewed a preliminary list of the components of the budget. He stated that this expenditure plan would bring annual spending for support of the CSU to approximately \$5 billion, including systemwide tuition revenues (net of financial aid). The support budget includes \$65.5 million for a two percent increase to the compensation pool for 2015-2016 and a three percent increase in funded student enrollment to accommodate a small portion of the over 20,000 students who have been denied access for each fall admission cycle between 2010 and 2013 because the University did not have sufficient financial resources from the state to admit and educate them. Access to education and the preparation of the State's future workforce depends on the State investing in the CSU. He went on to state that there are a variety of efforts and strategies to facilitate degree completion and student success at CSU campuses and that \$38 million would be committed to these initiatives. He added that under this recommendation, \$14 million would be prioritized for information technology infrastructure to meet the most urgent needs for campus network upgrade and renewal. Specifically, these funds will be used to replace the data network equipment at each campus on a four to five year replacement cycle. The vast majority of the University's network equipment is obsolete and no longer supported by vendors. This upgrade is particularly critical considering the last major IT initiative took place more than thirteen years ago.

Mr. Storm remarked that the CSU's backlog of facility maintenance and infrastructure needs is massive and growing. Even with the State having made statutory changes that provide the CSU with the autonomy to self-determine its academic-related capital program, the State did not provide sufficient funds in 2014-2015 for the CSU to capitalize the new program. Consequently, annual support budgets will not be able to retire significant portions of maintenance backlog for many years without additional resources identified for this purpose. The current year budget commits \$10 million to address the University's most pressing renewal projects and staff will bring those projects back in January for approval. That investment would mitigate the growth of the deferred maintenance backlog and keep the balance at approximately \$1.8 billion in 2015-2016. The recommended support budget includes \$25 million for academic facilities and infrastructure needs. These funds could pay for projects on a pay-as-you-go basis, or be used to finance projects. Together, these investments total \$269 million.

He added that accounting for new systemwide tuition revenue of \$52 million linked to funded student enrollment and the Governor's Office funding commitment of \$119.5 million, these items would require additional new ongoing revenues from the State of \$97 million. Staff will request the additional \$97 million from the State. Under the Governor's Office plan, new funding would only allow for a one percent increase in current and new student enrollment and would not allow for new commitments for infrastructure or student success, unless portions of the very small balance are allocated to these categories. He stated it would be a challenge under the Governor's Office plan to significantly invest in students, faculty, staff, and infrastructure.

Trustee Glazer thanked Mr. Relyea and Mr. Storm for the presentation and work on preparing the budget plan. He remarked that there are two options to address capital and maintenance which are a one-time spending of \$25 million or using that money to borrow \$300-\$400 million. He stated that asking for \$25 million is not at all sufficient and it should be substantially increased. He added that from 2007-2008 to the present day, there is a large gap in State cuts and restoration between the CSU and the UC, Corrections, Kindergarten through grade 12 education, and community colleges, with the CSU receiving far less than the other groups. He also stated that limiting enrollment growth does not stop campuses from accepting new students each year. Trustee Glazer also questioned if the board was in effect determining budget priorities at this meeting.

Chancellor White concurred with Trustee Glazer that \$25 million for infrastructure is not enough and the goal would be to increase that amount over time. He also stated that demand exceeds capacity and the presidents discussed the issue of limited enrollment growth and determined that an amount greater than zero was desirable. He stated that the discussion at this meeting informs the submission to the executive branch for the construction of the executive budget that is to be released in January. After January, the CSU will have a better indication of the funds it is likely to receive which will provide an opportunity for the Board to weigh in on priorities.

Trustee Eisen commented that if the CSU receives a lower amount than requested that it could choose to divert the money set aside for a one percent enrollment increase towards something else such as deferred maintenance. Chancellor White stated that was true. However, Chancellor White noted that campuses are currently planning their enrollment for the coming year and any decisions made by the board now would immediately affect decisions being made on the campuses. He also wanted to take the opportunity to point out that roughly four percent of the students attending the CSU are not funded by the State. These are referred to as "unfunded students." If the State were to fully fund the CSU based on its existing students it would need to provide the CSU with approximately an additional \$90 million.

Trustee Day mentioned the possibility of charging students with excessive credits the non-resident tuition rate as a way to bring in additional funds. He also confirmed that the CSU is hoping for a three percent increase in enrollment but is planning on an increase of approximately one percent.

Trustee Fagan noted that this discussion is about choices and noted the possibility of looking at the total CSU budget and how dollars can be shifted to priorities. He also stated he would like to see recognition here of a need for innovation. The legislature and governor have made it very clear that they are concerned and interested in seeing the CSU innovate in ways that could make it more effective in accomplishing its goals.

The commit recommended approval for the 2015-2016 Support Budget Request (RFIN 11-14-05).

Approval of the 2015-2016 Lottery Revenue Budget, *Action Item*

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Mr. Ryan Storm, Interim Assistant Vice Chancellor for Budget, stated that The California State University proposed Lottery Budget for 2015-2016 was presented for the Board's consideration as an action item following September's information item discussion. He reminded the Board that each year that they are asked to adopt a systemwide lottery revenue budget that adheres to Lottery Act provisions and that incorporates CSU guidelines. He stated that the modest proposal for their consideration is a \$3.1 million increase in lottery expenditures, primarily focused on the Early Start and Pre-Doctoral programs. He stated the 2015-2016 proposed Lottery budget presented for adoption includes a recommendation for increased expenditures to match growing Lottery receipts, largely based on the addition of Powerball in 2012 and the resulting increase in lottery activity. He added that not included in this figure is a \$5 million reserve, set aside each year that remains available to smooth out any unanticipated volatility that could occur on the revenue side. He stated that there are planned expenditures, equaling anticipated receipts of \$44.1 million. He added that staff recommends approval of this recommended Lottery Revenue Budget for 2015-2016.

Trustee Alexanian questioned how the funds are provided to different campuses to ensure fair distribution and if the campus carries money over from one year to the next how it affects the allocation it receives in the following year. Mr. Storm stated that the money is allocated on a full-time equivalent student basis and monies carried forward are not considered when the distribution is calculated.

The committee recommended approval of the 2015-2016 Lottery Revenue Budget (RFIN 11-14-06).

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California Polytechnic State University, San Luis Obispo, *Action Item*

Mr. George V. Ashkar, Assistant Vice Chancellor/Controller for Financial Services stated that this item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bond (SRB) financing and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the Commercial Paper Program in an aggregate amount not-to-exceed \$299,045,000 for the financing of two campus projects. The following are financing items in which revenue generated by the relevant facilities covers the cost of the debt service and operating expense. These campus financings are not affected by the new financing authorities that were discussed in the joint meeting of the Committee on Financing and Campus Planning, Buildings and Grounds.

Mr. Ashkar stated that the first project is related to the financing of California State University Channel Islands Student Housing Phase Three project. The project consists of approximately 600 beds, community living rooms and kitchens, study rooms, administrative office space and a village courtyard environment. The not-to-exceed value of the proposed bonds is \$64,350,000 and is based on the total project budget of \$58,399,000 with a program reserve contribution of \$2,500,000. The project is scheduled to begin construction in February 2015 with completion in July 2016.

He added that the campus financial plan projects a housing program net revenue debt service coverage of 1.37 in 2017-2018, the first full year of operations, which exceeds the minimum CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.42 which exceeds the CSU minimum benchmark of 1.35 for the campus.

Mr. Ashkar then indicated that the second project is the California Polytechnic State University, San Luis Obispo Student Housing South project. The project consists of approximately 1,475 beds in seven residence halls totaling approximately 384,000 gross square feet, including a 483 space parking structure. The space includes student gathering areas and housing and residential life staff offices. The not-to-exceed par value of the proposed bonds is \$234,695,000 and is based on a total project budget of approximately \$199 million with a program reserve contribution of \$10 million.

He remarked that the project is scheduled to begin construction in February 2016 with completion in July 2018. The campus financial plan projects a housing program net revenue debt service coverage of 1.10 in 2019-2020, the first full year of operations, rising thereafter to exceed the minimum CSU benchmark of 1.10 for the program. For all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first year of service is projected to be 1.58, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

Mr. Ashkar told the board that staff recommends approval of both projects.

Trustee Eisen stated that as mentioned at a prior board meeting, it would be helpful to see these projects laid out for on a spreadsheet so the Board can see the various aspects of the project and when they came or are coming to the board for approval. Ms. Elvyra San Juan, Assistant Vice Chancellor for Capital Planning, Design and Construction stated that staff is working on a report.

The committee recommended approval to issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for projects at California State University Channel Islands and California Polytechnic State University, San Luis Obispo (RFIN 11-14-07). Trustee Glazer abstained from the vote.

Real Property Development Project at California State Polytechnic University, Pomona for Innovation Village Phase V, Commercial Office and Research Facility for Southern California Edison Company, *Action Item*

Mr. George V. Ashkar, Assistant Vice Chancellor/Controller for Financial Services, stated that Innovation Village was originally approved by the Board in 1999 as a 960,000 square foot public/private development with multiple projects over 65 acres at the campus.

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The economic impact of Innovation Village as of 2011 has been estimated to be \$700 million annually to the local economy and is projected to be \$1.2 billion at full build out. This project is the fifth development within the approved 65 acre site and consists of a 123,000 square foot commercial office and research building as well as 446 parking stalls on approximately seven acres. It is proposed that CSU will enter into a ground lease with the Cal Poly Pomona Foundation, Inc. The Foundation will sub-lease the land to the Southern California Edison Company.

Mr. Ashkar stated that this project holds significant benefits for the students and faculty at Cal Poly Pomona. Staff recommends approval of the Innovation Village Phase V.

The committee recommended approval of the real property development project at California State Polytechnic University, Pomona for Innovation Village Phase V, Commercial Office and Research Facility for Southern California Edison Company.

2014-2015 Student Fee Report, *Information Item*

Mr. Ryan Storm, Interim Assistant Vice Chancellor for Budget, stated that each November, the board is presented with a campus-based mandatory fees report as an information item. He stated that these fees vary greatly from campus to campus, as the CSU Fee Policy is designed to allow campuses flexibility to set and adjust fees according to unique campus needs.

Mr. Storm stated that student success fees are traditionally included in the Materials, Services, and Facilities (MSF) fee category. He noted student success fees are small in comparison to other campus-based mandatory fees and are four percent of all tuition and campus-based mandatory fees.

Mr. Storm indicated that, over the years, students and campuses have created fees for academic purposes as well as for specific, non-academic purposes such as student body centers, student body associations, athletics, school spirit and health services. Many of these non-academic fees are significantly larger than student success fees. The vast majority of these non-academic fees have been approved by way of student referendum. He stated that campus mandatory fees cover a wide range of functions and that no two campuses are the same.

Mr. Storm noted that the change in campus-based mandatory fee rates from last year to this year increased modestly systemwide by \$64. He stated that increases in these fees occurred for various reasons. Some campuses have authorized annual incremental increases for certain fees that are tied to either the California Consumer Price Index or Higher Education Price Index. Additionally, new student success fees were implemented at Dominguez Hills, Fullerton, and San Diego, which were adopted in 2013-2014 before the State's moratorium went into effect. In another case, at Cal Poly Pomona, the Student Body Center fee was increased through student referendum in order to construct a new student center, which accounts for the sizeable increase of that campus-based fee. While less common, fees may occasionally decrease from one year to the next. San Jose's student success fee decreased as the campus revised its administrative methodology for its student success fee.

Mr. Storm compared CSU costs to fifteen comparison public institutions stating that the total of CSU's tuition and average campus-based fees is lower than all but one of the fifteen institutions. The comparison group tuition and fee average is \$10,126, and the CSU tuition and fee average is \$6,759, or 33 percent below the comparison average.

He added that 57 percent of undergraduates have their tuition fully covered by grants or waivers, 51 percent of CSU baccalaureate recipients graduated with zero education loan debt, and of the 49 percent who graduated with debt, the average loan debt of approximately \$18,000 is well below the national average of \$29,000 for other public and private institutions.

Working Group on Category II Student Success Fee, *Information Item*

Chancellor White stated that the working group was formed in response to questions from trustees, students, faculty senates and the public in order to provide a history of campus-based mandatory Category II student success fees, review current policies and processes, and make recommendations for the adoption of such fees in the future. He recalled that recently enacted legislation placed a moratorium until January 1, 2016 on new student success fees pending Board review. He stated that the Chancellor's Office is required to report to the state by February 1, 2015 on any related revisions to CSU fee policy.

Chancellor White added that the most important voices in this process were those of the campus community. Through open forums on the campuses of Northridge, Sonoma and Los Angeles, the group heard from students, faculty, staff and the broader CSU community. Additionally, trustees met with campus representatives at each of the host campuses, including the president, vice president of finance, vice president of student affairs, associated students president, senate chair, representatives of the California Faculty Association and the student newspaper. The open forums and campus meetings were augmented by online and email feedback. After a review of these various perspectives and data points the workgroup developed a series of findings.

Dr. Ron Vogel, Associate Vice Chancellor, stated that twelve of the 23 campuses with existing student success fees were reviewed. Ten of the twelve campuses used alternative consultation to enact their student success fee. One campus used a student referendum and one campus used a student referendum only if students participated in an informational session.

Dr. Vogel indicated that under current policy, a campus president submits a signed fee request to the Chancellor that provides a justification for the fee and a detailed statement of compliance with the terms, conditions and requirements of CSU fee policy. The formal notification to the Chancellor typically includes a detailed description and timeline of consultation that has occurred at the campus. If absent, the System Budget Office will request information on the consultation process for inclusion in the Chancellor's review process prior to a decision regarding the establishment of the fee.

Dr. Vogel added that since the authority for regulating Category II campus-based mandatory fees

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has been delegated to the Chancellor and campus presidents, the Board is not formally notified at the time these fees are established or adjusted. However, informally the Board may be informed of such fees during their review of the annual report on systemwide campus-based mandatory fees. Additionally, the Board may be made aware of campus discussions on Category II fees through a variety of communication outlets such as public comment at Board meetings, campus newspapers, and social media as a result of open transparency rules governing all mandatory fee actions that occur at CSU campuses.

Dr. Vogel added that the work group found that accountability and outcome reporting processes across the twelve campuses with student success fees varied. It was consistently reported, however, there was room for improvement on clarity, transparency, and accountability, specifically with regards to how the fee revenues are generated, where they are invested and the impact of these fees on student success. Additionally, he stated the need for greater student involvement in the allocation decision-making process.

Dr. Vogel stated that the work group requested that a qualitative assessment be performed to organize responses into themes, both for and against student success fees, with regard to impact on student success and affordability. He went on to explain that there were five overarching themes of those who opposed the Category II student success fees. They included that the fees present financial burdens that negatively impacted students; are another form of tuition; lack transparency and student input; should be paid for by the State; and hinder progress to degree.

Dr. Vogel indicated there was also a considerable amount of testimony from students, faculty, staff, administrators, and the public supporting student success fees and associated positive impacts. There were five broad themes of those who supported Category II student success fees. These were to enhance the total student experience by improving and strengthening campus life and spirit such as athletics; promote a quality education, for example, by adding academic advising and support; provide additional faculty, staff and classes; increase technology and classroom equipment, such as computers, labs, and campus-wide Wi-Fi; and increase critical student services such as extended library hours, veterans centers, disabled student services and career centers.

In reviewing the application of Category II mandatory student success fees, Dr. Vogel added that there is broad variation across the system. Currently, among the twelve campuses with student success fees, fees range from \$162-\$830 a year at full implementation. On average, student success fees represent only four percent of the total tuition and campus-based mandatory fees. He stated that an increase in fees increases the cost of attendance; however, the majority of students who spoke during open comments stated that the benefits received from Category II fees outweighed the costs and they were willing to pay the additional fees. He added that in the CSU, 57 percent of students do not pay tuition or Category I fees. In addition, these students typically receive over \$3,000 for other mandated fees (such as Category II fees), transportation, books, and other living expenses.

Chancellor White briefly summarized the group's preliminary recommendations. He stated that there was little evidence of broad campus support for repeal of existing Category II student

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success fees, or to suggest students would benefit from changing existing fees already implemented on campuses. Therefore, the group recommends maintaining existing campus fees and respecting local control of those dollars. A sunset provision is not recommended. Such a provision would create an environment of perpetual uncertainty for programs and the students, faculty and staff who benefit from those programs. For all future Category II student success fees, the working group recommends the requirement of a binding 50 percent plus one vote of students to implement. This is true to the spirit of students choosing to support their own education, and to the principle of local control. Finally, he added that campuses should continue their upfront efforts to inform and engage students, faculty and staff. Campuses should also sustain a high level of involvement and transparency in ongoing allocation decisions.

Chancellor White noted that the working group, while unanimously supportive of the recommendations, did not reach consensus on the approval authority for Category II fees if such fees are for classroom purposes that are historically covered by tuition and state funding. The working group will conduct at least one more public meeting to finalize the preliminary recommendations. As part of that next public meeting, Chancellor White has asked staff to prepare additional information on the topic of financial aid and other cost mitigation practices for students most directly burdened by increased mandatory fees. Additionally, consultation with the California legislature will occur before February 1, 2015, to ensure areas of legislative concern have been addressed.

Chancellor White then asked representative of the working group to provide comments.

Student Trustee Talar Alexanian stated that it was enlightening to hear opinions of the stakeholders. She wanted students to be at the forefront of the campus decision-making process to ensure transparency of the process. A thorough consultation process provides the campus and stakeholders with invaluable information about students' perspective and needs. The working group recommendations will provide for a transparent, representative and fair process that values students and allows for the individual campus culture on the 23 campuses to be accurately reflected in the final fee proposals sent to the Chancellor. Trustee Alexanian stressed the importance of continuing to advocate for increased State support and making sure that the cost of education is not shifted from the state to students.

President Garcia stated that she was in agreement with the recommendations of the working group. She noted that the process at her campus was inclusive and transparent and sought input from students, faculty and staff. A mandatory online portal was implemented so that when all students logged in they had to either read about the student success initiative and take the survey, or opt out of the information. This occurred for every student three times and they could not move forward without making that decision. More than 30,000 individual students viewed the survey message three times. Based on the student feedback during the consultation process, the student success initiative committee revised the proposal down by \$59. A comprehensive marketing plan is being developed to include an annual report card that will be available online. It will be updated yearly with both qualitative and quantitative data results from the initiatives supported by the fee.

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President Armstrong stated that he supports the working group's recommendations. He noted that the working group recommends a binding vote and stated that this is of critical importance to his campus as it values student involvement and priorities. Students at his campus voted almost 60 percent in favor of the student success fee with the belief that additional faculty, and thus additional class and lab sections, would decrease their time to degree. The decision for the student success fee occurred during spring 2012 led by a student majority committee. The fees were first implemented fall 2012 and he stated he is pleased to report that in two years his campus four-year graduation rate increased from 37 percent to 46 percent and the five-year graduation rates increased from 63 percent to 73 percent. He attributed these improvements to increasing the availability of lecture and lab sections.

Trustee Faigin noted that of the twelve campuses with student success fees, none of them had a binding vote. He highlighted the fact that the student success fees have had positive impacts. However, he added that he would like to see a simple majority vote that would create a more student-driven process. He also urged for a more transparent process noting his concern about the potential use of fees in lieu of tuition. He proposed that the president and Chancellor sign off following the student vote, and that the Chancellor inform the Board chair. The Board chair can then determine if the fee needs to be brought before the full Board. He proposed that any new fee stay in effect for least six years. He also raised the concern of current fees and proposed that they be grandfathered in now but after six years students could decide to vote on changing those fees.

Chancellor White thanked the speakers and acknowledged that many of the items that these fees are supporting were previously paid for by the State. He went on to say that the CSU is comprised of 23 campuses spread throughout the State with diverse opportunities, economies and student bodies. The CSU cannot expect every campus to face identical needs, nor opportunities. The Category II student success fees provide opportunities for campuses to invest in something meaningful for local communities allowing them to act where they otherwise cannot. The fees catalyze actions that the community perceives as critical, but unfunded. He concluded by stating that the CSU must trust campus communities to act when appropriate and indicated that the group would report back in January.

Trustee Stepanek stated that campuses with existing student success fees expressed concerns about policy changes that could impact the future collection of existing fees. He also stated a concern for fees that appear to be supplemental tuition.

Lt. Governor Newsom observed that these fees are essentially tuition and advocated for oversight of the fees and discussed concern for students who could not afford the fees. He suggested the full Board be involved in the creation of fees. He also stated his concern that fees do not contribute towards financial aid.

Trustee Day expressed that he was surprised to hear that all of the twelve campuses with fees did not have a binding vote and recommended a binding student vote.

Chancellor White stated that he believed it would be a shared decision by students, driven by the students, working with the campus president and senior administration to create a fee ultimately

resulting in a vote of eligible students. He stated that he would support discussing the proposed fee with the Board chair.

President Armstrong stated that he hoped that the board would avoid a situation where a campus and a group of students vote to support a fee and then it is overturned. He also suggested that a sunset clause occur at the time of the vote.

Trustee Glazer inquired as to the process going forward. Trustee Monville stated that staff would bring back an action item in January.

Trustee Eisen questioned how the success fees are accounted for and if there is record of how the fees are spent. Chancellor White stated that these dollars are used for what they are purported to be used for and are not comingled with the general fund. He stated that one recommendation is to create a website detailing how dollars are spent to allow for improved transparency and accountability.

Trustee Alexanian stated that if there is a binding student vote the board should not be allowed to change or modify a student-approved fee. She also agreed with Trustee Fagin's recommendation for the Chancellor to consult with the Board chair with regard to new fees.

COMMITTEE ON FINANCE

Working Group on Category II Student Success Fee

Presentation By

Timothy P. White
Chancellor

Summary

In response to the charge of the chair of the California State University Board of Trustees and the requirements of Section 89712 of the California Education Code, the findings and recommendations of the Working Group on Category II Student Success Fee will be presented as an action item.

Working Group on Category II Student Success Fee Overview

In June 2014, the chair of the Board of Trustees formed a Working Group on Category II Student Success Fee to study the role, process, and enactment of category II campus-based mandatory student success fees.

The working group was charged with studying and presenting findings on the process and history of this fee including its notification, accountability, and outcome reporting processes; impact on student success and affordability; and the inconsistency in its application across the 23-campus CSU system. A preliminary report on the membership of the working group, its charge, and the initial review of the fee process at the 12 campuses that have enacted student success fees was presented to the board at its September 2014 meeting.

When the governor signed SB 860, in June 2014, Chapter 34 amended Education Code Section 89712, to place a moratorium on approval of new California State University student success fees until January 1, 2016. The legislation further required the chancellor to conduct a review of student success fees during fiscal year 2014-2015 and make recommendations to the trustees on changes to the fee policy.

Findings

Various category II fees, often called “success fees” which began in 2008, are required for students to enroll and attend at 12 of the CSU campuses. These fees have often been enacted in response to significant reductions in state financial support to the CSU and individual campus needs. As a result of these funding cuts, administrators have turned to

these fees in their on-going good-faith efforts to provide the quality educational experiences students deserve. This working group applauds and supports the goals and intentions of the campus administrators in their efforts.

Success fees have been used in a number of ways, depending on each campus' decision. Some campuses have dedicated significant portions of the student success fee revenues for new technology, campus-wide WiFi, library hours, veteran services, career services, athletics and additional benefits for students that would otherwise be unfunded. At least one campus was very specific in rejecting any use of success fees for purposes that historically were sufficiently covered by tuition and state appropriation. Other campuses have used success-fee revenues to hire additional faculty, advisors, counselors and tutors, provide more courses and fund other educational needs traditionally supported in part by tuition and state appropriation.

In January 2011, Executive Order 1054 mandated fee structures and procedures that stated, "The policy presumes that a student fee referendum will be conducted before adjusting or establishing category II fees. The president, however, may waive the referendum requirement if he/she determines that a referendum is not the best mechanism to achieve appropriate and meaningful consultation."

Of the 12 campuses with success fees, two had referendums that the presidents pledged voluntarily to abide by, although one of those two allowed students to vote only if they attended alternative consultation meetings about the fee proposal. A third campus administration did not support a campus-wide referendum and a vote by the Student Fee Advisory Committee rejected the proposed fee. Despite the student rejection, the fee was imposed by the prior administration.

According to some administrators, "alternative consultation" meetings were used instead of student votes due to historically low turnout in campus voting. Other campuses relied on alternative consultation to educate and inform students as well as receive their input to finalize a recommendation to the president and chancellor.

Success fees have recently engendered controversy on some campuses, in the legislature (with the moratorium through 2015 on any new success fees), and among the public as exemplified by media coverage and negative editorial comments. Concerns have included increased fees being imposed on students who may already be struggling financially, lack of legitimacy in conducting student voting without restrictions, lack of transparency at some campuses regarding how funds from the success fees are allocated, and use of these funds for classroom purposes historically covered by tuition and state funding. Using success fees for classroom purposes historically covered by tuition and state funding may be cause for concern because a) decisions about the imposition of tuition are associated with category I

fees and are decided by the Board of Trustees and not others, and b) the governor's four-year budget plan for the CSU is clearly linked to an understanding of a moratorium on tuition increases.

Recommendations

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University that, a binding student vote shall be taken on implementation of any proposed new student success fee. All students who are eligible to vote in student government elections shall be eligible to vote on such student success fee proposals. A rigorous consultation process shall be undertaken to inform and educate students on the uses, impact and cost of any proposed student success fee prior to the binding student vote. In the process of establishing new student success fees, and before the student vote occurs, it must be made clear to the students that if a portion of that fee is intended to support ongoing and/or long-term obligations, that portion of the fee will remain in place until the obligations are satisfied regardless of any subsequent vote to rescind the fee.

BE IT FURTHER RESOLVED, all student success fees now in place shall remain unchanged, including any previously established increments. However, a campus that considers a net new addition to an existing student success fee shall proceed as described in the above paragraph. Any campus proposing a new student success fee or an increase not already scheduled to an existing student success fee will consult with the chancellor and must receive approval on the process that will be followed to obtain approval for the fee before proceeding. Student success fee proposals may not be brought before the student body more frequently than once per academic year,

BE IT FURTHER RESOLVED, if the proposed student success fee is accepted by a simple majority of the students voting, imposition of the fee shall still be contingent on approval by the campus president and chancellor. If the proposed student success fee is for direct instructional purposes that historically were covered by tuition and state funding, then the chancellor shall consult with the chair of the Board of Trustees before final approval is granted,

BE IT FURTHER RESOLVED, newly enacted student success fees shall be in force for at least six years. Student success fees may be rescinded at any time after six years with another binding student vote wherein a simple majority of those students voting vote to rescind the fee. The campus decision to have a vote shall be made by the recognized student government. Rescission vote proposals may not be brought before the student body more frequently than once per academic year. If a vote to rescind passes, the chancellor, in consultation with the board chair and the president, shall ensure that no ongoing contractual or other obligation/liability exists which will remain unsatisfied if the student success fee is rescinded. If any such obligation(s) exist, that portion of the student success fee funding the obligation(s) shall remain in effect and the obligation(s) shall continue to be funded by the student success fee until the obligations are satisfied. No new contractual or other obligation which would be supported by the rescinded student success fee may be entered into following a vote to rescind the fee. In the process of reconsidering a student success fee, and before the student vote occurs, it must be made clear to the students that if a portion of that fee is intended to support ongoing obligations, that portion of the fee will remain in place until such time as the obligations are satisfied,

BE IT FURTHER RESOLVED, existing student success fees as of the date this resolution is adopted may also be rescinded by a binding student vote under the same procedures described above for rescinding a fee, but no such student vote may be held until after January 1, 2021. If a vote to rescind passes, the chancellor, in consultation with the board chair and the president, shall ensure there are no ongoing, contractual or other obligations which will remain unsatisfied if the student success fee is rescinded. If any such obligations exist, that portion of the student success fee funding the obligations shall remain in effect and the obligations shall continue to be funded by the student success fee until the obligations are satisfied. No new contractual or other obligations which would be supported by the rescinded student success fee may be entered into following a vote to rescind the fee,

BE IT FURTHER RESOLVED, each campus shall be required to have a transparent, online accountability protocol that clarifies the decision process and allocation of student success fees, with annual reporting to the Chancellor and public by October 15. All campuses shall be held to this standard for any existing

and new student success fees imposed in the future. In addition, all campus advisory groups that recommend or make final decisions on student success fee allocations shall include majority student representation.

COMMITTEE ON FINANCE

Policy on Voluntary Statewide Student Involvement and Representation Fee (SIRF)

Presentation By

Devon Graves
Chair of the Board
California State Student Association

Miles J. Nevin
Executive Director
California State Student Association

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Summary

The California State Student Association (CSSA) is the recognized statewide student organization for California State University students. CSSA currently relies on funding from two primary sources: a portion of Student Body Association dues collected from campus Associated Students, and an annual funding augmentation from the Chancellor's Office. These funds have supported student participation in campus and system level decision-making, but current funding levels limit broad student participation across the system, state, and nationally.

In an effort to expand opportunities for student involvement and representation on issues of importance, CSSA is seeking long-term, direct funding through the implementation of a voluntary Student Involvement and Representation Fee (SIRF). The proposal recommends a voluntary \$2 assessment to be included in each regularly enrolled student's list of charges in both the fall and spring terms (\$4 per year). Students electing not to pay the fee will have a clear and unambiguous means to do so each time it is assessed.

This proposal was considered as an information item at the March 25, 2014 Committee on Finance meeting. That proposal came after a formal request of, and action item by, the CSSA Board of Directors, comprising official representatives of the 23 Associated Students organizations. Following that meeting, CSSA and the Chancellor's Office have worked together to further consult with Associated Students leaders, communicate with the broader CSU student population, identify a specific process for implementation, and clarify the Board of Trustees'

authority regarding fees through the Education Code.

CSSA Background

The CSSA was founded in 1958 as the California State College Student President's Association (CSCSPA). In 1979, the organization renamed itself to the California State Student Association. CSSA was established by the campus associated student body organizations so that students would have a formal and effective means for participating in the formulation of systemwide, state, and national policies that have, or may have, an effect on students. The CSSA, or its successor, is recognized as the official representative of the students of the CSU before the Board of Trustees and the Chancellor's Office. CSSA provides a collective voice for CSU students to the state government, the CSU system, and other state boards and commissions. CSSA also coordinates student involvement in federal higher education matters. CSSA student leaders are part of the CSU shared leadership process; they contribute during the CSU's decision-making process and are vital to the well-being and life of the university. In 2001, the trustees adopted the Student Participation in Policy Development (SPPD) statement developed by the CSU Advisory Committee on Student Participation in Policy Development. The statement established CSSA responsibility in both local and system policymaking processes.

Justification

CSSA is positioned to positively impact the future of the CSU system. The SPPD calls on the CSU system to make greater strides toward student participation in policy development in order to enhance institutional effectiveness and responsiveness to student needs. Currently, CSSA is dependent on a voluntary portion of membership fees collected by the 23 local student associations that has, in recent years, been augmented by an annual allocation from the Chancellor's Office. However, to ensure the broadest possible participation of students in policy development, CSSA should have revenue that supports the long-term financial stability of the organization.

Through authorization of a voluntary student fee, the trustees would create a long-term, stable, and more predictable revenue stream to implement fully the student participation responsibilities outlined in the SPPD, enable the association to establish a higher degree of financial independence from the CSU system, and would allow students the individual choice to contribute financially to statewide student representation.

Purpose For and Use of Funds

Revenue from the fee will be used to ensure that students are able to meaningfully fund the activities of the CSSA and thereby ensure the overall ability of students to participate in policy

development and higher education initiatives at the system, state, and national levels. Revenue from the fee will provide additional funding support for the development of student policy recommendations, participation in system, state, and national governance, involvement in leadership development activities, and program support through student and professional staff administration.

Because CSSA is an independent, not-for-profit organization governed by Associated Students leaders, all programmatic objectives and budget decisions are democratically determined by its board of directors, with input from institutional stakeholders. Although final decisions on use of funds have yet to be determined, CSSA has developed comprehensive initial proposals on use of funds based on proportional expansion of current programmatic priorities and introduction of new priorities.

CSU Authority and Oversight

In May 2010, the Board of Trustees adopted the “CSU Fee Policy,” which incorporated the earlier document, established categories of fees and specified which entity has authority over each category. Pursuant to these policies, the board retains unto itself the authority to establish fees charged at the same rate to every enrolled student at each university throughout the system. Additionally, the Education Code authorizes the trustees to establish “voluntary fees.” Because the code language was ambiguous with regard to the trustees’ authority on systemwide voluntary fees, the CSU sponsored legislation in the most recent legislative session to clarify that provision. As reported by Assistant Vice Chancellor for Advocacy and State Relations, Karen Y. Zamarripa at the September 2014 meeting of the Committee on Government Relations, that bill - AB 2736, was signed by the Governor in late September 2014. The enactment of AB 2736 resulted in the amendment of Education Code Section 89300 which now states under subsection (d): The trustees may fix a fee for voluntary membership in a statewide student organization that represents the students of the California State University and the student body organizations of the campuses of the California State University. The trustees shall provide students either the ability to affirmatively elect to pay this fee, or a clear and unambiguous means to decline the payment of this fee, each time the fee is assessed.”

This amended section clearly outlines the trustees’ authority in recognizing the statewide student association and establishing a voluntary fee for its use. This section does not apply to any other fee category in the CSU, and therefore cannot be used to establish precedence for the processes or provisions that apply to other fees.

In order to maintain a level of accountability and oversight from the Chancellor’s Office, this item proposes that the revenue from these new voluntary fees be held in a trust fund account - the

Student Involvement and Representation Fund - at the system budget office. Activities within this fund will be subject to an annual independent fiscal audit.

This proposal allows adjustments to the fee in consideration with the annual percentage change in the Higher Education Price Index (HEPI) and in consideration of a revenue and expenditure plan for the adjusted fee. Authority over said adjustments shall be held by the chancellor in consultation with the CSSA. Any decision to adjust the fee shall be reported to the Board of Trustees prior to its scheduled adjustment.

Fiscal Impact and Efforts to Mitigate Impact on Students

The fiscal impact of this policy on the overall cost of attendance is neutral to modest. Any student, including those with financial need, may elect to not pay the fee. Implementation of the fee could result in a cost savings for the CSU system and campus Associated Students organizations, as funds currently provided by both in support of CSSA student participation could be decreased or eliminated. Development of the administrative procedures necessary to manage the voluntary nature of this systemwide fee may require modest increases to student financial services staff workloads.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University that, the trustees act to implement the voluntary Student Involvement and Representation Fee (SIRF) at a rate of \$2 per term. Collection of the fee shall occur twice annually in the fall and spring academic terms. The fee assessment shall commence in the fall of 2015. Each time the fee is assessed, students will be provided a clear and unambiguous means to decline the payment of the fee.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California State Polytechnic University, Pomona

Presentation By

Robert Eaton
Deputy Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for projects of the California State University – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects approved by the CSU Board of Trustees. Revenues from these programs are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has improved credit ratings and reduced the CSU's cost of capital. Prior to issuance of bonds, projects are funded through bond anticipation notes (BANs) issued by the CSU in support of the CSU's commercial paper (CP) program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide financing flexibility and lower short-term borrowing costs. Proceeds from the issuance of bonds are used to retire outstanding CP and provide any additional funding not previously covered by CP.

Summary

This item requests the Board of Trustees to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed \$51,060,000 to provide financing for two campus projects. The board is being asked to approve resolutions related to these financings. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

The financing projects are as follows:

1. California State University Channel Islands Dining Commons Expansion Project

The California State University Channel Islands Dining Commons Expansion project is being presented to the board for the amendment of the Non-State Capital Outlay program and schematics during the January 2015 Committee on Campus Planning, Buildings and Grounds meeting. The project consists of the renovation of the existing dining facility (approximately 19,500 gross square feet), remodeling of the kitchen preparation space, cooking space, and loading dock, and improvements to infrastructure. The project will also provide a new entry pavilion of approximately 1,760 gross square feet. The facility will be located in the south quad of the campus. The facility will serve the entire campus community and meet the needs of additional housing students due to the student housing phase III project which was approved by the board at the November 2014 meeting.

The not-to-exceed par value of the proposed bonds is \$12,420,000 and is based on a total project budget of \$11,706,000 with a program reserve contribution of \$750,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$1,464,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in July 2015 with completion in July 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$12,420,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$853,136
Projected debt service coverage including the new project:	
Net revenue – Channel Islands pledged revenue programs: ¹	1.37
Net revenue – Projected for the campus housing program:	1.32

1. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2017-2018 operations of the project with expected full debt service. Does not include any debt, revenues or expenses related to the Channel Islands Site Authority.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.73 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects housing program net revenue debt service coverage of 1.32 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt

service coverage for the first full year of operations is projected to be 1.37, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

2. California State Polytechnic University, Pomona Parking Structure II Project

The California State Polytechnic University, Pomona Parking Structure II project is being presented to the board for the amendment of the Non-State Capital Outlay program and schematics during the January 2015 Committee on Campus Planning, Buildings and Grounds meeting. The project is a new 1,825 parking space facility, which will replace 625 spaces of existing surface parking, providing a net gain of 1,200 parking spaces. The project is bounded by University Drive on the west and Collins Street on the south and will be next to the campus physical education fields and International Polytechnic High School.

The not-to-exceed par value of the proposed bonds is \$38,640,000 and is based on a total project budget of \$40,997,000 with a program reserve contribution of \$6,000,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$3,643,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in May 2015 with completion in September 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$38,640,000
Amortization	Approximately level over 25 years
Projected maximum annual debt service	\$2,827,200
Projected debt service coverage including the new project:	
Net revenue – Pomona pledged revenue programs: ²	1.72
Net revenue – Projected for the campus parking program:	1.28

2. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2017-2018 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.55 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects parking program net revenue debt service coverage of 1.28 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt

service coverage for the first full year of operations is projected to be 1.72, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the projects described in this agenda. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$51,060,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the deputy assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 3 of the Committee on Finance at the January 27-28, 2015, meeting of the CSU Board of Trustees is recommended for:

California State University Channel Islands Dining Commons Expansion project

California State Polytechnic University, Pomona Parking Structure II project

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Systemwide Infrastructure Improvement Projects

Presentation By

Robert Eaton
Deputy Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This agenda item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bond (SRB) financing and the issuance of bond anticipation notes (BANs) to support interim financing under the CSU's commercial paper (CP) program in an aggregate amount not-to-exceed \$180,000,000 to provide financing for a variety of critical capital outlay improvement projects. The board is also being asked to approve resolutions related to the financing for these projects. Long-term bonds will be part of one or more future SRB sale(s) and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

Background

As presented to the board in the Joint Committee on Finance and Campus Planning, Buildings and Grounds at the July, September, and November 2014 meetings, new capital financing authorities for the CSU were approved by the state legislature in June 2014. The legislation provides the CSU with the flexibility to utilize the new capital financing authorities through the CSU's existing SRB program, an established, well-rated, and well known debt program.

The SRB program has traditionally provided capital financing for revenue-generating projects of the CSU – student housing, parking, student union, health center, continuing education facilities, and certain auxiliary projects. Revenues from these programs are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of these gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of long term bonds, some projects are funded through BANs issued by the CSU in support of the CSU's CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide greater financing flexibility

and lower short-term borrowing costs during project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

In November 2013, the board approved the State Funded Capital Outlay Program 2014/15 Priority List totaling \$456.4 million and an updated list is presented as Attachment A.

California State University Systemwide Infrastructure Improvements Group 1 Project

This item requests the CSU Board of Trustees to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed \$180,000,000 to provide financing for a number of deferred maintenance and critical capital improvement projects identified in Attachment A. The annual debt service on the long term financing for these projects will be met with the \$10 million earmarked for deferred maintenance and critical infrastructure initially approved by the board in the final CSU 2014-2015 Support Budget. The final amount of debt to be issued will be determined based upon interest rates at the time long term bonds are sold and will be set at an amount so that the annual maximum debt service over the life of the debt issued for this group of projects will not exceed \$10 million. Attachment A will serve as the basis to prioritize projects to be financed, and adjustments will be made to the final list of projects, particularly those that are near the margin, in order to maximize use of the limited financing resource.

The new capital financing authorities allow the CSU to pledge any of the CSU's revenues, including general fund, SRB gross revenues, and student tuition fees, to support the financing of capital projects under the new authorities. This financing approval will be supported by the existing pledge of SRB gross revenues, and not require additional revenues to be pledged. As of June 30, 2014, pledged revenues of the SRB program totaled approximately \$1.6 billion and provided systemwide debt service coverage on existing SRB debt of 1.65, which exceeds the CSU systemwide minimum benchmark of 1.45. When adjusting for this financing request, the systemwide debt service coverage drops slightly to 1.63. In the future, this financing, as well as all other SRB debt will be further supported by additional pledge of revenues, as necessary.

Trustee Resolutions and Recommended Actions

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the project described in this agenda item. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$180,000,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the deputy assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

In addition, the Board of Trustees is being requested to approve the following resolution:

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

1. \$10,000,000 per year be set aside from its annual operating funds for the payment of debt service and direct project expenditures related to the funding of its capital improvement program noted in Attachment A.
2. The chancellor is authorized to make adjustments in the projects to be financed as noted in Attachment A as necessary to maximize use of the limited financing resource.

Approval of the financing resolutions described in this Agenda Item 4 of the Committee on Finance at the January 27-28, 2015, meeting of the CSU Board of Trustees is recommended.

CSU/State Funded Capital Outlay Program 2014/15 Priority List*

Cost Estimates are at Engineering News Record California Construction Cost Index 6151 and Equipment Price Index 3202

Rank Order	Cate- gory	Campus	Project Title	FTE		Total Request	Funds to Complete	Cumulative Amount	Enacted 2014/15 State Budget	Proposed CSU Funding
1	IA	Fresno	Electrical Infrastructure Upgrade	N/A	wC	30,000,000	0	30,000,000		30,000,000
2	IA	Statewide	Infrastructure Improvements	0	PWC	300,000,000	0	330,000,000		103,674,000 **
3	IA	Statewide	Minor Capital Outlay	0	PWC	50,000,000	0	380,000,000		
4	IA	Statewide	Mitigation of Off-Campus Impacts	0	PWC	1,400,000	0	381,400,000		
5	II	Monterey Bay	Academic Building II	N/A	E	1,965,000	0	383,365,000	1,965,000	
6	II	Chico	Taylor II Replacement Building	N/A	E	2,740,000	0	386,105,000	2,740,000	
7	IA	East Bay	Warren Hall Replacement Building	N/A	E	1,061,000	0	387,166,000	1,061,000	
8	IA	Humboldt	Seismic Upgrade, Library	N/A	PWC	5,136,000	0	392,302,000		5,447,000
9	IA	Los Angeles	Seismic Upgrade, State Playhouse Theatre	N/A	PWC	1,156,000	0	393,458,000		1,156,000
10	IA	Humboldt	Seismic Upgrade, Van Duzer Theatre	N/A	PWC	7,604,000	0	401,062,000		7,604,000
11	IB	Bakersfield	Faculty Towers Replacement Building (Seismic)	N/A	P	610,000	20,708,000	401,672,000		7,540,000
12	IB	Los Angeles	Utilities Infrastructure	N/A	P	1,097,000	29,831,000	402,769,000		30,928,000
13	IB	Long Beach	Utilities Infrastructure Improvements ◇	N/A	P	860,000	26,823,000	403,629,000		27,683,000
14	IB	San Diego	Utilities Upgrade, Phase IA	N/A	P	1,728,000	50,520,000	405,357,000		
15	IB	San Bernardino	Utilities Infrastructure	N/A	PW	2,325,000	30,953,000	407,682,000		
16	IB	Monterey Bay	Infrastructure Improvements, Phase II	N/A	PW	1,919,000	34,813,000	409,601,000		
17	IB	San Francisco	Creative Arts Replacement Building ◇	1,296	P	1,704,000	42,652,000	411,305,000		
18	IB	Sacramento	Science II Replacement Bldg, Phase II ◇	-1,583	PW	4,558,000	82,445,000	415,863,000		
19	IB	San Diego	IVC North Classroom Building Renovation	N/A	PWC	1,306,000	0	417,169,000		
20	IB	Dominguez Hills	Cain Library Renovation (Seismic)	N/A	P	1,420,000	40,001,000	418,589,000		
21	IB	Fullerton	Physical Services Complex Replacement	N/A	P	761,000	28,634,000	419,350,000		
22	IB	Humboldt	Jenkins Hall Renovation	15	P	312,000	9,188,000	419,662,000		
23	II	Channel Islands	Chaparral Hall Art Classrooms/Laboratory	294	P	899,000	24,548,000	420,561,000		
24	IB	East Bay	Library Renovation (Seismic)	N/A	P	1,584,000	49,802,000	422,145,000		
25	IB	Chico	Siskiyou II Science Replacement Building	31	P	2,445,000	79,068,000	424,590,000		
26	II	Sonoma	Professional Schools Building	513	P	1,081,000	38,893,000	425,671,000		
27	II	Maritime	Learning Commons/Library Addition	N/A	P	779,000	24,606,000	426,450,000		
28	IB	San José	Nursing Building Renovation	155	P	456,000	15,594,000	426,906,000		
29	II	San Luis Obispo	Academic Center/Library ◇	401	P	1,683,000	92,476,000	428,589,000		
30	IB	Stanislaus	Library Renovation (Seismic)	-15	P	1,432,000	48,237,000	430,021,000		
31	IB	Northridge	Sierra Hall Renovation	N/A	PW	3,998,000	60,091,000	434,019,000		
32	IB	Pomona	Electrical Upgrade	N/A	PWC	22,369,000	0	456,388,000		
Total				1,107		\$ 456,388,000	\$ 829,883,000	\$ 456,388,000	\$ 5,766,000	\$ 214,032,000

Categories: I Existing Facilities/Infrastructure
A. Critical Infrastructure Deficiencies
B. Modernization/Renovation
II New Facilities/Infrastructure

◇ This project is dependent upon state and non-state funding.

P = Preliminary plans w = Partial working drawings W = Working drawings C = Construction E = Equipment

* This priority list has been revised from the list approved by the board in November 2013 to reflect the scope reduction for the Bakersfield Faculty Towers Replacement Building.

** See project list for Infrastructure Improvements on Page 2.

CSU Infrastructure Improvements Capital Outlay Program 2014/15

Cost Estimates are at Engineering News Record California Construction Cost Index 6151 and Equipment Price Index 3202

Rank Order	Campus	Project Title	Phase	CSU Funded	Funds to Complete	Cumulative Amount
1	Bakersfield	PE Building HVAC/Roof Replacement	C	389,000	0	389,000
2	Bakersfield	Nursing Building HVAC Replacement	PWC	1,100,000	0	1,489,000
3	Channel Islands	Steam Heating System Replacement	PWC	240,000	0	1,729,000
4	Channel Islands	Electrical Panel Upgrades	PWC	301,000	0	2,030,000
5	Channel Islands	Napa Hall Roof Replacement	PWC	315,000	0	2,345,000
6	Channel Islands	Lindero Hall Roof Replacement	PWC	500,000	0	2,845,000
7	Chico	Boiler Replacement, Ph. 1	PWc	3,383,000	1,621,000	6,228,000
8	Dominguez Hills	Central Plant Cooling Tower Replacement, Ph. 1	PWc	1,859,000	191,000	8,087,000
9	East Bay	Electrical Infrastructure Upgrade, Ph. 2B	PWc	2,121,000	1,960,000	10,208,000
10	Fresno	Gas, Sewer, and Storm Line Upgrade	PW	283,000	3,696,000	10,491,000
11	Fullerton	Chilled and Heating Hot Water Line Replacement	PWC	2,582,000	0	13,073,000
12	Fullerton	Library (Seismic)	PWC	6,000,000	0	19,073,000
13	Fullerton	Central Plant Chiller Upgrade Ph.1	PWc	1,689,000	3,947,000	20,762,000
14	Humboldt	Switchgear Replacement	PWC	1,500,000	0	22,262,000
15	Humboldt	Fire Suppression System Replacement, Ph. 1	PWC	250,000	0	22,512,000
16	Humboldt	Substation Replacement	PWC	687,000	0	23,199,000
17	Long Beach	Hot Water Piping Replacement, Ph. 1	PWc	3,560,000	5,013,000	26,759,000
18	Long Beach	Electrical Substation and Switch Replacement	PWC	1,865,000	0	28,624,000
19	Los Angeles	Electrical Distribution Replacement, Ph. 1	PWc	4,818,000	2,937,000	33,442,000
20	Los Angeles	Physical Sciences (Seismic), Ph. 1	PWc	10,000,000	10,000,000	43,442,000
21	Maritime	Emergency Generator, Sim/Data Center	PWC	246,000	0	43,688,000
22	Maritime	Fire Alarm Upgrade	PWC	89,000	0	43,777,000
23	Maritime	Boiler Replacement, Ph. 1	PWc	170,000	467,000	43,947,000
24	Monterey Bay	Demolition, Ph. 1	PWC	10,000,000	20,000,000	53,947,000
25	Northridge	Heating System Replacement	PWc	4,469,000	3,536,000	58,416,000
26	Northridge	Building Electrical System Replacement	P	242,000	1,500,000	58,658,000
27	Northridge	Redundant Substation Upgrade	P	198,000	1,500,000	58,856,000
28	Pomona	Fire Alarm System Upgrade	PWC	2,933,000	0	61,789,000
29	Pomona	Domestic Water Line Upgrades, Ph. 1	PWc	1,367,000	1,579,000	63,156,000
30	Sacramento	Underground Power Lines	PWC	772,000	0	63,928,000
31	Sacramento	Fire Alarm System Upgrades, Ph. 1	PWC	2,718,000	0	66,646,000
32	Sacramento	Elevator Cylinder Replacements, Ph. 1	PWC	510,000	0	67,156,000
33	Sacramento	Chiller Main Switch Replacements	PWC	420,000	0	67,576,000
34	San Bernardino	Performing Arts HVAC Replacement	PWC	2,881,000	0	70,457,000
35	San Diego	Engineering Roof/HVAC Replacement	PWC	1,500,000	0	71,957,000
36	San Diego	Love Library Roof/Elevator Replacement	PWC	1,966,000	0	73,923,000
37	San Diego	HVAC Controls Upgrade	PWC	553,000	0	74,476,000
38	San Diego	Page Pavilion Roof Replacement	PWC	1,364,000	0	75,840,000
39	San Diego	Music Building HVAC Replacement	PWC	500,000	0	76,340,000
40	San Francisco	Electrical Substation Replacement	PW	500,000	3,780,000	76,840,000
41	San Francisco	Science Building Repairs, Ph. 1	PWC	8,115,000	0	84,955,000
42	San José	Duncan Hall Roof Replacement	PWC	1,990,000	0	86,945,000
43	San José	Duncan Hall Steam Line Upgrades	PWC	691,000	0	87,636,000
44	San José	Utilities Infrastructure, Ph. 1A	PWc	2,545,000	4,830,000	90,181,000
45	San Luis Obispo	Utilidor Access Upgrade	PWC	500,000	0	90,681,000
46	San Luis Obispo	Central Heating and Chilled Water System Repairs, Ph. 1	PWc	4,965,000	5,050,000	95,646,000
47	San Marcos	Central Heating and Cooling Line Upgrades	PWC	1,646,000	0	97,292,000
48	Sonoma	Domestic Water Tank Replacement, Ph. 1	PWc	1,798,000	1,661,000	99,090,000
49	Stanislaus	PE Gym Cooling Infrastructure	PWC	3,000,000	0	102,090,000
50	Stanislaus	PE Pool Repair and Infrastructure Upgrade, Ph. 1	PWc	1,584,000	464,000	103,674,000
Total				\$ 103,674,000	\$ 73,732,000	\$ 103,674,000

P = Preliminary plans W = Working drawings c = Partial construction C = Construction E = Equipment

COMMITTEE ON FINANCE

Approval of the Final Development Agreement for a Commercial Office Facility on Real Property at California State University, Bakersfield

Presentation By

Horace Mitchell
President
California State University, Bakersfield

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

This agenda item requests final development agreement approval of a public-private partnership for the construction and operation of an approximately 282,000 square foot commercial office facility at California State University, Bakersfield.

Background

This project received conceptual approval by the California State University Board of Trustees in November 2006 for a public-private partnership to construct commercial office space on the CSU Bakersfield campus (RFIN 11-06-12). The office use was incorporated into the campus Master Plan at the September 2014 Board of Trustees meeting (RCPBG 09-14-13).

Project Description

The project ("University Office Park") consists of the construction of a new commercial office complex on approximately 12.5 acres of campus land located on Camino Media, west of what will become a northerly extension of Scarlet Oak Boulevard on the southwestern edge of the campus. This project will be developed in two phases. Phase I will include a 61,300 square foot building and 253 parking spaces built on 4.3 acres of land. The estimated cost to develop Phase I is approximately \$10.4 million. Phase II will be built on the remaining 8.2 acres and will include two buildings totaling 220,700 square feet, with 591 surface parking spaces and a parking garage to accommodate 315 spaces. Because Gregory D. Bynum and Associates ("Developer") does not yet have sufficient tenant interest for the total development, Phase II will not be developed immediately. However, the Developer will pay \$50,000 per year to the campus for up to five years to maintain the option to develop Phase II.

The project will be financed entirely by the Developer, which will have sole responsibility for the cost of construction and any ancillary costs associated with project development and operations. The Developer will manage and lease the project to future tenants. The interior tenant build-out will be constructed as needed for individual tenants and will be funded by the tenant or by the Developer. No state or trustee financing will be required. Debt will not be incurred by the CSU and will not be reflected on the CSU financial statements.

Summary of Agreement Terms

It is proposed that CSU enter into a ground lease with Gregory D. Bynum and Associates. The basic terms of the agreement are as follows:

- A 4.3 acre site (Phase I) will be leased, with a 5-year option for the remaining 8.2 acre site (Phase II).
- The initial term of the lease for Phase I will be 40 years with the opportunity for two successive 10-year extensions.
- Base rent for Phase I has been established at \$131,000/year (\$0.70 per square foot per year) for the initial 10-year period.
- The option payment for Phase II shall be \$50,000/year and the option period shall not exceed 5 years.
- Should the option for Phase II be converted to a lease, the base rent for Phase II will be \$212,000/year (\$0.59 per square foot per year) for the initial 10-year period.
- Construction will include two new roads immediately adjacent to the project site.
- Rent escalation will occur every ten years from the Rent Commencement Date and will be increased at 20%. An optional appraisal may be exercised by either party in lieu of a 20% increase. If the appraisal option is selected, the base rent will not be less than the original base rent, nor more than if the base rent had been adjusted at a 20% increase.
- Future tenant improvement construction and costs are the responsibility of the Developer.
- All improvements revert to CSU Bakersfield upon expiration of the ground lease and any exercised options of the Developer. At the option of the university, the Developer shall demolish all structures and return the site to its original condition.

Educational Benefits

The project will provide significant benefits to CSU Bakersfield including:

- Educational benefits –The Developer will procure future tenants of the building that will have collaborative academic, business and research opportunities with the University. The Developer has also agreed to pursue future tenants that can provide internship opportunities for CSU Bakersfield students as well as employment

- opportunities for its graduates. The University and the Developer will also explore education and training programs for student interns.
- Financial benefits – The long-term ground lease will return economic benefits to the University for many years that will be used to support academic programs.
 - Infrastructure benefits – The infrastructure developed for the University Office Park will facilitate traffic circulation around campus through the extensions of Scarlet Oak Boulevard and the campus Loop Road. Additionally it will improve the walkable environment in this corridor of the campus.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University that the Trustees approve the development of the Commercial Office Facility at California State University, Bakersfield as described in Agenda Item 5 of the Committee on Finance at the January 27-28, 2015 and delegate to the chancellor, the executive vice chancellor and chief financial officer, and their designees' the authority to execute agreements necessary to implement the plan for this project.

COMMITTEE ON FINANCE

Report on the 2015-2016 Support Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The fiscal outlook for the California economy and state government is positive. If current conditions hold, three separate forecasts conclude that the state's economy will continue to grow in calendar years 2015 and 2016. Additionally, it is anticipated that the major state tax revenues will also tick upward, resulting in opportunity for new investments, building reserves for future rainy days, and retiring state debt.

The 2015-2016 Governor's Budget identifies a \$1.5 billion surplus for 2015-2016. This surplus is net of \$5.3 billion of increased state expenditures between 2014-2015 and 2015-2016. Similar to last year's proposal, the budget plan proposes applying large portions of the surplus to aggressively retire state debt, deposit funds in the new rainy day fund (as approved by voters via Proposition 2 in November 2014) and to increase K-14 program spending. Smaller portions of that surplus are for programmatic investments concentrated in health, social services, trial courts, deferred maintenance, and higher education programs.

The governor's budget provides a \$119.5 million state general fund increase for the California State University (CSU) support budget. This amount is consistent with the governor's multi-year funding plan first proposed and adopted in 2013-2014. Additionally, the governor's budget includes one-time funding for CSU deferred maintenance. Lastly, the proposal would continue new initiatives begun last year that require the CSU to prepare and adopt an academic sustainability plan and provide for a one-time award program for innovation in higher education.

California Fiscal Outlook

Since the November 2014 meeting of the trustees, three reputable entities released forecasts for the California's economy and the resulting effect on the state budget—the Legislative Analyst's California Fiscal Outlook in November 2014, the UCLA Anderson Forecast in December 2014, and the Department of Finance's 2015-2016 Governor's Budget in January 2015. If current conditions hold, all three entities conclude that the state's economy will continue to grow in calendar years 2015 and 2016. The associated growth in employment, real personal income, and

other factors is expected to yield greater tax receipts in each of the “Big Three” state revenue categories—personal income tax, sales tax, and corporate tax. In turn, those revenue increases would allow for increases in state program expenditures (like CSU), help pay down state debts, and help the state save for future rainy days.

State Budget Overview

The state’s budget outlook has markedly changed in recent years. Only three years ago, the 2012-2013 Governor’s Budget estimated a \$9.2 billion budget shortfall and future annual budget deficits of up to \$5 billion. Under the leadership of the governor, and with the assistance of many others, including the CSU and its many stakeholders, voters approved Proposition 30 in November 2012, which temporarily increased sales and personal income tax rates over a multi-year period (through end of calendar year 2016 and 2018, respectively). Additionally, voters approved Proposition 2 in November 2014, which required the state to annually pay down debts and save more money for future rainy days. A growing state economy and resulting additional state revenue, debt reduction, stronger rainy day savings requirements, and significant and permanent expenditure reductions made by the state have reversed the fiscal fortunes of California.

To illustrate California’s positive fiscal trajectory, the Legislative Analyst’s California Fiscal Outlook anticipates state revenues outpacing planned expenditures and a resulting \$760 million state surplus in 2015-2016. Further, the Legislative Analyst reports that an additional \$1.6 billion of the state’s rainy day fund already credited toward 2014-2015 could be used for any purpose in 2015-2016. Combining these figures, the Legislative Analyst concludes that as much as \$2.4 billion could be used for any discretionary purpose (including CSU) if state leaders choose this approach.

The release of the 2015-2016 Governor’s Budget on January 9, 2015 revealed that the Department of Finance independently calculated and reported a \$1.5 billion surplus for 2015-2016. This surplus is net of \$5.3 billion of increased state expenditures between 2014-2015. The governor’s budget estimates future annual revenue growth of approximately 4.5 percent through 2018-2019.

The budget proposal aligned the available additional revenues with the fiscal policy priorities of the governor’s administration. Specifically, the largest expenditure increases would pay down the state’s debt (as required by Proposition 2), meet Proposition 98 funding requirements for K-12 and community colleges, and transfer revenues to the newly established rainy day fund (also required by Proposition 2). The proposal would not use the \$1.6 billion of the 2014-2015 state’s rainy day fund for another purpose, as suggested by the Legislative Analyst. Other notable expenditures would include the expansion of Medi-Cal cost increases, various social service program increases, city and county state mandate payments, additional funding for trial courts, a

statewide deferred maintenance investment (including CSU and UC), and additional investments in the multi-year funding plan for higher education, which for CSU is \$119.5 million.

2015-2016 CSU Support Budget

The budget proposal continues to make higher education a priority, although not at the level requested in the CSU budget plan approved by the trustees in November 2014. Below are elements of the 2015-2016 Governor's Budget proposal that would affect the CSU.

✓ Appropriation Increase

The \$119.5 million state general fund augmentation is aligned with the multi-year funding plan for higher education that was first implemented in 2013-2014. This is the third year of the four-year funding commitment. Funding can be used for any CSU operational purpose and comes with the expectation that tuition rates will not change from 2011-2012 levels. The CSU appreciates the governor's fiscal commitment, his understanding that the CSU had to implement very difficult cuts during the challenging fiscal years, and his granting of fiscal flexibility contained within the augmentation, that will also allow the system to continue its recovery from prior reductions and address its most pressing needs.

However, the proposed funding is significantly short of the trustees' support budget request of \$216.6 million state general fund—a \$97.1 million difference that, if funded, would provide greater student opportunity, quality, and success at the CSU.

✓ Capital Program

The 2015-2016 Governor's Budget proposes no structural changes to the new capital financing authority incorporated into last year's state budget agreement. The funds that support debt service payments for all outstanding general obligation (GO) bond and state Public Works Board (SPWB) bond-funded projects remain folded into the CSU support budget. The "fold-in" of \$297 million for GO and SPWB debt service would be augmented by \$7.6 million to cover new SPWB debt service costs that will begin in 2015-2016. The governor's administration committed to the CSU to ramp up funding over a three-year period for capital projects that had been approved by the state but were not completed prior to the adoption of the new capital financing authority. The \$7.6 million proposal would be cost neutral in the near term. As this debt is retired over time, the new capital financing authority provides the CSU the opportunity to retain the original \$297 million and new \$7.6 million indefinitely and to use more of those funds over time for infrastructure or other capital needs.

✓ Deferred Maintenance

The budget plan proposes one-time funding of \$25 million to address the CSU's most urgent facility maintenance and utility infrastructure needs. Many other state program areas would

receive one-time funding for similar purposes. Last year, the governor's administration proposed one-time funding for deferred maintenance that was contingent on state revenues meeting a certain dollar threshold before funding would be released to CSU. Ultimately, that budget trigger was not pulled and one-time funding was not directed CSU's way. This year's deferred maintenance proposal does not contain a budget trigger.

✓ *Academic Sustainability Plan*

State law requires the CSU to report on a number of student success performance measures. Some examples include the number of students enrolled by different student categories, two-year and three-year graduation rates of community college transfer students, and the number of degree completions by varying student categories. The Budget Act of 2014 required the CSU, on a one-time basis, to prepare a multi-year plan that would establish annual goals for the performance measures and outline how assumed revenues and expenditures would sustain the plan. The trustees approved the plan at their November 2014 meeting. The 2015-2016 Governor's Budget would require the trustees to once again prepare and adopt an academic sustainability plan based on yet-to-be defined assumptions prescribed by the Department of Finance.

✓ *Awards for Innovation in Higher Education*

The Budget Act of 2014 included a one-time \$50 million program administered by a new seven-member selection committee. A purpose of the program is to identify public colleges and universities that have particular success in: (1) bachelor's degree completion rates; (2) four-year graduation rates; and (3) easing transfer through the public higher education system and (4) recognizing learning that has occurred across the public higher education system or elsewhere. CSU, UC, and the community colleges were eligible to participate in the \$50 million program. This year, the governor's budget proposes an additional, one-time \$25 million that would place an emphasis on four-year graduation rates at CSU.

✓ *Lanterman Developmental Center Transfer to California State Polytechnic University, Pomona*

In 2010, the state announced the closing of the Department of Developmental Services, Lanterman Developmental Center. The property consists of 287 acres and 120 buildings and immediately adjoins part of Cal Poly Pomona property. The state offered the property to all state departments and CSU expressed an interest in the transfer of jurisdiction of the center to Cal Poly Pomona. The Governor's administration proposes the transfer of the property to the campus contingent on an agreement between the state and CSU that funding would not be sought for the operation, maintenance, and development of the property and that the CSU accommodate the needs of other state departments for a portion of the land in the area.

In some ways, the governor's budget provides similar treatment to the CSU and the UC. For each system, the budget (1) provides an augmentation of \$119.5 million for support of each system;

(2) presumes tuition fee rates will remain at 2011-2012 levels for 2015-2016; (3) provides a one-time augmentation of \$25 million for deferred maintenance projects within each system; and (4) requires both systems to prepare academic sustainability plans.

In other ways, the governor's budget does not provide similar treatment of the systems. For example, (1) UC would be prohibited from increasing its non-resident enrollments; and (2) CSU would be provided a one-time augmentation of \$25 million to campuses that demonstrate innovations that promote completion of degrees within four years.

Leadership in both houses of the state legislature expressed strong interest in investing in the CSU. Generally, both houses aim to invest above and beyond the governor's proposed funding levels in such areas as funded student enrollment, deferred maintenance and infrastructure, additional course offerings and student support services, and financial incentives for improved time to degree.

It is, however, very early in the 2015-2016 state budget cycle and it will be several months before the Assembly and Senate craft their final budget proposals. Ahead are several months of legislative budget committee work that will include an evaluation of the CSU support budget request, the governor's January and revised May budget proposals, and a careful analysis of anticipated state revenues and balancing funding priorities for higher education with other areas of state government.

Conclusion

If approved by the legislature this budget proposal would allow the CSU to invest in minimal funded student enrollment increases, cover unavoidable mandatory CSU costs, such as employee health benefits, and fulfill commitments already made in collective bargaining. However, other significant trustee priorities would be significantly squeezed or fully jeopardized such as student success and completion initiatives, facility and information technology maintenance and infrastructure needs, and more appropriate levels of funded student enrollment.

Presuming that the state's positive economic prospects persist into the May revision, CSU staff commits to working with the governor and legislature through the budget process to ensure that the priorities outlined in the trustee-approved CSU support budget request are met by an appropriate level of state support.

COMMITTEE ON FINANCE

California State University Investment Authority, Policy, and Portfolio Review Initiative

Presentation By

Robert Eaton
Deputy Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item provides information regarding an initiative to review the legislative authority and policies governing the California State University's investments, as well as a review of the existing portfolio structure. The basic goal of the initiative is to explore ways in which the CSU might increase risk-appropriate investment earnings on its funds.

Background

The budgetary responsibility for the annual principal and interest on State General Obligation and State Public Works Board bonds that have been issued on behalf of the CSU have been shifted from the State to the CSU on a permanent basis beginning with fiscal year 2014-2015. Although the State increased the CSU's support budget to address this shift, this support budget augmentation is not sufficient to support new capital funding to address the CSU's deferred maintenance and critical infrastructure backlog. In order to appropriately address this backlog, the CSU must find new revenues to support new capital funding.

The CSU's challenge is to explore new revenue source opportunities that reduce the potential burden on the State's taxpayers or the CSU's students. One such opportunity is increasing investment earnings on CSU funds.

The CSU's existing investment pool, Systemwide Investment Fund Trust (SWIFT), was formed in 2007, following enabling legislation (Education Code Section 89724) that authorized the CSU to retain its student tuition fee revenue and invest those revenues in eligible investment securities listed in Government Code Section 16430. Gov. Code § 16430 is a list of high quality, low risk, fixed income securities and forms the basis for the CSU's investment policy. In 2008, the global, national, and state economies began to suffer significant downturns with an attendant reduction in state financial support for the CSU, forcing the CSU to use the SWIFT portfolio as a funding backstop for ongoing operations in the event of further reductions or delays in state support. This meant that the SWIFT was kept highly liquid for years, resulting in ongoing low investment

returns. In more recent years, short term fixed income portfolio returns have been low due to the ongoing effects of Federal Reserve policy, slow global economic growth, and low inflation.

Investment Authority, Policy, and Portfolio Review

Staff proposes to conduct a review of the existing legislation governing the CSU's investments and propose changes to that legislation in order to provide the CSU with greater investment flexibility and increased earnings on its existing base of funds. The goal is to provide the CSU with the same investment flexibility as the University of California, which has broader latitude in the types of investments it may choose when investing its funds, and which has been able to earn significantly higher returns than the CSU. This potential for additional revenues would have a meaningful impact on the CSU's ability to address a variety of needs, including its deferred maintenance and critical infrastructure backlog.

Along with possible legislative changes, staff will conduct a review of the CSU's investment policy and present appropriate amendments to the policy to the board for discussion and approval at a future meeting. Based upon any legislative and policy changes, staff would then work to restructure the CSU's investment portfolio to meet the CSU's needs.

COMMITTEE ON FINANCE

Implementation of Governmental Accounting Standards Board Statement No. 68—Accounting and Financial Reporting for Pensions—an amendment of Governmental Accounting Standards Board Statement No. 27

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

George Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

As reported to the California State University Board of Trustees in previous meetings, Governmental Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions, issued in June 2012, significantly changes how pension liability is reported in the financial statements by state and local governments including the CSU and other public universities.

The new pronouncement, effective for fiscal year 2014-2015, requires each employer participating in a pension plan to recognize a proportionate share of the collective net unfunded liability of the pension plan on the face of the employer's financial statements. This is likely to result in a significant increase in liability and a significantly decrease in net position for the CSU, as it is likely to affect other public universities in a similar manner. In addition, the new pronouncement also requires each participating employer to report a proportionate share of the total pension expenses and deferred inflows of resources and deferred outflows of resources related to pension and provide other information in note disclosures. Prior to GASB 68, employers reported as a liability only the accumulated difference, if any, between the contractually required plan contributions and the contributions actually made by the employers.

There are multiple steps in the process as the CSU is reliant on both CalPERS and the State Controller's Office for information needed to implement GASB 68 as a state agency. Although we have been continually in contact with the State Controller's Office, due to the complexity of the project, no information is available yet at the time of drafting the agenda. We will continue to update the board on the progress.