

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:30 a.m., Tuesday, November 15, 2016
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of September 20, 2016

1. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at Monterey Bay, Sacramento and San José, *Action*
2. Approval of the 2017-2018 Lottery Budget, *Action*

Discussion Items

3. Procurement and Other Administrative Effectiveness Initiatives, *Information*
4. Annual 2016-2017 Student Fee Report, *Information*
5. Approval of the 2017-2018 Support Budget Request, *Action*
6. Conceptual Approval of a Public-Private Partnership Project with the Los Angeles Football Club to Develop a Performance Center at California State University, Los Angeles, *Action*

**MINUTES OF THE MEETING OF THE
COMMITTEE ON FINANCE**

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

September 20, 2016

Members Present

Peter Taylor, Chair
Debra Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Lupe C. Garcia
Hugo N. Morales
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order.

Public Comments

Mr. Pat Gantt, CSUEU President, commended the board on its on-going budget request and addressing compensation. Mr. Gantt also pointed out that there might be an opportunity for one-time funding requests from the state legislature.

Approval of Minutes

The minutes of the July 19, 2016 meeting were approved as submitted.

2017-2018 Lottery Budget

Trustee Taylor presented agenda item 1 as a consent information item.

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

Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management, presented the request for financing through the CSU's Systemwide Revenue Bond and commercial paper programs to fund the University Union Renovation and Expansion, Phase I project at the Sacramento campus. President Robert Nelsen described the impact this project will have on the daily lives of students and their sense of belonging on campus.

Trustee Rebecca Eisen voiced her appreciation for hearing the importance of buildings like this student union to the campus community. Trustee Douglas Faigin encouraged more projects that did not utilize operating funds.

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, Sacramento (RFIN 09-16-10).

Planning for the 2017-2018 Support Budget

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, introduced the information item. Mr. Ryan Storm, Assistant Vice Chancellor for Budget reviewed the budget planning process, presented the preliminary support budget plan for the 2017-2018 fiscal year, and solicited feedback from the board for inclusion in the final draft of the budget plan to be presented at the November 2016 meeting.

Trustee Peter Taylor posed a question regarding limiting enrollment growth if the state does not approve the additional funding request. Mr. Relyea responded that if the CSU does not receive the necessary funding, he would recommend that enrollment not be expanded. Trustee Taylor expressed appreciation for the presentation on the incremental support budget request and asked for a holistic view of the budget at the November meeting.

Trustee Jane Carney requested clarification on if the \$75 million allocated for Graduation Initiative 2025 would cover the entire costs and, if not, the CSU should request the full academic year funding from the state. Trustee Carney also requested more information on the efficiencies generated by the Graduation Initiative. Dr. Loren Blanchard, Executive Vice Chancellor for Academic and Student Affairs stated that the budget implications as a result of the Graduation Initiative have not yet been calculated, but it is work that will be done.

Trustee Adam Day stated that the CSU needs to be creative and collaborative to ensure a sustainable model as the system moves forward with ambitious and aggressive new priorities.

Trustee Maggie White expressed concern with the effect a potential tuition increase may have on access and affordability. Trustee Douglas Faigin inquired if a tuition increase proposal would be brought to the board at the November meeting. Mr. Relyea responded that it would be prudent to have all options available at this time and that the board will hear an information item at its November meeting on the option for a possible tuition increase. The board could act on that option at the January meeting. Trustee Faigin stated that if there is a tuition increase proposal, the board needs to understand the rationale for the increase as well as more information on the entire budget and not just the incremental budget. In response to Trustee Faigin, Chancellor Timothy P. White stated that all options are being considered and will not be taken off prematurely.

Trustee John Nilon requested more information on the CSU's philanthropic development efforts. Mr. Relyea stated that the presidents are making increased investments in this area by hiring more staff and reprioritizing programs. Chancellor White added that last year's fundraising efforts reached all-time highs.

Final Approval of a Public-Public Partnership Project for the Development of a Public Charter School at California State University, Monterey Bay

Mr. Relyea introduced this public-public partnership that will develop a new public charter school on the Monterey Bay campus. President Eduardo Ochoa shared the long-standing relationship of campus and the Monterey Bay Charter School and how this project will strengthen that relationship and further advance the university's mission. Mr. Eaton provided details of the public-public partnership.

The committee recommended Final Approval of a Public-Public Partnership Project for the Development of a Public Charter School at California State University, Monterey Bay (RFIN 09-16-11).

California State University Annual Investment Report

Mr. Eaton presented the annual investment report for fiscal year 2015-2016 for funds managed under the CSU Investment Policy.

Presentation on Debt Management at the California State University

Mr. Eaton gave an overview of the CSU Systemwide Revenue Bonds program and explained how the CSU manages debt to make optimal use of its debt capacity to meet the university's extensive capital needs.

In response to Trustee Taylor's question on why hedging techniques are not included in the options being considered, Mr. Eaton responded that the options presented are the options to be considered first, however, hedging instruments could also be considered. Trustee Carney requested that in future presentations debt capacity for auxiliaries and state operating funds be presented separately.

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at Monterey Bay, Sacramento, and San José

Presentation By

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

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bonds (SRB) and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and the issuance of bond anticipation notes (BANs) to support interim financing under the commercial paper (CP) program, in an aggregate amount not-to-exceed \$169,395,000 to provide financing for three campus projects:

1. California State University, Monterey Bay Student Union
2. California State University, Sacramento Parking Structure V
3. San Jose State University Student Recreation and Aquatic Center

The board is being asked to approve resolutions related to these financings.

Background

The Systemwide Revenue Bond 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, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and 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 resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its 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.

1. California State University, Monterey Bay Student Union

The California State University, Monterey Bay Student Union project is also being presented to the board for approval of the amendment of the Capital Outlay program and schematics during the Committee on Campus Planning, Buildings and Grounds. The student union project will include a 69,200 gross square foot facility in support of student groups and activities. The facility will provide meeting and gathering spaces, dining services, and a bookstore. The project will be funded from student body center fees, under the student union program, which have been approved based upon student input.

The not-to-exceed par amount of the proposed bonds is \$54,470,000 and is based on a total budget of \$55,558,000 with a student union reserve contribution of \$10,000,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$8,912,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in March 2018 with completion expected in September 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$54,470,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$3,530,600
Projected debt service coverage including the new project: Net revenue – Monterey Bay pledged revenue programs: ¹	2.70
Net revenue – Projected for the campus student union program:	1.15

1. Based on campus projections of 2020-2021 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 5.28 percent, inclusive of 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 student union program net revenue debt service coverage of 1.15 in 2020-2021, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 2.70, which exceeds the CSU benchmark of 1.35.

2. California State University, Sacramento Parking Structure V

The California State University, Sacramento Parking Structure V was approved by the board for amendment of the Non-State Capital Outlay program in the January 2016 meeting of the

Committee on Campus Planning, Buildings and Grounds. It is also being presented at this November 2016 meeting for schematic approval. The project is a five story parking structure with approximately 1,750 parking spaces to replace an equivalent number of spaces lost to current and proposed construction projects. The project will be located on the existing Parking Lot 1 in the northwest area of campus.

The not-to-exceed par amount of the proposed bonds is \$22,685,000 and is based on a total budget of \$42,065,000 with a parking reserve contribution of \$21,000,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$1,620,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in June 2017 with completion expected in January 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$22,685,000
Amortization	Approximately level over 25 years
Projected maximum annual debt service	\$1,560,906
Projected debt service coverage including the new project:	
Net revenue – Sacramento pledged revenue programs: ¹	1.75
Net revenue – Projected for the campus parking program:	1.63

1. Based on campus projections of 2018-2019 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 4.93 percent, inclusive of 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 1.63 in 2018-2019, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 1.75, which exceeds the CSU benchmark of 1.35.

3. San José State University Student Recreation and Aquatic Center

The San José State University Student Recreation and Aquatic Center was approved by the board as part of the 2016-2017 through 2020-2021 Capital Improvement Plan and is also being presented for schematic approval during the Committee on Campus Planning, Buildings and Grounds. The project provides approximately 121,100 gross square feet and the Student Recreation Center component includes a three-court gymnasium, a multi-use activity court, weight and fitness center, multipurpose exercise rooms, a rock climbing wall, juice bar/vending area, and space for club

sports organizations and storage. The Aquatic Center includes a competition pool, recreation pool, deck space, and related pool maintenance support spaces. The project will be funded from student body center fees, under the student union program, which have been approved based upon student input.

The not-to-exceed par amount of the proposed bonds is \$92,240,000 and is based on a total budget of \$131,629,000 with a student union reserve contribution of \$51,000,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$11,611,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in December 2016 with completion expected in March 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$92,240,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$6,024,465
Projected debt service coverage including the new project:	
Net revenue – San Jose pledged revenue programs: ¹	1.28
Net revenue – Projected for the campus student union program:	1.34

1. Based on campus projections of 2019-2020 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 5.24 percent inclusive of 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 student union program net revenue debt service coverage of 1.34 in 2019-2020, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 1.28 which is below the CSU benchmark of 1.35. However, the ratio is projected to exceed the campus benchmark in the second year of operations and continue to improve thereafter; therefore, staff recommends approval of the project.

Trustee Resolutions and Recommendation

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, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate amount not-to-exceed \$169,395,000 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 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 1 of the Committee on Finance at the November 15-16, 2016, meeting of the CSU Board of Trustees is recommended for:

California State University, Monterey Bay Student Union

California State University, Sacramento Parking Structure V

San José State University Student Recreation and Aquatic Center

COMMITTEE ON FINANCE

Approval of the 2017-2018 Lottery Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The lottery budget proposal for 2017-2018 is presented to the California State University Board of Trustees for approval as an action item. The total budget is the same as the preliminary budget included as an information item in the committee's September 2016 agenda. Minor changes were made in the distribution of funds to return the program administration budget to the prior year level and to increase funding to campus-based programs.

Background

The Lottery Act allows for the expenditure of lottery receipts for public education. The Lottery Act states that funds are "exclusively for the education of pupils and students" and that no funds be used for non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research. To that end, the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Over the past five years, annual CSU Lottery Fund receipts have averaged \$45 million.

Each year, the board adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. Approximately 90 percent of anticipated lottery receipts are allocated directly to campuses for instruction-related programs and activities. Remaining funds are allocated for CSU programs that assist student education across the system. The Chancellor's Office uses about 1.3 percent of lottery resources to centrally manage lottery fund operations and meet reporting requirements.

The board has delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds.

2017-2018 Lottery Budget Proposal

Total lottery receipts available to the CSU in 2017-2018 are estimated to be \$50.5 million. After setting aside \$5 million as a reserve to assist with cash-flow variations in quarterly lottery receipts

and other economic uncertainties, the \$45.6 million 2017-2018 lottery budget proposal remains principally designated for campus-based programs and three systemwide programs that have traditionally received annual lottery funding support. A fourth systemwide program, the newly-created DREAM Loan program, was initially funded with \$1 million in 2016-2017 and \$1 million is again proposed for 2017-2018. The proposed budget also increases funding for the CSU Summer Arts Program by \$300,000 for additional operating expenses and program expansion, as it relocates from CSU Monterey Bay back to CSU Fresno.

Systemwide Programs

Approximately \$5.9 million will be allocated for systemwide programs and administration costs:

- Dream Loan Program (\$1.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor's Doctoral Incentive Program (\$2.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program (\$814,000) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program (\$1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Administration of Lottery Fund & System Programs (\$607,000) provides Lottery Fund and program administration functions.

Campus-Based Programs

The remaining \$39.6 million in 2017-2018 lottery receipts will continue to be used for campus-based programs (\$31.6 million) and for Early Start Program fee waivers (\$8.0 million). Campus-based program funding allows presidents flexibility in meeting unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of new instructional equipment, curriculum development, and scholarships. The Chancellor's Office will work with campuses over the remainder of the year to allocate the \$5 million one-time systemwide reserve for innovative campus-based programs that support Graduation Initiative 2025 efforts. Early Start Program funds provide campus-based financial aid as need-based fee waivers to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first-time freshmen students who need additional college preparation in math and/or English and take courses during the summer term prior to matriculation at any of the CSU campuses.

The CSU Lottery Budget proposed for 2017-2018 is as follows:

2016-2017 Adopted and 2017-2018 Proposed Lottery Budget		
	2016-17 Adopted Budget	2017-18 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Receipts	44,163,000	45,565,000
Total Revenues	\$ 49,163,000	\$ 50,565,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 44,163,000	\$ 45,565,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	814,000	814,000
CSU Summer Arts Program	1,200,000	1,500,000
Dream Loan Program	-	1,000,000
	\$ 4,014,000	\$ 5,314,000
<i>Campus-Based Programs</i>		
Campus Programs	\$ 31,542,000	\$ 31,644,000
Campus Early Start Financial Aid	8,000,000	8,000,000
	\$ 39,542,000	\$ 39,644,000
<i>Lottery Fund & System Programs Administration</i>	<i>\$ 607,000</i>	<i>\$ 607,000</i>
Total Uses of Funds	\$ 44,163,000	\$ 45,565,000

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2017-2018 lottery revenue budget totaling \$50.6 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

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

RESOLVED, that the chancellor is hereby granted authority to adjust the 2017-2018 lottery budget approved by the Board of Trustees to the extent that receipts are greater or less than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2017-2018 lottery budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

Procurement and Other Administrative Effectiveness Initiatives

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Arun Casuba
Executive Director, Strategic Sourcing and
Chief Procurement Officer

Summary

The California State University challenges itself to continuously evaluate and improve its effectiveness and efficiency by reviewing programs, practices and processes that support the academic mission. Such efforts include exploring and implementing strategic procurement, simplifying and streamlining administrative processes, and organizing services in order to meet increasing workload associated with campus growth, student services, and compliance.

The CSU uses best value methods in purchasing goods and services to maximize benefits (cost, performance, service, etc.) to the institution. As student enrollment has grown and costs have increased for compliance, campuses continuously search for means to reduce cost while maintaining or improving quality. The size and scope of the CSU is leveraged through systemwide collaboration of activities. In addition, significant benefits are gained through the sharing of agreements with the University of California and California Community Colleges as well as leveraging consortia agreements. The CSU is focused on continuing this progress by developing resources, tools, and processes focused on strategic sourcing.

The CSU's Process for Maximizing Benefit

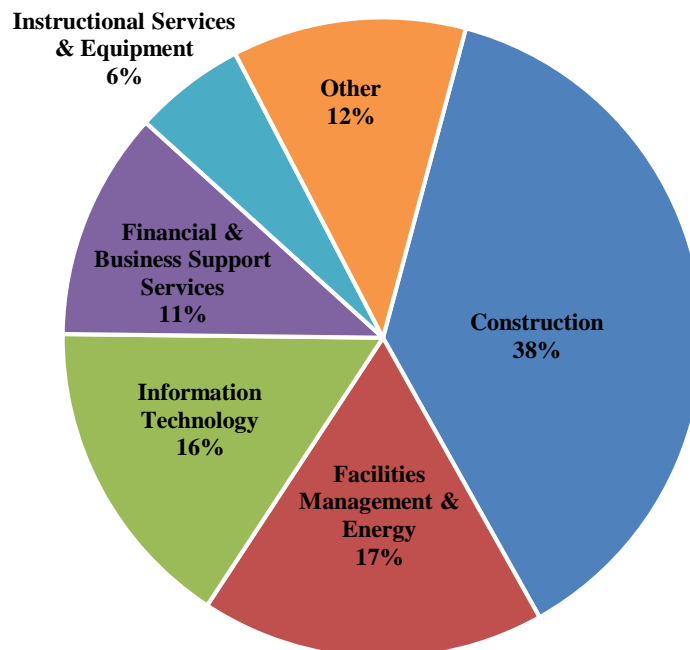
The 23 University campuses and system office strive to be efficient in the use of available funds and effective in providing in the goods and services required for the mission of the University. We work in a collaborative way by using the significant scope and resources of all of the campuses in selecting suppliers of goods and services. This is a cyclical process that is continuously reviewed for improvement.

We first identify opportunities for cost reductions and then develop strategies for a prioritized list of categories. These strategies include the use of competitive bids, direct negotiations, and leveraging across campuses or systems including the University of California and the California Community Colleges. Once we have carried out these strategies, we manage results by ensuring that suppliers are performing as per contracts. The goal of this process is to be effective in maintaining or improving the quality of the goods or services used to ensure student success while delivering cost reductions.

Breakdown of CSU Expenditures

This item is focused on the \$2.3 billion of the University's total expenditures (shown in Figure 1) that are in categories which can be influenced by Procurement and other administrative effectiveness initiatives. The remainder of the University's expenditures are addressed by other initiatives such as Collective Bargaining for Salaries, Wages, and Benefits. The primary categories within the \$2.3 billion spend are Construction, Facilities Management & Energy, and Information Technology and comprise over two-thirds of this spend. In addition, key spend areas include Financial and Business Support Services and Instructional Services and Equipment. Categories within the remaining spend include Communications and Outreach, Retail and Wholesale, Arts, Sport and Recreation, Food, Beverage and Catering among others.

Figure 1 – CSU Spend by Categories in 2015-2016



Current Initiatives

Initiatives have been undertaken in the above spend categories to reduce cost while maintaining or improving the ability to deliver the core educational services of the University.

As construction is a significant area of spend, we have driven to develop several methods to improve efficiencies in the management of construction projects at the campuses.

- The CSU has sponsored legislation that allows campuses to solicit project bids on a common portal and save the money that would have otherwise been spent on print advertising. This initiative has netted the CSU \$4.6 million in cost reductions per year.
- We are piloting a new construction delivery method that utilizes one bid process to execute multiple projects at a single campus or across several campuses. This has resulted in a savings of time, project efficiencies, and total cost reductions to the CSU of \$2.3 million per year.
- The CSU has also created regional contracts for use by all campuses. Some of these contracts focus directly on specialty trades such as paving and roofing without the need for a middle man in the contracting process. This reduces the effort required for individual campuses to execute one-time maintenance and repair projects.

In the areas of energy and sustainability, the CSU has negotiated and purchased directly from energy providers rather than from local utilities at 10 of the 23 campuses. This initiative has led to \$4 million in annual cost reductions. Other energy efficiency projects have resulted in \$2.7 million per year in incentives earned from Energy Efficiency Partnerships with Southern California Edison and Pacific Gas & Electric, and \$1.6 million per year in cost avoidance.

This year, through leveraged buying, the University has reduced costs by \$1.7 million in facilities products for maintenance, repair, and operations, as well as \$1.5 million in medical supplies and lab equipment.

In the Information Technology category, the CSU has delivered significant cost reductions through a number of initiatives.

- The CSU Common Network Initiative provides equipment and related services to ensure that every campus has a robust communications infrastructure. The University has avoided over \$7.5 million in cost annually since fiscal year 2011-2012 as a result of common standards, practices, and sound project management processes.
- In addition, \$15 million in costs were avoided this year through negotiations of systemwide licenses on software purchases and \$2 million in costs have been avoided annually by hosting our Data Center in a secure offsite Cloud facility.

We have undertaken several initiatives in the finance and business support category to reduce operational costs.

- \$51M in cost reductions were achieved this year through the restructuring and refinancing of State Public Works Board and Systemwide Revenue Bond debt.
- Through the negotiation of systemwide agreements for financial auditors, bank card services, and office supplies and printers, the CSU achieved \$7.5 million in cost reductions in 2016.
- The CSU utilizes a credit card payment process in lieu of checks for purchases of low-dollar items, which reduces the effort required for these small size transactions. Using this process, we achieve a net reduction of \$3 million per year.
- The CSU has also created a common shopping website for catalog based purchasing. This system, driven at the campus level, ensures compliance with contracted rates for a number of goods by funneling purchases for these items through 24 vendor catalogs and has resulted in \$1.2 million in cost avoidance this year.

The University has focused considerable resources to be more effective in providing the proper infrastructure and delivering services to students geared towards assisting them in achieving their educational goals.

- We have coordinated the purchasing of electronic library resources across the system to avoid \$13 million in costs per year.
- We have consolidated contracts for academic technology systems and standardized on learning management systems to net \$7 million in cost reductions this year.
- The CSU also offers a free website called CSUMentor that assists students in planning for college, selecting the appropriate CSU campus to attend, planning how to finance their education, and applying for admission. We leveraged the needs of the 23 campuses to create a systemwide agreement for these services.
- The CSU has created Affordable Learning Solutions to assist in reducing the cost of textbooks and other learning resources to students. The solutions include free online instructional materials that faculty can use to construct the curriculum, free online materials that are formatted like eBooks, free access to campus and systemwide electronic library collections, and lower cost proprietary content in both electronic and hard copy formats.
- We have introduced a product called Portfolium that provides a free social media platform for students and alumni to showcase their projects, skills, and experiences with the goal of enhancing their competitiveness in the job market. This was negotiated as a systemwide license and has reduced campus acquisition costs by 50 percent.

Sustainable Procurement

The CSU is continuing to improve its Sustainable practices in purchasing.

- For example, we participate in the State Agency Buy Recycled Campaign, which is a joint effort by California's Department of Resources Recycling and Recovery, and Department

of General Services. This campaign requires that agencies place 50 percent of their spend in 11 specific categories on recycled products. On its general product purchases the CSU achieved 77 percent in aggregate and exceeded 50 percent in 6 of the 11 categories. In the future, we will be working towards collecting data for construction purchases as well.

- The CSU has recently instituted a minimum purchase order of \$50 in office supplies to minimize deliveries, and several campuses have moved towards reducing the number of delivery days to further aggregate purchasing and reduce carbon emissions.
- Where appropriate, the CSU has utilized criteria around sustainable practices in evaluating proposals from bidders for projects, and we will continue to seek opportunities to further this process. In addition, contract language outlining specific sustainable requirements is now being used for suppliers.

Future Initiatives

The CSU continues to explore more opportunities for reducing costs and enhancing effectiveness.

- We are in the process of securing a robust tool to help campuses improve student retention, timely graduation, outreach, advisor support, and interventions focused on undergraduate students. Each campus will have the ability to configure the tool to support their specific student population.
- In the coming years, we will also continue to pursue multi-campus opportunities including a solar energy bid, a budget planning system, and a travel expense management system. In addition, we will be researching creative methods for buying energy.
- We will be working with the UC and CCC systems to collaborate on the use of common contracts such as for building supplies and the creation of a portal so that these contracts can be shared across systems.
- We will improve processes by implementing innovative procurement systems and analyzing spend categories to better identify savings opportunities.
- We will continue to develop and standardize best practices across the CSU.

Factors such as reduced funding, increase in enrollment, the need to reduce time to graduation, and changing regulations continue to apply increasing pressure on the system, the CSU is committed to make use of its resources in the most effective ways. As such we will continue to look for better methodologies to operate and cost reductions wherever possible while still maintaining our commitments to the students, faculty, and staff of the CSU and the State.

COMMITTEE ON FINANCE

Annual 2016-2017 Student Fee Report

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

As required by California State University Fee Policy, the CSU Board of Trustees is presented with an annual campus fee report as an information item regarding the level and range of campus-based mandatory fees charged to CSU students.

2016-2017 CSU Student Fee Report

Campus-based mandatory fees (Category II) are charged to all students in order to enroll at a particular CSU campus. In addition, campuses charge miscellaneous course fees (Category III) for some courses to provide materials or experiences that enhance basic course offerings. Campuses also charge fees for self-support programs (Category V), such as parking, housing, and student unions. As required by the CSU Fee Policy, this annual report focuses primarily on the campus-based mandatory fees.

The table on the following page displays the 2016-2017 academic year campus-based mandatory fee rates by campus and by fee category. Student success fees are separately identified in this report for transparency and accountability.

2016-2017 Category II Campus-Based Mandatory Fee Rates								
	Health Facilities	Health Services	Instructionally Related Activities	Materials Services & Facilities	Student Success	Student Association	Student Center	Total Campus- Based Mandatory Fees
Bakersfield	\$6	\$296	\$183	\$62	\$0	\$376	\$462	\$1,385
Channel Islands	6	190	260	145	0	150	324	1,075
Chico	6	270	280	98	0	132	782	1,568
Dominguez Hills	6	150	10	5	315	135	330	951
East Bay	6	225	129	3	240	129	360	1,092
Fresno	6	226	264	46	0	69	230	841
Fullerton	6	160	72	72	362	148	268	1,088
Humboldt	6	428	674	327	0	117	185	1,737
Long Beach	6	90	50	10	346	120	366	988
Los Angeles	8	165	143	5	261	54	275	911
Cal Maritime	21	680	130	295	0	210	0	1,336
Monterey Bay	0	186	60	165	0	96	400	907
Northridge	6	120	30	5	224	184	546	1,115
Pomona	6	256	48	15	415	130	725	1,595
Sacramento	44	232	366	0	0	132	654	1,428
San Bernardino	26	247	154	15	171	134	391	1,138
San Diego	50	300	368	50	300	70	474	1,612
San Francisco	6	314	236	184	0	108	164	1,012
San Jose	118	290	0	32	620	182	704	1,946
San Luis Obispo	10	308	307	1,157	814	314	693	3,603
San Marcos	50	302	80	249	500	100	630	1,911
Sonoma	34	388	470	34	0	222	768	1,916
Stanislaus	18	376	306	274	0	122	160	1,256

The following table compares total campus-based mandatory fees by campus for the 2015-2016 and 2016-2017 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by \$63 (4.7 percent). Increases in these fees occurred for various reasons. Some campuses have authorized annual incremental increases for certain fees that keep pace with inflation such as the California Consumer Price Index or Higher Education Price Index. Student success fee increases that were approved when the fee was originally authorized account for a large part of the increase at Dominguez Hills, Fullerton, San Diego and San Marcos. Additionally, the student center fee at Monterey Bay was increased to expand the student union and a new recreation fee was implemented at Cal Maritime to support and maintain recreational programs.

Comparison: 2015-2016 and 2016-2017 Category II Campus-Based Mandatory Fee Rate Totals by Campus			
Campus	2015-16	2016-17	Increase
Bakersfield	\$1,339	\$1,385	\$46
Channel Islands	1,075	1,075	0
Chico	1,550	1,568	18
Dominguez Hills	811	951	140
East Bay	1,092	1,092	0
Fresno	839	841	2
Fullerton	965	1,088	123
Humboldt	1,723	1,737	14
Long Beach	980	988	8
Los Angeles	883	911	28
Cal Maritime	1,086	1,336	250
Monterey Bay	647	907	260
Northridge	1,097	1,115	18
Pomona	1,544	1,595	51
Sacramento	1,400	1,428	28
San Bernardino	1,105	1,138	33
San Diego	1,504	1,612	108
San Francisco	1,004	1,012	8
San Jose	1,906	1,946	40
San Luis Obispo	3,529	3,603	74
San Marcos	1,797	1,911	114
Sonoma	1,858	1,916	58
Stanislaus	1,232	1,256	24
Average	\$1,346	\$1,409	\$63

2016-2017 CSU Comparison Institution Tuition and Fees

The 2016-2017 academic year is the fifth consecutive year with unchanged tuition rates at CSU. Although not required by the CSU Fee Policy, prior annual student fee reports have included comparisons of CSU tuition and fee rates with other institutions. The tables that follow outline the systemwide average tuition plus average campus-based mandatory fees at the CSU as compared with other public institutions' tuition and mandatory fees.

The 2016-2017 comparison institution academic year *resident undergraduate* tuition and fees are provided below. The total of the CSU's tuition and average campus-based fees is lower than those of all 15 comparison institutions identified by the California Postsecondary Education Commission. The 2016-2017 comparison institution tuition and fee average is \$10,944, and the CSU tuition and fee average is \$6,881, or 37 percent below the comparison average. The following table lists the 2015-2016 tuition and average campus-based mandatory fee rates with a comparison to 2016-2017 rates:

2016-2017 Comparison Institution Academic Year Undergraduate Resident Tuition and Fees				
Campus	2015/16	2016/17	Increase	
Rutgers University (New Brunswick, NJ)	\$14,131	\$14,372	\$241	1.7%
University of Connecticut (Storrs, CT)	\$13,366	\$14,066	\$700	5.2%
Illinois State University (Normal, IL)	\$13,666	\$14,061	\$395	2.9%
Wayne State University (Detroit, MI)	\$12,791	\$13,363	\$572	4.5%
George Mason University (Fairfax, VA)	\$10,752	\$11,300	\$548	5.1%
University of Maryland, Baltimore County	\$11,006	\$11,264	\$258	2.3%
Comparison Average	\$10,674	\$10,944	\$270	2.5%
University of Colorado at Denver	\$10,719	\$10,741	\$22	0.2%
Georgia State University at Atlanta	\$10,686	\$10,686	\$0	0.0%
Arizona State University at Tempe	\$10,478	\$10,640	\$162	1.5%
Cleveland State University	\$9,636	\$9,636	\$0	0.0%
University of Wisconsin at Milwaukee	\$9,429	\$9,493	\$64	0.7%
State University of New York at Albany	\$9,036	\$9,263	\$227	2.5%
University of Texas at Arlington	\$8,878	\$9,202	\$324	3.6%
North Carolina State University	\$8,581	\$8,880	\$299	3.5%
University of Nevada at Reno	\$6,952	\$7,192	\$240	3.5%
California State University	\$6,818	\$6,881	\$63	0.9%

Below are the 2016-2017 comparison institution *resident graduate* tuition and average campus-based mandatory fees. The CSU has the lowest *resident graduate* tuition and fee rates among the 15 comparison institutions. The 2016-2017 comparison institution tuition and fee average is \$13,149, and the CSU tuition and fee average is \$8,147, or 38 percent below the comparison average. The following table lists the 2015-2016 tuition and fee rates with a comparison to 2016-2017 rates:

2016 -2017 Comparison Institution Academic Year Graduate Resident Tuition and Fees				
Campus	2015/16	2016/17	Increase	
Rutgers University (New Brunswick, NJ)	\$19,186	\$19,500	\$314	1.6%
University of Maryland, Baltimore County	\$17,064	\$17,592	\$528	3.1%
Wayne State University (Detroit, MI)	\$15,853	\$16,503	\$650	4.1%
University of Connecticut (Storrs, CT)	\$15,296	\$15,996	\$700	4.6%
Cleveland State University	\$13,816	\$13,816	\$0	0.0%
George Mason University (Fairfax, VA)	\$13,104	\$13,643	\$539	4.1%
Comparison Average	\$12,835	\$13,149	\$314	2.4%
State University of New York at Albany	\$12,517	\$12,734	\$217	1.7%
Illinois State University (Normal, IL)	\$11,381	\$11,798	\$417	3.7%
University of Wisconsin at Milwaukee	\$11,725	\$11,789	\$64	0.5%
Arizona State University at Tempe	\$11,624	\$11,776	\$152	1.3%
Georgia State University at Atlanta	\$11,296	\$11,296	\$0	0.0%
University of Texas at Arlington	\$10,200	\$10,578	\$378	3.7%
North Carolina State University	\$10,224	\$10,572	\$348	3.4%
University of Colorado at Denver	\$9,826	\$10,111	\$285	2.9%
University of Nevada at Reno	\$9,409	\$9,528	\$119	1.3%
California State University	\$8,084	\$8,147	\$63	0.8%

CSU ranked near the bottom for *nonresident undergraduate* tuition and average campus-based mandatory fees of the CSU's public peer comparison institutions. CSU nonresident undergraduate tuition (which includes the systemwide tuition charge) and fees is \$18,038 per academic year in 2016-2017. This is approximately 31 percent below the comparison average rate of \$26,080.

2016-2017 Comparison Institution Academic Year Undergraduate Non-Resident Tuition and Fees				
Campus	2015/16	2016/17	Increase	
University of Connecticut (Storrs, CT)	\$34,908	\$35,858	\$950	2.7%
George Mason University (Fairfax, VA)	\$31,398	\$32,582	\$1,184	3.8%
University of Colorado at Denver	\$29,319	\$30,361	\$1,042	3.6%
Rutgers University (New Brunswick, NJ)	\$29,521	\$30,023	\$502	1.7%
Wayne State University (Detroit, MI)	\$27,683	\$28,925	\$1,242	4.5%
Georgia State University at Atlanta	\$28,896	\$28,896	\$0	0.0%
Arizona State University at Tempe	\$25,458	\$26,470	\$1,012	4.0%
North Carolina State University	\$24,932	\$26,399	\$1,467	5.9%
Comparison Average	\$24,932	\$26,080	\$1,148	4.6%
Illinois State University (Normal, IL)	\$21,482	\$25,168	\$3,686	17.2%
University of Maryland, Baltimore County	\$23,770	\$24,492	\$722	3.0%
State University of New York at Albany	\$22,156	\$24,343	\$2,187	9.9%
University of Texas at Arlington	\$21,114	\$23,046	\$1,932	9.2%
University of Nevada at Reno	\$20,862	\$21,102	\$240	1.2%
University of Wisconsin at Milwaukee	\$19,603	\$19,850	\$247	1.3%
California State University	\$17,978	\$18,041	\$63	0.4%
Cleveland State University	\$12,878	\$13,687	\$809	6.3%

Conclusion

For the fifth straight academic year, the CSU systemwide tuition rate did not change. Systemwide, campus-based mandatory fees increased between 2015-2016 and 2016-2017 by an average of \$60 per student. When compared to peer institutions, a CSU education is the most or second most affordable institution. Those already low rates, coupled with the many institutional financial aid programs offered at the CSU continue to make CSU an affordable option for students from all socio-economic backgrounds. Overall:

- About 80 percent (367,000) of all CSU students received more than \$4 billion in total financial assistance.
- 61 percent of all undergraduates have their tuition fully covered by grants or waivers.
- 51 percent of CSU baccalaureate recipients graduated with zero education loan debt.
- Of the 49 percent who graduated with debt, the average loan debt of \$14,388 is lower than the California average of \$21,382 and well below the national average of \$28,950.

COMMITTEE ON FINANCE

Approval of the 2017-2018 Support Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item seeks approval by the California State University Board of Trustees of the 2017-2018 CSU Support Budget Request. Accompanying this agenda item as Attachment A is the proposed 2017-2018 CSU Support Budget Request, which contains historical detail as well as prospective information, for the board's consideration.

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the Department of Finance, it is necessary to adopt the proposed 2017-2018 CSU Support Budget Request at the November CSU Board of Trustees meeting.

At its September 2016 meeting, the board reviewed a preliminary plan for purposes of crafting the CSU's support budget request to the state. That preliminary plan included consideration of past and forecasted information regarding the state's economy and tax revenue as well as past and planned funding of the CSU. Additionally, the board's feedback on the preliminary plan has been considered and incorporated into the proposed request. Also, the board requested additional information on the CSU budget. Consequently, a presentation will be made at the board meeting and additional information is available in Attachment A and at the link below. With that history and context, the focus of this item will be the details of the proposed 2017-2018 CSU Support Budget Request.

The executive summary in Attachment A is the official presentation of the support budget request and, if approved, will be distributed to the governor, legislators, and other policy makers in the capitol. It can be accessed, along with additional supplemental detail, at <https://www2.calstate.edu/csu-system/about-the-csu/budget>.

2017-2018 Support Budget Expenditure Plan Priorities

The proposed support budget request prioritizes certain areas of expenditures to continue the CSU's commitment to Graduation Initiative 2025, maintaining access to the university, increasing compensation for faculty and staff, attending to the highest priority academic infrastructure and deferred maintenance needs, and funding mandatory cost obligations.

Graduation Initiative 2025: The CSU is committed to improve opportunities for a more timely graduation for all our students, including a doubling of the four-year graduation rate from 19 percent to 40 percent, achieving a 70 percent six-year graduation rate, shortening time to degree for transfer students, and closing the achievement gap among low income and underserved students. While these goals are important indicators of the overall effectiveness of the system, the tools and strategies that will help support more students earning degrees in a timely manner are directly tied to the ability to invest new funding to improve tenure-track faculty hiring, student-advisor ratios, eAdvising platforms, college readiness, and use of data to ensure resources are dedicated to the most important factors leading to overall student success.

Employee Compensation: Central to the student experience is the ability to interact, learn from, and be guided by outstanding faculty and staff. The CSU is proud of the thousands of employees who are dedicated to our students and their success. As such, compensation increases are a significant priority for the CSU in order to remain competitive to recruit and retain faculty, staff, and administrators who are committed to students' well-being and academic success.

Funded Enrollment Growth: The CSU confers the most baccalaureate degrees in the state and contributes to the California workforce in significant ways. Increased enrollment funding contributes to new sections of high-demand courses, hiring new tenure-track and temporary faculty, providing more academic and student support services, and bolstering overall institutional support of the campus to serve additional students. With more than 470,000 students, the CSU continues to see increased demand from qualified applicants each year.

Academic Facilities & Campus Infrastructure: Leading-edge academic facilities support quality degree programs and set the stage for CSU graduates to be workforce ready and equipped to excel in their chosen field. A significant portion of CSU academic and laboratory facilities are dated and in need of renovation. Specifically, 55 percent of all CSU buildings are more than 40 years old. Every campus can point to a classroom building or a piece of critical infrastructure that has fallen into disrepair. While the CSU has maintained its buildings as best as it could with available funding, the state funded most of the costs associated with the construction and maintenance of academic buildings and campus infrastructure. The state shifted this obligation to the CSU in 2014, making facilities and infrastructure a significant consideration when developing and implementing the CSU support budget. Dedicating a portion of the CSU support budget to facilities and infrastructure is essential to allow the most pressing facility and infrastructure needs on campuses to be addressed.

Mandatory Costs: Mandatory costs are the expenditures in the operating budget that increase annually due to inflation and other state, federal, or statutory mandates that apply to the CSU. These include changes in the cost of health care and retirement for employees, changes in state and federal wage laws, and the increased cost of operating and maintaining new facilities. Without funding for mandatory cost increases, campuses would have to make cuts and redirect resources from other program areas to meet these obligations.

Proposed 2017-2018 CSU Support Budget Request

As shown in the table below and in Attachment A, the 2017-2018 CSU Support Budget Request proposes an overall CSU support budget of \$5.8 billion. The plan is an increase of \$343.7 million, with the CSU's highest priority being effective advocacy for \$324.9 million in new general fund from the state paired with \$18.8 million in new tuition revenue from a one percent increase in full-time equivalent students (FTES) of approximately 3,616. This expenditure plan exceeds the \$157.2 million increase indicated by the governor's administration for 2017-2018, but it represents the university's funding needs.

Proposed Incremental Expenditures:

• Graduation Initiative 2025	\$75.0 million
• Compensation: Current Commitments	\$139.1 million
• Compensation: New	\$55.1 million
• Full-Time Equivalent Student Growth: 3,616 FTES	\$38.5 million
• Facilities and Infrastructure Needs	\$10.0 million
• Mandatory Costs	\$26.0 million
Total Incremental Expenditures	\$343.7 million

Anticipated Revenue

• General Fund Revenue from Governor's Funding Plan	\$157.2 million
• Net Tuition from Enrollment Growth	\$18.8 million
• Board of Trustees Additional Request	\$167.7 million
Total Anticipated Revenue	\$343.7 million

Potential Opportunities to Address Support Budget Revenue Needs

The final support budget request, if adopted by the board, concludes that the expenditure priorities require investment of \$343.7 million in additional revenue. Assuming revenue from the governor's January budget proposal and tuition revenue from a one percent student enrollment growth, the CSU anticipates a \$167.7 million funding gap between state funding and the highest priority needs of the university. The CSU has three primary opportunities to address the support budget shortfall and to meet fiscal and operational priorities in the coming year. These opportunities are not mutually exclusive and may be combined in varying proportions by the end of the budget process.

The CSU's highest priority is to continue to advocate for and pursue increased state funding to cover the full support budget request. The CSU will work with stakeholders and partners across the system including trustees, students, faculty, staff, union leaders, alumni, business partners and friends to make the case in Sacramento for the level of new funding that supports our stated priorities, all leading to greater student success. While additional state funding is the highest priority and the best option for the university, the state allocation will not be known until a final budget agreement is reached in June 2017.

Work is already underway on these advocacy efforts. For example, CSU and CSSA have met on several occasions to begin coordinated budget advocacy and messaging activities. Union leadership recently committed to join in these efforts. These are promising first steps in building a coalition of advocacy for full funding of the support budget request.

To ensure the university has all revenue options available to meet its 2017-2018 priorities, the CSU must regrettably continue a conversation about a possible tuition increase. The process to potentially increase tuition began with a written proposal by the Chancellor's Office to the California State Student Association (CSSA) in September. Consultation meetings between CSSA leadership and Chancellor's Office representatives to discuss the proposal followed in October and November, and appropriate consultation with, and feedback from, other CSU stakeholders on this possible tuition proposal also began.

A proposed tuition increase would generate up to \$77.5 million in revenue systemwide, after a one-third set-aside that would increase the State University Grant pool. This set-aside will help cover the cost of the increase for students with the greatest financial need. The potential tuition increase, not-to-exceed \$270 per resident undergraduate student, would take the annual tuition price from \$5,472 per student to \$5,742. Coupled with similar proposed maximum increases to non-resident tuition, as well as graduate, doctoral, and teacher credential programs, the potential increase would generate new revenue in 2017-2018 to partially support the board's priorities.

If additional funding is not secured from a combination of state general fund increases and a possible tuition increase, only minimal investments could be made in just a few of our priority areas. Campuses would have to redirect funding from existing programs and services included in their Graduation Initiative 2025 plans to fund a portion of mandatory cost obligations and employee compensation increases, which are ongoing obligations regardless of revenue available. In this scenario we would not be able to invest in the elements of Graduation Initiative 2025, impairing our ability to succeed.

CSU will continue to aggressively pursue and realize efficiencies, maintain effectiveness, and identify cost savings and cost avoidance opportunities whenever possible. More information on CSU's accomplishments and additional opportunities in this area will be discussed at the board meeting and is available in Agenda Item 3—Procurement and Other Administrative Effectiveness Initiatives, of the Committee on Finance.

Conclusion

The current funding assumptions from the state fall short of providing the necessary resources to properly invest in support budget priorities. The CSU will work throughout the spring with its partners to advocate for full funding by the state of the board's budget priorities.

This is an action item presenting a final recommendation for the CSU 2017-2018 Support Budget Request to the governor and legislature. It is our goal that the state fully fund the budget plan so that the CSU can focus on the transformational goals of Graduation Initiative 2025 while continuing to invest in enrollment growth, faculty and staff salary increases, and important infrastructure needs.

Recommendation

The following resolution is presented for approval:

RESOLVED, that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their increased budget support; and be it further

RESOLVED, that the Board of Trustees understands there are numerous competing interests for budgetary support given the fiscal constraints and competing policy priorities under which California continues to operate; and be it further

RESOLVED, that the future of California rests on CSU's ability to provide a high-quality, affordable, and accessible education to hundreds of thousands of students; and be it further

RESOLVED, by the Board of Trustees that the proposed CSU 2017-2018 Support Budget Request is approved as submitted by the chancellor; and be it further

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

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



Proposed

2017–2018 www.calstate.edu/budget SUPPORT BUDGET

DRAFT FOR CSU BOARD OF TRUSTEES CONSIDERATION

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Legacy. Diversity. Distinction.



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TABLE OF CONTENTS

1 Chancellor's Message

2 2017–18 CSU Support Budget Plan

- 4 Three-Year Budget Summary
- 7 Sources of Funds and Expenditure Augmentations
- 7 Distribution of Expenditure Augmentations

8 Sources of Revenue

- 8 State General Fund
- 8 Tuition Revenue

10 CSU Financial Aid

- 10 State University Grant Program
- 12 Tuition Waivers

14 Uses of Revenue

- 14 Graduation Initiative 2025
- 16 Compensation Increase
- 16 Funded Student Enrollment
- 17 Academic Facilities and Infrastructure Needs
- 17 Mandatory Costs

18 Continuing Challenges

- 18 Increasing Graduation Rates and Maintaining Access
- 20 Deferred Maintenance Backlog
- 20 Inflation

22 One-Time Requests

- 22 Cap-and-Trade Program
- 22 Deferred Maintenance Backlog

24 Budget Cycle



CHANCELLOR'S MESSAGE

Resources are required to achieve big goals. Historic goals. Goals that move the needle.

We have challenged ourselves—and been challenged by our state leaders—to get more students to degree sooner, ensure students earn a quality degree of substance, build pathways from preschool to career, provide fair compensation for our world-class faculty and staff, and restore academic facilities.



We strive to meet these goals in order to power California's economy and society.

Specifically, the CSU aims to redouble our efforts on Graduation Initiative 2025, increasing degree completion rates and eliminating achievement gaps while maintaining academic rigor and quality. Through this initiative, the CSU aims to graduate more than one million students with baccalaureate degrees between 2015 and 2025. To achieve our 2025 goals, we must lay the foundation now.

The 2017–18 Support Budget plan will focus on:

- Accomplishing the ambitious goals of Graduation Initiative 2025
- Sustaining access for California high school graduates and community college transfer students
- Fulfilling existing commitments while providing fair compensation for all employees
- Covering mandatory costs, including health and retirement benefits
- Addressing critical infrastructure needs across the CSU

Students, faculty and staff are critical partners in the university's ambitious goals. We must ensure adequate investment and support for their efforts.

California realizes a clear return for every dollar invested in the people of its university. Eighty-five percent of the CSU's 3.3 million alumni work and live in California. This means that around one in ten professionals in this state earned a degree through the CSU. These are California's teachers, nurses, engineers, business leaders, artists and innovators.

So much has already been achieved, yet the CSU does not intend to rest on its laurels. The 2017–18 Support Budget request allows the CSU to aggressively pursue reduced degree completion times, increased access and more efficient operations.

The California State University is where opportunity leads to transformation, leaving a lasting impact for our communities, state and beyond. Continued and increased investment from the state will ensure that this tradition of inclusive excellence continues for the next generation of Californians.

A handwritten signature in black ink that reads "Timothy P. White". The signature is fluid and cursive.

Timothy P. White
Chancellor
The California State University

2017–18 CSU SUPPORT BUDGET PLAN

The Public Policy Institute of California (PPIC) continues to project a shortage of baccalaureate degrees by 2030, and the CSU has a significant role to play as the largest public university system in the state. In fact, one in 10 California employees and one in 20 degree holders in the country are graduates of the CSU.

The 2017–18 Support Budget plan represents continued and increased state investment in the CSU. We believe this budget plan, which totals \$343.7 million in new resources for 2017–18, reflects the current needs of the CSU and sustains the momentum built in recent years. The CSU's \$5.4 billion total budget is funded from two sources: \$3.2 billion from state general funds and \$2.2 billion from net tuition and fee revenue.

The support budget plan coordinates our collective efforts toward the ambitious and challenging goals of Graduation Initiative 2025. The CSU has already met and exceeded the goal set in 2009. This prompted the CSU to set even higher systemwide and campus goals for four- and six-year graduation rates, to completely eliminate the achievement gap for underrepresented students, low-income students, and first-generation students, and to do our part to meet California's need for more bachelor's degrees by 2030. With proper financial support for the Graduation Initiative, we are confident we can achieve these goals. Much of our past success is attributable to campuses encouraging students to take a full-time course load each term, increasing the availability of courses, restoring student services that were cut during recession years, and hiring more tenure-track faculty. Additional resources will allow campuses to build on this progress and take quicker action to reduce roadblocks to degree completion.

The budget plan also dedicates significant funding for employee compensation. Our faculty and staff are critical to the success of our students. Funding requests for compensation are to cover collective bargaining agreements already in place, including the conversion of one-time funding used in 2016–17 to recurring funding for these ongoing costs. Additionally, the plan assumes costs for collective bargaining units with open contracts in 2017–18 and similar commitments to non-represented employee groups.

The CSU anticipates funded enrollment growth of approximately 3,616 resident full-time equivalent students (FTES), raising the total systemwide FTES to 365,260. The CSU is also requesting recurring state funds for academic facilities and infrastructure needs, though this request would only allow the CSU to slow the growth in the deferred maintenance backlog and not reduce it.

In addition to the Board of Trustees priorities outlined here, new state funding will be used to fund mandatory cost increases for health and dental benefits, retirement, the operation and maintenance of new buildings on campuses, and the effect on salaries due to changes in state and federal wage laws.

For the CSU to fully meet the expectations of the California Master Plan for Higher Education, this budget plan is justified. The current levels of state general fund support coupled with student tuition and fees do not meet the needs of the CSU nor do they match the ambitious goals we have set for ourselves and our students. Going forward, the CSU faces a number of fiscal challenges that must be addressed so the CSU can focus on its core mission. The CSU is confident the 2017–18 Support Budget plan is a step in the right direction and represents a significant investment in a multi-year effort to meet the education and workforce needs of the state.



A background photograph showing two women in a professional setting. The woman on the left is wearing a red top and a patterned scarf, looking down at a document. The woman on the right is wearing a blue beanie, glasses, and a denim jacket, smiling and looking at the same document. A third person in a blue jacket with a yellow 'U' logo is partially visible on the far left.

2017–18 Expenditure Augmentations

- \$75.0 million for Graduation Initiative 2025
- \$139.1 million for compensation (current contracts)
- \$55.1 million for compensation (new contracts & non-represented staff)
- \$38.5 million for a one percent increase in funded enrollment
- \$10.0 million for academic facilities and infrastructure
- \$26.0 million for mandatory cost increases (e.g. health & dental benefits, retirement, new facilities, and federal and state mandates)

Three-Year Budget Summary

Table 1: Support Budget	2015–16 Actuals	2016–17 Final Budget¹	2017–18 Plan
General Fund	\$2,666,784,000	\$2,859,449,000	\$3,174,306,000
Net Tuition and Other Fee Revenue ²	2,378,855,000	2,214,440,000	2,233,284,000
TOTAL SUPPORT BUDGET	\$5,045,639,000	\$5,073,889,000	\$5,407,590,000

Table 2: Academic Facilities and Infrastructure	2015–16 Actuals	2016–17 Final Budget¹	2017–18 Plan
General Fund Debt Service Payments on Existing Facilities ³	\$305,741,000	\$311,809,000	\$316,879,000
Budget Plan: Maintenance and Infrastructure Totals	35,000,000	35,000,000	45,000,000
TOTAL ACADEMIC FACILITIES AND INFRASTRUCTURE	\$340,741,000	\$346,809,000	\$361,879,000

Total Support Budget General Fund Increase **\$314,857,000**

Enrollment, Programs, and Operations (Support Budget)

Net Tuition Revenue Adjustment⁴ **\$18,844,000**

Academic Facilities and Infrastructure (General Fund) **\$10,000,000**

TOTAL SOURCES OF REVENUE	\$343,701,000
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Table 3: Sum of Tables 1 & 2	2015–16 Actuals	2016–17 Final Budget¹	2017–18 Plan
Total Support Budget	\$5,045,639,000	\$5,073,889,000	\$5,407,590,000
Total Maintenance and Infrastructure	340,741,000	346,809,000	361,879,000
GRAND TOTALS	\$5,386,380,000	\$5,420,698,000	\$5,769,469,000

¹ The CSU 2016–17 GF Final Budget Act Appropriation (support budget) was \$3,169,425,000, including \$346,809,000 for academic facilities and infrastructure. Additionally, the state-funded 2016–17 employer-paid retirement adjustment of \$36,833,000 is added to the GF support budget total.

² Includes tuition and other fee revenue reduced by total State University Grants and tuition waivers (reference Table 4).

³ Total 2015–16 actual GF appropriation for debt service was \$303,944,000 versus expenditure of \$305,741,000. Beginning in 2014–15, state lease revenue bond and general obligation (GO) bond debt service attributable to CSU academic facilities are included in the CSU main state appropriation. In 2017–18, the lease revenue bond debt service increases \$5.1 million to a total of \$119.6 million. There is no change in the GO bond debt service amount of \$197.2 million.

⁴ This represents revenue to be collected from an increase in funded enrollment net of State University Grants.



Three-Year Summary of State University Grants (SUGs) and Tuition Waivers/Revenue Foregone

Table 4	2015–16 Actuals	2016–17 Final Budget	2017–18 Plan
SUG Awards ¹	\$643,588,000	\$661,643,000	\$665,599,000
Tuition Waivers ²	67,743,000	67,743,000	67,743,000
TOTAL SUG AWARDS AND WAIVERS/ REVENUE FOREGONE	\$711,331,000	\$729,386,000	\$733,342,000

¹ SUG awards cover tuition for eligible students with financial need. Amounts awarded reflect foregone tuition revenue for the CSU.

² Includes the campus tuition waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08). Amounts awarded reflect foregone tuition revenue for the CSU.



Three-Year Budget Summary and Highlights by Program

Table 5	2015-16 Actuals	2016-17 Final Budget	2017-18 Plan
Instruction	\$2,292,517,000	\$2,448,831,000	\$2,448,831,000
Research	13,925,000	11,684,000	11,684,000
Public Service	12,723,000	11,440,000	11,440,000
Academic Support	612,818,000	612,621,000	612,621,000
Student Services	637,584,000	598,291,000	598,291,000
Institutional Support	744,654,000	788,950,000	788,950,000
Operation and Maintenance of Plant ¹	1,030,677,000	908,962,000	914,032,000
Student Grants and Scholarships (without SUG Awards) ²	41,482,000	39,919,000	39,919,000
New Expenditure Augmentations	0	0	343,701,000
TOTAL EXPENDITURES²	\$5,386,380,000	\$5,420,698,000	\$5,769,469,000

¹ 2017-18 operations and maintenance of plant includes the \$5.1 million state increase in lease revenue bond debt service.

² Amount is reduced by total SUG awards as shown in Table 4.

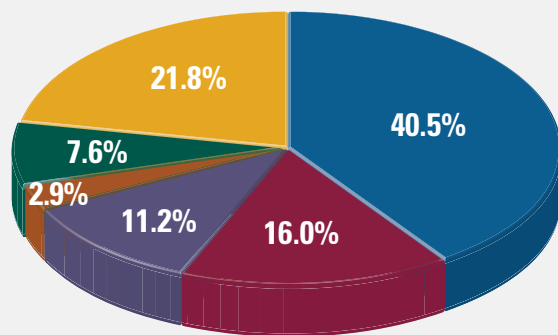
Sources of Funds and Expenditure Augmentations

SOURCES OF FUNDS

General Fund Increase	\$324,857,000
Net Tuition Revenue Adjustment (3,616 Full-Time Equivalent Students' Revenue)	18,844,000
TOTAL REVENUE INCREASE	\$343,701,000

EXPENDITURE AUGMENTATIONS

Graduation Initiative 2025/Student Success	\$75,000,000
Compensation: Current Contracts	139,138,000
Compensation: New Contracts & Non-Represented Staff	55,056,000
One Percent Increase in Enrollment Growth	38,507,000
Academic Facilities and Infrastructure	10,000,000
Mandatory Costs	26,000,000
Compensation Related	
Health Benefits	912,000
Dental Benefits	2,429,000
Retirement	7,000,000
Federal and State Mandates	14,883,000
Other Increases	
Maintenance of New Facilities	776,000
TOTAL EXPENDITURE INCREASE	\$343,701,000



Distribution of Expenditure Augmentations

- Graduation Initiative 2025/Student Success
- Compensation: Current Contracts
- Compensation: New Contracts & Non-Represented Staff
- One Percent Increase in Enrollment Growth
- Academic Facilities and Infrastructure
- Mandatory Costs

SOURCES OF REVENUE

State General Fund

The proposed budget includes a \$324.9 million increase to the CSU's current \$3.2 billion General Fund base budget, for a total of almost \$3.5 billion, including debt service. This increase will fund Graduation Initiative 2025, new and existing compensation pool increases, one percent enrollment growth, facilities and infrastructure needs, and various mandatory cost obligations.

Tuition Revenue

The CSU receives about 45 percent of its operating funds from tuition revenue. The 2017–18 budget plan supports a one percent increase in resident enrollment (3,616 FTES), which is projected to generate \$18.8 million in new tuition revenue, after adjusting for State University Grants. Total resident enrollment would increase from 361,644 resident FTES to a new level of 365,260 FTES.

The CSU has put forward a proposal for a potential tuition increase for the 2017–18 academic year, following the consultative process laid out in the Working Families Student Fee Transparency and Accountability Act. The proposed increase will be discussed with the Board of Trustees in early 2017. If the proposed increase is approved, it would generate up to \$77.5 million in revenue that could help support the total budget request if additional state general funds are not allocated. The timing of the state budget process, combined with a desire to give students and their families as much time as possible to plan, means a tuition increase would have to be approved by March in order to be an option for fall 2017. However, CSU's highest priority will be to advocate for full funding of the 2017–18 support budget plan by the state.





Sources of Revenue:

The total 2017–18 Support Budget plan increase is \$343.7 million from a combination of state General Fund and net tuition revenue.

State General Fund Increase	\$324,857,000
Net Tuition Revenue Adjustments	18,844,000

TOTAL	\$343,701,000
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CSU FINANCIAL AID

Keeping in line with our student-centered mission, the CSU foregoes significant revenue to provide tuition assistance in the form of State University Grants. For 2017–18, the CSU projects over \$733 million in grants and waivers will be awarded. Thousands of State University Grants are awarded each year to assist students who have the greatest financial need. The CSU also provides thousands of tuition waivers for eligible students under state and CSU programs. A summary of the total tuition waived due to grants and waivers from 2015–16 through 2017–18 is included in the Three-Year Budget Summary and Highlights section on page 5.

State University Grant Program

The State University Grant (SUG) program is a critical source of financial assistance for CSU students. Since its inception in 1982–83, the SUG program has provided awards to offset the cost of tuition for resident students who have the greatest financial need.

Prior to 1992–93, the state provided the funds necessary to ensure adequate financial aid was available for the CSU's neediest students. Since 1992–93, the CSU has continued this program by setting aside a portion of new tuition revenue generated through enrollment growth or changes in tuition rates.

The amount projected for 2017–18 SUG awards is \$665.6 million, an increase of \$4.0 million from 2016–17. The increase is due to a set-aside from tuition revenue derived from one percent enrollment growth (\$1,094 per FTES). This \$665.6 million of financial aid reflects tuition that is not collected—in effect, waived—thus decreasing total tuition revenue.







Tuition Waivers

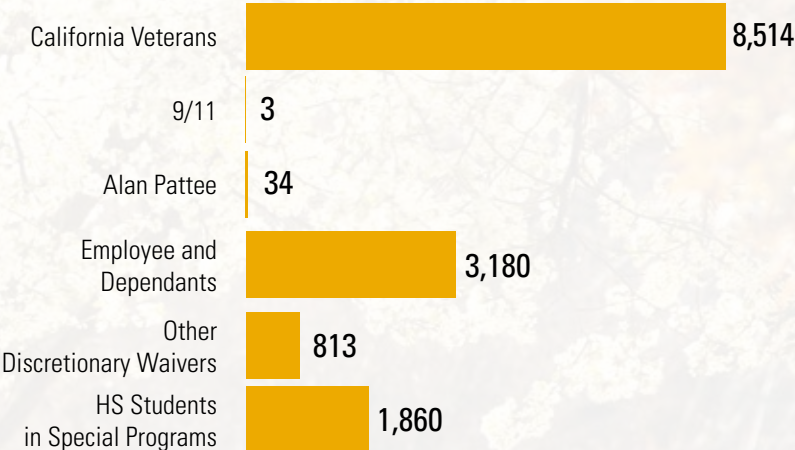
Under current law, there are four state-mandated resident tuition waiver programs:

- California Veterans Waiver for children of disabled/deceased veterans (Education Code 66025.3);
- Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code 68120);
- The tuition waiver for California residents who were dependents of victims killed in the September 11, 2001 terrorist attacks (Education Code 68121); and
- The tuition waiver for the two students serving on the Board of Trustees (Education Code 66602).

In addition to state-mandated waiver programs, other programs include waivers for employees and employee dependents pursuant to collective bargaining agreements. Some optional waivers have been established by Board of Trustees policy and California statute including programs for high school students and California residents age 60 years and older, among others. The state has not provided General Fund support for any CSU tuition waiver programs since fiscal year 1992–93.

In the 2015–16 college year (fall, winter, spring, and summer), 14,404 tuition waivers were granted to CSU students. When tuition rates are applied to these waivers based on student enrollment status, it amounts to approximately \$67.7 million in revenue foregone to the CSU.

2015–16 Systemwide Tuition Waivers



USES OF REVENUE

The 2017–18 CSU Support Budget recommends an expenditure plan based on increasing state General Fund and tuition revenue from enrollment growth in order to cover the cost of new expenditures. The expenditures outlined in this plan address the university’s fundamental priorities for the 2017–18 fiscal year. These include increases for Graduation Initiative 2025, employee compensation, enrollment growth, academic facilities and infrastructure, and mandatory costs.

Graduation Initiative 2025

The 2017–18 Support Budget plan includes \$75 million for Graduation Initiative 2025. In 2009, the CSU set out to improve six-year completion rates and halve achievement gaps for first-time freshmen by 2015. With state support, the CSU was able to make modest investments in tenure-track hiring, increase course taking opportunities, enhance advising and education plans, improve academic and student support, and leverage data for campus decision making. Building on the success of Graduation Initiative 2009 the CSU decided, in consultation with campus leaders and other key stakeholders, to raise the bar even higher.

Graduation Initiative 2025 is focused on aggressive goals for both freshman and transfer students. By more than doubling the four-year rate from 19 percent to 40 percent systemwide and raising the six-year rate from 52 percent to 70 percent for freshmen, in combination with two- and four-year graduation rate goals for transfer students, the CSU will contribute its share of the bachelor’s degrees needed in California by 2030. The CSU is also committed to fully eliminating achievement gaps for underrepresented, low-income and first-generation students. The \$75 million request represents the first year of a multi-year investment that is needed in order to achieve the CSU’s ambitious new graduation and student success goals.





Five Priority Areas for Graduation Initiative 2025

With \$75 million distributed across the CSU based upon an allocation model which considers the student populations of each campus, these resources will allow campuses to prioritize the investments they make to improve time to degree, eliminate student achievement gaps, and ensure every student has access to the tools, resources and guidance needed to achieve.

- 1. Tenure-Track Faculty Hiring:** Campuses will continue to prioritize the hiring of tenure-track faculty and to improve the ratio of tenure and tenure-track faculty to lecturers, as well as improve student/faculty ratios. These funds will enable campuses to hire more tenured and tenure-track faculty systemwide. This increase will provide opportunities to offer more sections of high-demand courses.
- 2. Improved Course Taking Opportunities:** Campuses will develop infrastructure to accurately predict student demand for course sections, will organize the schedule of classes to prioritize the delivery of courses required for degree completion, and will strategically allocate campus resources to align with demand throughout the college year.
- 3. Enhanced Advising and Education Plans:** Through the hiring of more professional staff advisors and investing in the use of technology to provide clear and accurate education plans, the CSU has prioritized this critical component of academic and student success. Investing in advising will improve opportunities for students to focus on specific academic and career goals, improving both student services and institutional efficiency.
- 4. Academic and Student Support:** By identifying and supporting academic and student services and programs which have systemic, campus-wide impact, campuses will scale-up a range of successful strategies to improve retention and completion.
- 5. Actively Leveraging Data:** Campuses will continue investment in improving student information systems and the use of available data to facilitate more strategic and intentional campus decision making.

Compensation Increase

The CSU Board of Trustees recognizes compensation for faculty, staff and management as a key element of the university's success. Continued investment to make progress toward competitive salaries is critical for the CSU to fulfill its primary mission of access to an affordable and high-quality education. A competitive compensation package is essential to the CSU's ability to recruit and retain faculty, staff and management employees who contribute to the CSU's mission of excellence.

This budget plan calls for approximately \$194.2 million to fund compensation increases, which consists of two parts: current contracts (\$139.1 million) and a compensation pool increase for new contracts open in 2017–18 and non-represented employee groups (\$55.1 million).

Current Contracts: \$139,138,000

The \$139.1 million for current compensation commitments includes permanent replacement of one-time funds toward compensation costs in 2016–17 (\$33.0 million), costs associated with a June 30, 2017 increase (\$21.9 million), and costs associated with a July 1, 2017 compensation increase (\$84.2 million) for faculty and staff with existing collective bargaining agreements.

Open Contracts & Non-Represented Staff: \$55,056,000

The \$55.1 million for new contracts will fund a compensation pool increase effective July 1, 2017 for represented and non-represented employee groups without existing commitments for 2017–18.

Funded Student Enrollment: \$38,507,000

The 2017–18 budget plan includes one percent enrollment growth, which is equal to 3,616 California resident FTES based on a 2016–17 enrollment base of 361,644.

2016–17 Resident FTES Base	361,644
2017–18 Resident Student Enrollment Growth (1%)	3,616
2017–18 RESIDENT FTES	365,260

The cost to fund one percent enrollment growth is derived using a marginal cost rate of \$10,649 per FTES. New enrollment requires new funds for direct instruction, academic support, student services, institutional support, and plant operations totaling \$38.5 million.



Academic Facilities and Infrastructure: \$10,000,000

The 2017–18 budget proposes \$10 million to address the CSU’s most urgent facilities maintenance and utilities infrastructure needs. Under current bond market conditions, this amount would finance approximately \$150 million for much needed capital projects. The CSU prioritizes critical infrastructure and utility renewal projects and facility renovation to support academic program needs. The \$10 million request will also enable the CSU to fund limited physical capacity growth to serve growing student enrollment.

However, the budget request will only allow the CSU to keep pace with our aging infrastructure. It will not reduce the deferred maintenance backlog, which currently stands at approximately \$2 billion, when funded projects are completed. The backlog is expected to grow at an estimated \$143 million per year as facilities continue to age and limited funds are available.

Mandatory Costs: \$26,000,000

Mandatory costs are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase independent of the state budget condition. These costs include increases for employee health, dental and retirement benefits, and the operations and maintenance of newly constructed facilities. Additionally, funding is included in 2017–18 to address increasingly greater compensation costs due to changes in federal overtime rules and state minimum wage laws. Without funding for these types of mandatory cost increases, campuses must redirect resources from other program areas to meet these obligations. In order to preserve the integrity of CSU programs, the 2017–18 plan provides for the following increases in mandatory cost obligations.

Health Benefits	\$912,000
Dental Benefits	2,429,000
Retirement Benefits	7,000,000
Maintenance of New Facilities	776,000
Federal and State Mandates	14,883,000
<hr/>	
Total	\$26,000,000

CONTINUING CHALLENGES

The CSU will continue to work with state leaders and explore all options to meet the mission to provide access to an affordable, quality higher education.

The 2017–18 Support Budget plan lays out a vision for our students, faculty, staff and the state of California. However, even if the state fully funds the budget plan, there are a number of challenges faced by the CSU—now and over the long-term. Some of these challenges include: continued progress on graduation rates while maintaining access with limited incremental funding, a stagnant deferred maintenance backlog, and ongoing inflationary pressures.

Increasing Graduation Rates and Maintaining Access

While the 2017–18 budget plan supports a one percent increase in resident student enrollment (3,616 FTES), this is only a small step towards addressing California’s higher education demand. The Public Policy Institute of California continues to project a shortfall of more than one million bachelor’s degrees by 2030, and at the current rate of enrollment growth, the CSU cannot fulfill its role.

Additionally, an increase in students does not necessarily correspond with new enrollment, as one of the strategies of Graduation Initiative 2025 involves increasing the average number of courses students take during the academic year. This will raise the average unit load carried by students—currently at 12.9 units per term. The minimum unit load for a full-time undergraduate student is 12 units per term to qualify for full financial aid, though to graduate within four years, a student must take at least 15 units per term.

Given additional state funding, the CSU could expand year-round operations to decrease time to degree and increase access to higher education. This would allow the CSU to offer a more robust summer/winter course schedule so students can make continuous progress toward degree. State funding for year-round operations could also allow the CSU to provide a level of financial aid for summer enrollment.

The CSU continues to experience increased enrollment demand from community college graduates, especially since the Student Transfer Achievement Reform Act (Senate Bill 1440) was enacted in 2010. The act required the CSU to guarantee admission for community college students who complete an associate degree for transfer. From fall 2005 to fall 2015, the number of new community college transfer students increased almost 40 percent from 34,296 to nearly 48,000 students. The CSU is balancing demand for a CSU education from growing numbers of transfer students and increasing numbers of qualified high school graduates, and supplying as many of those students as possible with an affordable, high-quality education.





Deferred Maintenance Backlog

One of the lingering effects of the Great Recession is the deferral of maintenance on buildings and the continued depreciation of facilities and utilities infrastructure beyond their useful life. The CSU operates about 43 million square feet of academic building space across 23 campuses statewide.

At many of our campuses, the utilities infrastructure is obsolete, built more than a half century ago, and in need of upgrade or replacement. The CSU continues to squeeze more life out of many outdated and overworked academic buildings, despite the ever-increasing financial costs. Further, the continued use of antiquated facilities impedes the educational opportunities of students and the CSU's ability to attract and retain faculty.

The backlog of maintenance and utilities infrastructure needs exceeded \$2.6 billion in fiscal year 2015–16. With an infusion of one-time and recurring funds from the state in recent years, the CSU has been able to reduce the backlog to \$2.0 billion, when funded projects are completed. This is good progress, yet the backlog continues to grow at an estimated \$143 million per year as facilities continue to age. Even if the state were to approve the CSU's request of \$10 million in recurring funding for deferred maintenance and infrastructure, this amount would only allow the CSU to finance approximately \$150 million for needed maintenance and infrastructure projects—just enough to maintain the backlog at current levels but not reduce it.

With limited funding, the CSU can only target the most critical renewal and repair projects in the deferred maintenance backlog, including health and safety concerns at each campus (e.g. fire protection, structural repairs, roofing, HVAC, and elevators), to avert building and campus shutdowns. The CSU has also prioritized the utilities infrastructure, which includes electrical distribution, natural gas piping, storm and sewer drain lines, and plumbing and water systems. Any interruptions, shutdowns, or failures in any of the infrastructure areas will impede our ability to provide educational services in a safe environment for students, faculty and staff—and potentially result in additional damage to already stressed systems and infrastructure.

Inflation

Like any other institution, the CSU will continue to experience inflationary pressures. Using the Consumer Price Index (CPI-Urban for California), the average rate of inflation for the past decade is approximately two percent per year. This percentage may not seem significant, but when placed in context of state appropriations to the CSU that fund enrollment growth and facility infrastructure on top of ongoing expenses, these inflationary increases have a detrimental impact. In recent years, the CSU has received an increase in general fund appropriations from the state of about four percent. This means most of the state general fund increase is already committed to inflationary increases before any of the augmentations laid out in each support budget request is funded.

In non-inflation adjusted dollars, state appropriations to the CSU have recovered to the 2007–08 pre-recession level of \$2.97 billion. Yet, when the 2007–08 appropriations are adjusted for inflation, state funding in 2016–17 is nearly \$500 million less than \$3.5 billion in 2007–08. Meanwhile, the CSU has 23,000 more resident FTES now than a decade ago and mandatory costs such as employee health benefits have risen faster than inflation.

Without an increase in the state appropriation, the CSU will continue to be challenged by inflationary realities that limit campus budget flexibility as well as the ability for campuses to dedicate as many resources as possible to achieve sustainable progress in Graduation Initiative 2025, compensation, infrastructure, and other areas vital to the CSU mission.



ONE-TIME REQUESTS

In addition to the permanent funding increases included in this plan, the 2017–18 Support Budget plan seeks additional, one-time investments from the state. In the recent past, the state has proposed and provided one-time funding for a variety of energy efficiency and maintenance projects on CSU campuses.

Cap-and-Trade Program

The CSU plan seeks funds from the California Cap-and-Trade Program for renewable energy and energy efficiency projects. As these state funds are purposed for implementing energy efficiency and greenhouse gas reduction projects, the CSU plan seeks \$25 million from the Cap-and-Trade Program for 2017–18 to further these efforts. In addition, discussions with the CSU/UC Investor-Owned Utility Partnership Executive Committee to potentially leverage the utility rebate incentive program in partnership with the Cap-and-Trade funding would further incentivize energy conservation projects across the CSU system.

Deferred Maintenance Backlog

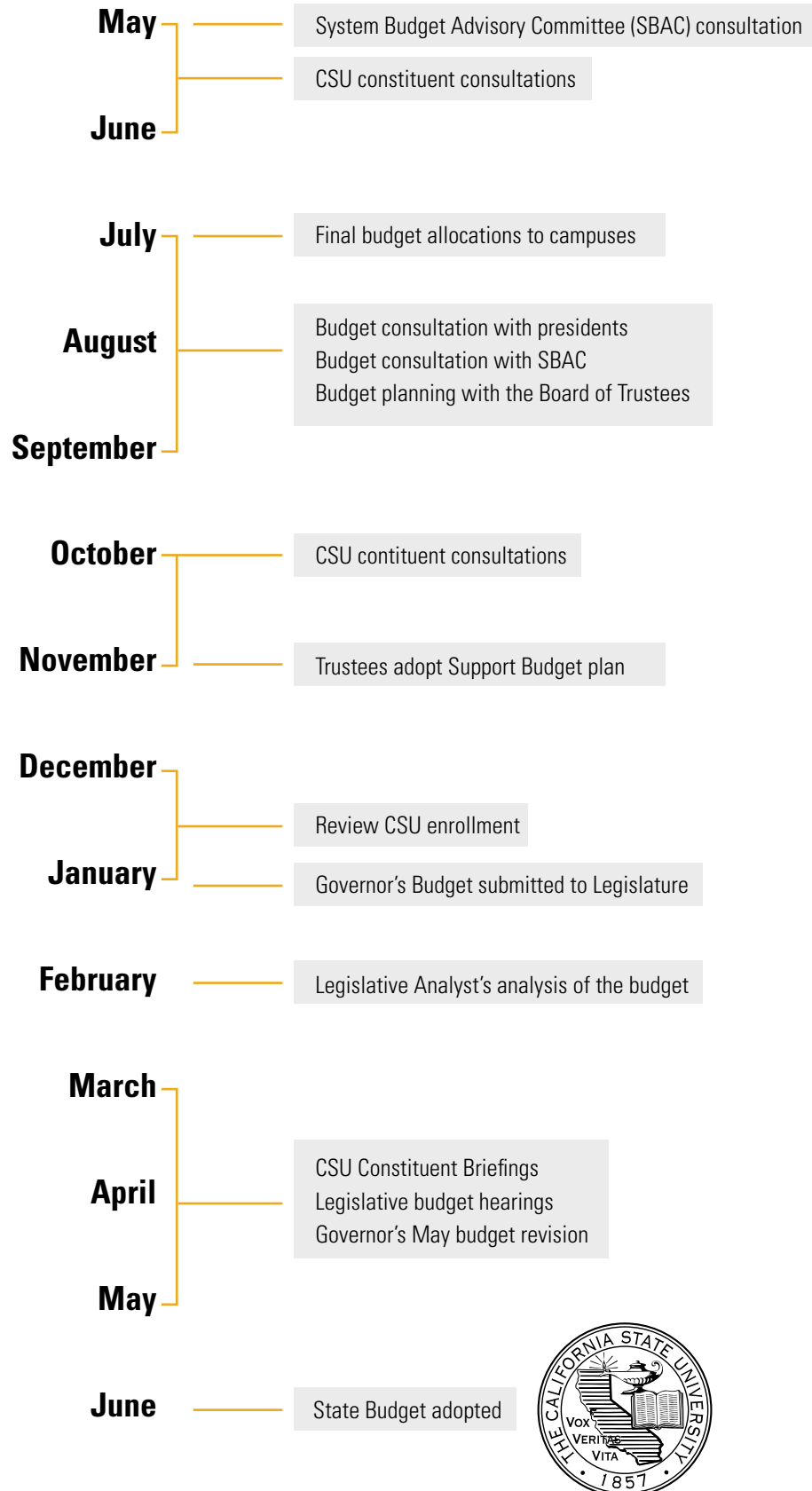
The CSU plan seeks an additional \$50 million of one-time funding to further address the deferred maintenance backlog. Critical deficiencies identified throughout the 23 campuses will be addressed to enable campuses to continue essential operations, reduce the likelihood of catastrophic failures, and meet current code requirements to operate safe facilities. Major building systems that have exceeded the expected service life will be modernized to enable campuses to operate utilities more effectively, improve HVAC systems efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions, and extend the useful life of existing facilities. The one-time funding will be spent on projects on a pay-as-you-go basis.

Together, funds from the Cap-and-Trade Program and funds for deferred maintenance will directly support statewide initiatives to attain energy and water conservation and greenhouse gas reductions.





BUDGET CYCLE





CSU The California State University

401 Golden Shore, Long Beach, CA 90802

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COMMITTEE ON FINANCE

Conceptual Approval of a Public-Private Partnership Project with the Los Angeles Football Club to Develop a Performance Center at California State University, Los Angeles

Presentation By

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Financing, Treasury, and Risk Management

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Summary

This item requests conceptual approval to pursue a public-private partnership plan with the Los Angeles Football Club (LAFC) to develop land for a training performance center on the California State University, Los Angeles campus. If the concept is approved, the proposed partnership project would return to the board for final approval of the real property development agreement.

Background

LAFC is an expansion of the Major League Soccer franchise founded in October 2014 by a diverse group of Los Angeles civic leaders and a team of global business and philanthropic individuals. LAFC is constructing a \$350 million, 22,000-seat open-air stadium at the former site of the Los Angeles Memorial Sports Arena, which is expected to be completed in time for the team's debut in 2018.

Related to the expansion and separate from the construction of the stadium, LAFC is considering Cal State Los Angeles as a proposed site to develop a performance center to house practice fields and training facilities.

Project Description

The project proposes construction of one natural grass professional-sized soccer field, a new practice training facility, and approximately 50 designated parking spaces on a four-acre site along the university's northern boundary. The site is currently a vacant field situated near student housing facilities and the campus north entrance on East Valley Boulevard. The project will include a 30,000 square foot building housing facilities for sports medicine, nutrition, training, and education and includes sitework and grading to transform the existing topography into usable land.

The campus received support for the project concept from the CSU Land Development Review Committee as part of the due diligence process. The campus will also complete the environmental review process as required by the California Environmental Quality Act to analyze project impacts on traffic, noise, air quality, etc. In order to mitigate noise impacts, it is anticipated the developer will be required to adhere to the campus' sound policy that in part limits the use of sound amplification to the hours of 12 p.m. to 3 p.m. no more than twice per week. In addition, the campus will require the design of any field lighting to minimize the spill-over of light into the adjacent neighborhood. While specific environmental impacts have yet to be identified, these two examples provide insight to the campus requirements for the proposed development to mitigate environmental impacts. A campus open house to solicit community input on the proposed project will be scheduled in December pending the board's consideration of the project concept.

Educational Benefits

The proposed partnership will create direct educational benefits for students by drawing on both the expertise of LAFC personnel and their presence at the campus. The project supports the university's academic mission by providing students with direct research, scholarship, internship, and job opportunities with a professional sports organization. The School of Kinesiology and Nutritional Science already works with the LAFC and has placed students with the organization. This partnership will benefit students further from the presence of the performance center, which will provide hands-on experiences for students. Additionally, the LAFC partnership will allow Cal State Los Angeles to complete the development of a Sports Management degree program by providing important revenues and resources, including the use of the state-of-the-art facility by campus student athletes, to advance Cal State Los Angeles' athletic and educational goals. Established academic programs such as Business, Education, Exercise Science, Nursing, Child Development, Youth Agency Administration, and Public Health and Community Health may also benefit from the partnership, and additional opportunities will be available to students within the respective industries of the LAFC owners. Revenues from the ground lease will be used to support academic programs and other campus services.

Through shared use of the project, Cal State Los Angeles will be able to enhance its fundraising and summer programs by hosting revenue-generating activities, such as sports camps and campus sponsored athletic and community engagement events. LAFC has already donated \$100,000 to Cal State Los Angeles athletics programs and will provide additional ongoing benefit by improving and maintaining the campus's existing track and field facility during the life of the partnership.

The facilities will also be available for the LAFC Youth Academy, a community-focused program that has utilized Cal State Los Angeles facilities since the spring of 2016 and offers opportunities to young soccer players who might not otherwise be able to afford the cost of developmental soccer clubs.

The project will provide youth in the neighboring communities of Cal State Los Angeles with better access to top-quality athletics programs and the opportunity for exposure to campus life and learning experiences, which may increase the likelihood of first-generation students to enroll in college. Moreover, the project will transform the blighted property at the northern gateway to the campus, enhance quality of life for current students, make it more appealing for prospective students, and improve prospects for attractive, student-centered commercial development adjacent to the campus. Overall, the campus location, service area, and educational mission are an ideal fit with LAFC's focus on serving local communities and target fan base.

Financing

The campus anticipates entering into a ground lease with LAFC at fair market value rent based on an appraisal of the site. LAFC will be responsible for financing, constructing, operating, and maintaining the facility in good condition during the term of the lease. The real property development agreement is envisioned as an initial 10-year ground lease term with 2 ten-year extension options. The campus also anticipates that LAFC will also fund improvements to the campus' existing soccer fields and provide the campus access to the new practice fields for university use. The LAFC will also be responsible for costs associated with the environmental and entitlement processes in accordance with CSU requirements. No campus funds will be committed to the project. The site development will revert to the Cal State Los Angeles upon termination of the lease.

Approval of the Final Development Plan

Per board policy, as the project moves forward, all related master plan revisions, amendments of the capital outlay program, proposed schematic plans, financial plans, proposed key business points of the finalized development plan, agreements regarding operating conditions and mutual use, and the required environmental documents will be presented at future meetings for final approval by the board prior to execution of any commitments for development and use of the property.

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-private partnership with the Los Angeles Football Club to develop a performance training center.
2. Authorize the chancellor and the campus to enter into negotiations for agreements necessary to develop the final plan for the public-private partnership as explained in Agenda Item 6 of the November 15-16, 2016 meeting of the Committee of Finance.
3. Authorize the chancellor and campus to enter into a due diligence access and option agreement which provides the Los Angeles Football Club with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following future action items relating to the final plan:
 - a. Review of project environmental mitigation measures that will include traffic, sound, aesthetics, etc. in order to consider the certification of the required California Environmental Quality Act documentation;
 - b. Approval of a developer agreement with the advice of the chancellor;
 - c. Approval of any amendments to the campus master plan as they pertain to the project and long-term campus land use;
 - d. Approval of an amendment to the Capital Outlay Program;
 - e. Approval of schematic design.