

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting:**     **3:30 p.m., Tuesday, November 7, 2017**  
                  **Glenn S. Dumke Auditorium**

Peter J. Taylor, Chair  
John Nilon, Vice Chair  
Jane W. Carney  
Adam Day  
Hugo N. Morales  
Jorge Reyes Salinas  
Lateefah Simon

**Consent**       Approval of Minutes of the Meeting of September 19, 2017

1. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, San Bernardino and California State University, Stanislaus, *Action*
2. 2018-2019 Lottery Budget and Report, *Action*
3. 2017-2018 Student Fee Report, *Information*

**Discussion**   4. Approval of the 2018-2019 Operating Budget Request, *Action*  
                  5. Approval of a New Master Investment Policy for the California State University, *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 19, 2017**

**Members Present**

Peter J. Taylor, Chair  
John Nilon, Vice Chair  
Jane W. Carney  
Adam Day  
Hugo N. Morales  
Jorge Reyes Salinas  
Lateefah Simon  
Rebecca Eisen, Chair of the Board  
Timothy P. White, Chancellor

Trustee Peter J. Taylor called the meeting to order.

**Public Comment**

Representative of the CSU Employees Union (CSUEU) commented about bargaining needs and the value of CSUEU employees. They also commented about a state audit report on management salaries. Hector Fernandez of the State Employees Trades Council asked the trustees to not only consider the benefit of public-private partnerships, but also analyze the long term costs and commitments.

**Approval of Minutes**

The minutes of the July 18, 2017 meeting were approved as submitted.

**Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for the New Student Residence Hall Project at San Diego State University**

Trustee Taylor presented agenda item one as a consent action item. The committee recommended approval of the proposed resolution (RFIN 09-17-10).

**Conceptual Approval of a Public-Private Partnership Student Housing Development Project at California State University, Sacramento**

Trustee Taylor presented agenda item two as a consent action item. The committee recommended approval of the proposed resolution (RFIN 09-17-11).

**Conceptual Approval of a Public-Private Partnership Mixed-Use Development Project at California State University, Dominguez Hills**

Trustee Taylor presented agenda item three as a consent action item. The committee recommended approval of the proposed resolution (RFIN 09-17-12).

**California State University Annual Investment Report and Establishment of the Investment Advisory Committee**

Trustee Taylor presented agenda item four as a consent action item. The committee recommended approval of the proposed resolution (RFIN 09-17-13).

**Planning for the 2018-2019 Operating Budget**

The proposed operating budget for the 2018-2019 fiscal year was presented.

Following the presentation, trustees asked questions related to budget calculations, mandatory costs, and efficiencies. They also asked what actions and strategies could be taken to maximize advocacy efforts.

**California State University Reserve Policy and Summary of Reserves**

Information about the CSU's policy on reserves was presented.

Following the presentation, trustees asked questions related to benchmarks for reserves, use of carryover funds, designation of reserves, and restriction of funds.

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 California State University, San Bernardino and California State University, Stanislaus**

#### **Presentation By**

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

#### **Summary**

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program in an aggregate amount not-to-exceed \$110,575,000 to provide financing for two campus projects:

1. California State University, San Bernardino College of Extended Learning Expansion
2. California State University, Stanislaus University Union Renovation and Expansion

The trustees are being asked to approve resolutions related to these financings.

#### **Background**

The SRB program provides capital financing for projects of the CSU – 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 other 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 consolidated pledge of gross revenues to the bondholders strengthens the SRB program and 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 used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.

## **1. California State University, San Bernardino College of Extended Learning Expansion**

The California State University, San Bernardino College of Extended Learning Expansion project was approved by the trustees at their November 17–18, 2015 meeting as part of the 2016-2017 Capital Improvement Plan and schematics for the project were approved at the January 31–February 1, 2017 meeting. The project will provide instructional and administrative space for the College of Extended Learning to accommodate enrollment growth of the International Student Programs and the Extended Learning Program. The new 71,465 gross square foot building will include configurable classrooms of varying sizes, a 250-seat auditorium, multi-purpose rooms, administrative offices, study lounges, retail food service, and ten shared classroom spaces to increase lecture space for campus wide institutional use. The project will be funded by the College of Extended Learning revenues and reserves.

The not-to-exceed par amount of the proposed bonds is \$55,170,000, based on a total budget of \$55,000,000 with a contribution of \$6 million from College of Extended Learning reserves. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$6,170,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in December 2017 with completion expected in August 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$55,170,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$3,625,305
Projected debt service coverage including the new project: Net revenue – San Bernardino pledged revenue programs: <sup>1</sup>	1.60
Net revenue – Projected campus continuing education program:	1.40

1. Based on campus projections for all pledged revenue programs in 2020-2021, the first full year of operations of the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.30 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a continuing education program net revenue debt service coverage of 1.40 in fiscal year 2020-2021, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. Combining the project with projected information for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 1.60, which exceeds the CSU benchmark of 1.35 for a campus.

## 2. California State University, Stanislaus University Union Renovation and Expansion

The California State University, Stanislaus University Union Renovation and Expansion project was approved by the trustees at their November 17-18, 2015 meeting as part of the 2016-2017 Capital Improvement Plan and schematics for the project were approved at the January 31-February 1, 2017 meeting. The project consists of a new two-story 72,540 gross square foot building that will replace the existing University Union building originally built in 1978. The project will also include the renovation and repurposing of the adjacent campus bookstore into an event center. The new building will include a multi-purpose assembly space, food services and retail facilities, the relocated bookstore, student government and leadership offices, a cross cultural center, a lounge, conference rooms, and a coffee shop.

The not-to-exceed par amount of the proposed bonds is \$55,405,000, based on a total budget of \$55,539,000 with a contribution of \$6,868,000 from student union program reserves. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$6,734,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in March 2018 with completion expected in November 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$55,405,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$3,640,943
Projected debt service coverage including the new project:	
Net revenue – Stanislaus pledged revenue programs: <sup>1</sup>	1.83
Net revenue – Projected campus student union program:	1.30

1. Combines 2016-2017 information for all campus pledged revenue programs with 2020-2021 projections for the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.30 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a student union program net revenue debt service coverage of 1.30 in fiscal year 2020-2021, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. Combining the project with 2016-2017 information for all campus pledged revenue programs yields overall net revenue debt service coverage for the first full year of operations of 1.83, which exceeds the CSU benchmark of 1.35 for a campus.

### **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 the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, 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 \$110,575,000 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 these projects as described in this Agenda Item 1 of the Committee on Finance at the November 7–8, 2017, meeting of the CSU Board of Trustees is recommended for:

**California State University, San Bernardino College of Extended Learning Expansion**

**California State University, Stanislaus University Union Renovation and Expansion**

## **COMMITTEE ON FINANCE**

### **2018-2019 Lottery Budget and Report**

#### **Presentation By**

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

This item requests that the California State University Board of Trustees approve the 2018-2019 lottery budget. The 2018-2019 lottery budget includes an additional \$2.0 million over last year to increase funding to campus-based programs and the DREAM Loan program. In accordance with CSU Lottery Guidelines, this item also contains a report of actual lottery fund expenditures in 2016-2017.

#### **Background**

The Lottery Act allows for the expenditure of lottery receipts for public education. The Lottery Act requires that funds are “exclusively for the education of pupils and students” and the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research are not permissible uses of lottery funds.

To date, the CSU has received \$1.2 billion in lottery funds from the state. Over the past five years, annual CSU Lottery Fund receipts have averaged \$48.4 million. Approximately 90 percent of lottery resources are allocated directly to the campuses for instruction-related programs and activities. Remaining funds are allocated for systemwide programs, such as the Summer Arts, Pre-Doctoral, Doctoral Incentive, and DREAM Loan programs. The Chancellor’s Office uses approximately 1.3 percent of lottery resources to centrally manage lottery fund operations and meet reporting requirements.

Each year, the trustees adopt a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates of CSU lottery receipts for the budget year and the program areas for allocation of those anticipated receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements.

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



## **2018-2019 Lottery Budget Proposal**

The System Budget Office estimates total lottery receipts available to the CSU in 2018-2019 will be \$52.6 million. After setting aside \$5 million as a reserve to assist with cash-flow variations in quarterly lottery receipts and other economic uncertainties, the \$47.6 million 2018-2019 lottery budget proposal remains principally designated for campus-based programs and three systemwide programs that have traditionally received annual lottery funding support. It is proposed that the fourth systemwide program, the recently created DREAM Loan program, receive a funding increase of \$1 million to align with anticipated demand for the program. The proposed budget also includes an \$11,000 increase for administration of the Lottery Fund and administration of systemwide programs.

### *Systemwide Programs*

Under the proposed budget, approximately \$6.9 million would be allocated to the four systemwide programs and administration costs:

- DREAM Loan Program (\$2.0 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 (\$618,000) provides Lottery Fund and program administration functions.

### *Campus-Based Programs*

The remaining \$40.6 million of anticipated 2018-2019 lottery receipts would be used to fund campus-based programs and the Early Start Program. \$32.6 million would be allocated directly to campuses, allowing presidents flexibility to meet unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of instructional equipment, curriculum development, and scholarships. Based on steady cash-flow projections and higher lottery receipts, the \$32.6 million allocation represents a \$1 million increase over the prior year.

The proposed lottery budget would provide \$8 million to the Early Start Program for campus-based financial aid. An eligible student may receive a need-based fee waiver to ensure that 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.

As stated, the proposed budget sets aside \$5 million as a reserve to assist with cash-flow and economic uncertainties. If quarterly lottery receipts remain strong, the Chancellor's Office will work with campuses during 2018-2019 to allocate the \$5 million reserve for innovative campus-based programs that support Graduation Initiative 2025 efforts. Because lottery receipts were strong in 2017-2018, the Chancellor's Office allocated \$5 million for Graduation Initiative 2025.

The CSU Lottery Budget proposed for 2018-2019 is as follows:

<b>2017-2018 Adopted and 2018-2019 Proposed Lottery Budget</b>		
	<b>2017-2018 Adopted Budget</b>	<b>2018-2019 Proposed Budget</b>
<b>Sources of Funds</b>		
Beginning Reserve	\$5,000,000	\$5,000,000
Receipts	45,565,000	47,576,000
<b>Total Revenues</b>	<b>\$50,565,000</b>	<b>\$52,576,000</b>
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
<b>Total Available for Allocation</b>	<b>\$45,565,000</b>	<b>\$47,576,000</b>
<b>Uses of Funds</b>		
<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	1,500,000	1,500,000
DREAM Loan	1,000,000	2,000,000
	<b>\$5,314,000</b>	<b>\$6,314,000</b>
<i>Campus-Based Programs</i>		
Campus Programs	\$31,644,000	\$32,644,000
Campus Early Start Financial Aid	8,000,000	8,000,000
	<b>\$39,644,000</b>	<b>\$40,644,000</b>
<i>Lottery Fund &amp; System Programs Administration</i>	<b>\$607,000</b>	<b>\$618,000</b>
<b>Total Uses of Funds</b>	<b>\$45,565,000</b>	<b>\$47,576,000</b>

## Reporting Requirement

In accordance with the CSU lottery guidelines, the CSU annually reports past year actual lottery expenditures to the trustees. This section of the agenda item satisfies that requirement.

In 2016-2017, similar to prior years, the majority of lottery funds were spent on instructional and instructionally-related programs and services that supplement the CSU operating budget. The following table summarizes how available lottery revenues were spent in 2016-2017:

2016-2017 Lottery Expenditures		
Program Support Area	Expenditures	Percentage of Total Expenditures
Academic Programs and Support	\$18,589,632	37.4%
Library Services	11,519,045	23.2%
Student Services	5,511,683	11.1%
Lottery Fund & Programs Administration	4,365,427	8.8%
Financial Aid	9,667,259	19.5%
<b>Total</b>	<b>\$49,653,046</b>	<b>100.0%</b>

Note: The amount included in the table for lottery fund & programs administration includes Chancellor's Office and campus costs.

Carry forward balances from prior years were also used in 2016-2017 to fund several systemwide and campus programs, such as library services, early assessment program support, and technology initiatives.

## Recommendation

The following resolution is presented for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the 2018-2019 lottery budget totaling \$52.6 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 the chancellor is hereby granted authority to adjust the 2018-2019 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 2018-2019 lottery budget receipts and expenditures be made to the Board of Trustees.

## **COMMITTEE ON FINANCE**

### **2017-2018 Student Fee Report**

#### **Presentation By**

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

As required by California State University Fee Policy, this information item presents the CSU Board of Trustees with the 2017-2018 annual campus fee report. The report provides total average tuition and mandatory fees for the CSU System, and the range of mandatory fees charged by campus.

#### **2017-2018 CSU Student Fee Report**

Total tuition and average systemwide campus-based mandatory fees increased between 2016-2017 and 2017-2018 by an average of \$338 per student. When compared to peer institutions, a CSU education remains affordable. 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 (374,000+) of all CSU students received nearly \$4.2 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 \$15,531 is lower than the California average of \$22,191 and well below the national average of \$30,100.

#### **2017-2018 CSU Comparison Institution Tuition and Fees**

After five consecutive years of unchanged tuition rates, tuition increased for the 2017-2018 academic year. 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 total of the CSU's *resident undergraduate* tuition and average campus-based fees is lower than those of the fifteen comparison institutions identified by the California Postsecondary Education Commission. The 2017-2018 comparison institution tuition and fee average is \$11,233, and the CSU tuition and fee average is \$7,216, or 36 percent below the comparison average. The following table lists the 2016-2017 tuition and average campus-based mandatory fee rates with a comparison to 2017-2018 rates:

<b>2017-2018 Comparison Institution Academic Year Undergraduate Resident Tuition and Fees</b>			
<b>Campus</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Increase</b>
University of Connecticut (Storrs, CT)	\$14,066	\$14,880	\$814
Rutgers University (New Brunswick, NJ)	14,372	14,638	266
Illinois State University (Normal, IL)	14,061	14,061	0
Wayne State University (Detroit, MI)	13,363	13,864	501
George Mason University (Fairfax, VA)	11,300	11,924	624
University of Maryland, Baltimore County	11,264	11,518	254
University of Colorado at Denver	10,741	11,258	517
<b>Comparison Average</b>	<b>\$10,944</b>	<b>\$11,233</b>	<b>\$289</b>
Georgia State University at Atlanta	10,686	10,858	172
Arizona State University at Tempe	10,640	10,792	152
Cleveland State University	9,636	9,636	0
University of Wisconsin at Milwaukee	9,493	9,565	72
State University of New York at Albany	9,263	9,550	287
University of Texas at Arlington	9,202	9,538	336
North Carolina State University	8,880	9,058	177
University of Nevada at Reno	7,192	7,359	168
<b>California State University</b>	<b>\$6,878</b>	<b>\$7,216</b>	<b>\$338</b>

The CSU has the lowest *resident graduate* tuition and fee rates among the 15 comparison institutions. The 2017-2018 comparison institution tuition and fee average is \$13,399, and the CSU tuition and fee average is \$8,650, or 35 percent below the comparison average. The following table compares the 2016-2017 tuition and fee rates with the 2017-2018 rates:

<b>2017-2018 Comparison Institution Academic Year Graduate Resident Tuition and Fees</b>			
<b>Campus</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Increase</b>
Rutgers University (New Brunswick, NJ)	\$18,618	\$18,984	\$367
University of Maryland, Baltimore County	17,592	18,072	480
Wayne State University (Detroit, MI)	16,503	17,163	660
University of Connecticut (Storrs, CT)	15,996	16,810	814
George Mason University (Fairfax, VA)	13,643	14,547	904
Cleveland State University	13,816	13,816	0
<b>Comparison Average</b>	<b>\$13,083</b>	<b>\$13,399</b>	<b>\$316</b>
State University of New York at Albany	12,734	12,786	52
Arizona State University at Tempe	11,776	11,938	162
University of Wisconsin at Milwaukee	11,789	11,861	72
Illinois State University (Normal, IL)	11,798	11,798	0
Georgia State University at Atlanta	11,296	11,488	0
North Carolina State University	10,572	11,027	192
University of Texas at Arlington	10,578	10,968	454
University of Colorado at Denver	10,111	10,283	172
University of Nevada at Reno	9,430	9,444	14
<b>California State University</b>	<b>\$8,144</b>	<b>\$8,650</b>	<b>\$506</b>

CSU has the second lowest *non-resident undergraduate* tuition and average campus-based mandatory fees of the CSU's public peer comparison institutions. CSU non-resident undergraduate tuition (which includes the systemwide tuition charge) and fees is \$19,096 per academic year in 2017-2018. This is approximately 29 percent below the comparison average rate of \$26,915.

<b>2017-2018 Comparison Institution Academic Year Undergraduate Non-Resident Tuition and Fees</b>			
<b>Campus</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Increase</b>
University of Connecticut (Storrs, CT)	\$35,858	\$36,948	\$1,090
George Mason University (Fairfax, VA)	32,582	34,370	1,788
University of Colorado at Denver	30,361	31,448	1,087
Rutgers University (New Brunswick, NJ)	30,023	30,579	556
Wayne State University (Detroit, MI)	28,925	30,094	1,169
Georgia State University at Atlanta	28,896	29,432	536
North Carolina State University	26,399	27,406	1,006
Arizona State University at Tempe	26,470	27,372	902
<b>Comparison Average</b>	<b>\$26,080</b>	<b>\$26,915</b>	<b>\$835</b>
University of Maryland, Baltimore County	24,492	25,654	1,162
Illinois State University (Normal, IL)	25,168	25,168	0
University of Texas at Arlington	23,046	24,738	1,692
State University of New York at Albany	24,343	24,430	87
University of Nevada at Reno	21,102	21,551	450
University of Wisconsin at Milwaukee	19,850	20,845	994
<b>California State University</b>	<b>\$18,038</b>	<b>\$19,096</b>	<b>\$1,058</b>
Cleveland State University	13,687	13,687	0

### **Campus-Based Mandatory Fees**

Campus-based mandatory fees (Category II) are charged to all students who 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 campus-based mandatory fees.

The table on the following page displays the 2017-2018 academic year campus-based mandatory fee rates by campus and by fee category.

<b>2017-2018 Category II Campus-Based Mandatory Fee Rates</b>								
	Health Facilities	Health Services	Instructionally Related Activities	Materials Services & Facilities	Student Success	Student Association	Student Center	Total Campus- Based Mandatory Fees
Bakersfield	\$6	\$302	\$183	\$62	\$0	\$383	\$469	<b>\$1,405</b>
Channel Islands	6	190	260	145	0	150	324	<b>1,075</b>
Chico	6	276	286	106	0	134	798	<b>1,606</b>
Dominguez Hills	6	150	10	5	455	135	334	<b>1,095</b>
East Bay	6	225	129	3	240	129	360	<b>1,092</b>
Fresno	6	226	264	46	0	69	232	<b>843</b>
Fullerton	6	163	73	73	369	151	273	<b>1,108</b>
Humboldt	6	436	674	333	0	117	185	<b>1,751</b>
Long Beach	6	90	50	10	346	120	366	<b>988</b>
Los Angeles	6	165	126	5	266	54	275	<b>897</b>
Cal Maritime	14	680	130	280	0	210	0	<b>1,314</b>
Monterey Bay	0	186	254	165	0	96	600	<b>1,301</b>
Northridge	6	120	30	5	228	188	556	<b>1,133</b>
Pomona	6	256	48	0	415	133	739	<b>1,597</b>
Sacramento	45	236	373	0	0	134	674	<b>1,462</b>
San Bernardino	26	252	156	15	173	123	398	<b>1,143</b>
San Diego	50	300	374	50	400	70	474	<b>1,718</b>
San Francisco	6	314	236	684	0	108	164	<b>1,512</b>
San Jose	120	295	0	31	631	185	717	<b>1,979</b>
San Luis Obispo	10	315	313	1,180	833	321	718	<b>3,690</b>
San Marcos	50	302	80	249	500	100	630	<b>1,911</b>
Sonoma	36	400	484	36	0	234	792	<b>1,982</b>
Stanislaus	20	392	316	278	0	126	164	<b>1,296</b>



The following table compares total campus-based mandatory fees by campus for the 2016-2017 and 2017-2018 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by \$68 (4.8 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 approved when the fees were originally authorized account for a large part of the increase at Dominguez Hills and San Diego. Additionally, Monterey Bay increased their student center fee to expand the student union and increased their instructionally-related activities fee to enhance recreation activities, fitness facilities, and intercollegiate athletics. San Francisco also increased their student center fee to provide a new wellness center and instituted a new transit pass fee.

<b>Comparison: 2016-2017 and 2017-2018 Category II Campus-Based Mandatory Fee Rate Totals by Campus</b>			
<b>Campus</b>	<b>2016-17</b>	<b>2017-18</b>	<b>Increase</b>
Bakersfield	\$1,385	\$1,405	\$20
Channel Islands	1,075	1,075	0
Chico	1,568	1,606	38
Dominguez Hills	951	1,095	144
East Bay	1,092	1,092	0
Fresno	841	843	2
Fullerton	1,088	1,108	20
Humboldt	1,737	1,751	14
Long Beach	988	988	0
Los Angeles	889	897	8
Cal Maritime	1,314	1,314	0
Monterey Bay	907	1,301	394
Northridge	1,115	1,133	18
Pomona	1,585	1,597	12
Sacramento	1,428	1,462	34
San Bernardino	1,127	1,143	16
San Diego	1,612	1,718	106
San Francisco	1,012	1,512	500
San Jose	1,945	1,979	34
San Luis Obispo	3,603	3,690	87
San Marcos	1,911	1,911	0
Sonoma	1,916	1,982	66
Stanislaus	1,256	1,296	40
<b>Average</b>	<b>\$1,406</b>	<b>\$1,474</b>	<b>\$68</b>

## **COMMITTEE ON FINANCE**

### **Approval of the 2018-2019 Operating 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 2018-2019 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2018-2019 CSU Operating Budget Request, which contains historical detail as well as prospective information, for the trustees' 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 2018-2019 CSU Operating Budget Request at the November CSU Board of Trustees meeting.

At its September 2017 meeting, the board reviewed a preliminary plan for purposes of crafting the CSU's operating 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, comments on the preliminary plan have been considered and incorporated into the proposed request. With that history and context, the focus of this item will be the details of the proposed 2018-2019 CSU Operating Budget Request.

The executive summary in Attachment A is the official presentation of the operating 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>.

## **2018-2019 Operating Budget Expenditure Plan Priorities**

The proposed operating 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 improving the 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. To meet these goals, the CSU will continue to invest in people, programs, technologies, and strategies that have demonstrated success in improving graduation rates, shortening time-to-degree, and eliminating achievement gaps. Each campus has developed multi-year plans to reach their Graduation Initiative 2025 goals that require multi-year investments across the system in: tenure track faculty hiring, increased course taking opportunities, enhanced advising and education plans, academic and student support, and leveraging data for campus decision-making. Over the course of this second year of the Graduation Initiative 2025, campuses would spend incremental recurring funding on their local priorities to improve student success and completion. The 2018-2019 fiscal year represents the second year of a six-year, \$450 million investment plan in support of the Graduation Initiative.

### *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 students and their success. As such, compensation increases are a significant priority for the CSU 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 significantly to the California workforce. 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 and operation of the campus to serve additional students. With a total student body of more than 480,000 students, the CSU continues to see increased demand from qualified applicants each year. New incremental funding would allow for growth in the average unit load for continuing students in support of graduation rate goals, and a steady number of new students admitted and served.

### *Academic Facilities & Campus Infrastructure*

Leading-edge academic facilities support quality degree programs setting the stage for CSU graduates to be workforce ready and equipped to excel in their chosen field. Although CSU campuses have several of these academic and laboratory spaces, a significant portion of CSU facilities are outdated and need improvement. Specifically, 52 percent of all CSU buildings are more than 40 years old and the systemwide deferred maintenance backlog for these and other facilities total over \$2 billion. 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 operating budget. Dedicating a portion of the CSU operating 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 annually increase due to 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 wage laws—including a multi-year incremental increase in the minimum wage—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 2018-2019 CSU Operating Budget Request**

As shown in the below table and in Attachment A, the 2018-2019 Operating Budget Request proposes an overall CSU operating budget of \$6.8 billion. The plan is an increase of \$282.9 million, with the CSU's highest priority being effective advocacy for \$263.0 million in new general fund from the state paired with \$19.9 million in new tuition revenue from a one percent increase in full-time equivalent students (FTES) of approximately 3,641. The expenditure plan exceeds the anticipated \$102 million from the governor's administration for 2018-2019, but it is a reasonable representation of the university's funding needs.

### **Proposed Incremental Expenditures:**

• Graduation Initiative 2025	\$75.0 million
• New Compensation	122.1 million
• Full-Time Equivalent Student Growth: 3,641 FTES	39.9 million
• Facilities and Infrastructure Needs	15.0 million
• Mandatory Costs	30.9 million
<b>Total Incremental Expenditures</b>	<b>\$282.9 million</b>
• Other Inflationary Costs	\$17.4 million

### **Anticipated Revenue**

• General Fund Revenue from Governor’s Funding Plan	\$102.0 million
• Net Tuition from Enrollment Growth	19.9 million
• <b>Board of Trustees Additional Request</b>	<b>161.0 million</b>
<b>Total Anticipated Revenue</b>	<b>\$282.9 million</b>
• Cost Avoidance, Efficiencies & Program Reallocation	\$17.4 million

### **Potential Opportunities to Address Operating Budget Revenue Needs**

The final operating budget request, if adopted by the board, concludes that the expenditure priorities require investment of \$282.9 million in additional revenue. Assuming revenue from the governor’s January budget proposal and tuition revenue from one percent enrollment growth, the CSU estimates a \$161.0 million funding gap between anticipated state funding and the budget priorities of the university.

The CSU’s highest priority is to continue to advocate for and pursue increased state funding to cover the full operating 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. With the historic gains made in four-year and six-year graduation rates, the aggressive targets set out in Graduation Initiative 2025, and the state recently focusing on these same goals, arguments for increased state funding are strong. 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 2018.

To ensure the university has all revenue options available to meet its 2018-2019 priorities, the CSU must regrettably continue a conversation about a possible tuition increase. The statutory process to potentially increase tuition begins with a written proposal by the Chancellor’s Office to the California State Student Association (CSSA) later this month. Consultative meetings between CSSA leadership and Chancellor’s Office representatives to discuss the proposal will follow. Appropriate consultation with, and feedback from, other CSU stakeholders on this possible tuition proposal will also occur.

If additional funding is not secured through other options, priority areas of the operating budget would be reduced or eliminated and campuses would have to redirect funding from existing programs, services and priorities like the Graduation Initiative to fund mandatory cost obligations and finalized employee compensation commitments. Fewer course sections would be available to students, average unit load would go down and ultimately it could take longer for students to graduate.

Each year, inflation and other price increases have an effect on each campus' bottom line. For the most part, annual operating budget requests address these types of increases on salaries and benefits through the mandatory costs category described above. However, in recent years, campuses have not received annual funding increases to cover inflationary costs in areas such as communication, information technology, contractual services, library subscriptions and instructional equipment. Chancellor's Office staff estimate that inflationary cost increases over the past five years exceeded \$46 million. It is anticipated that these costs will increase for 2018-2019. Campus leadership regularly unearth and create ways of covering inflationary costs without additional resources and they deserve credit for being both highly efficient with their resources and effective in their outcomes.

Above and beyond efforts to address regular inflationary pressures, the CSU will continue to pursue cost avoidance strategies and administrative efficiencies to be good stewards of state and tuition resources as well as address as many unfunded cost increases as possible. Campuses and the Chancellor's Office make decisions annually to redistribute budgets to cover increased costs, pursue and implement efficiencies and cost sharing across the system, and reallocate from under-utilized programs to the most pressing needs of the campus and system.

## **Conclusion**

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

This is an action item presenting a final recommendation for the CSU 2018-2019 Operating Budget Request to the governor and legislature. It is the CSU 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 2018-2019 Operating 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.



**CSU**

The California  
State University

# 2018–2019 OPERATING BUDGET

[www.calstate.edu/budget](http://www.calstate.edu/budget)









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# CHANCELLOR'S MESSAGE



We Californians have big plans for the future.

We plan to lead in infrastructure, constructing new roads, expanding and greening ports, retrofitting our buildings and developing 21st century transportation systems.

We plan to lead in technology, building upon our half-century legacy as the birthplace of the modern Internet to develop the next generations of computers, software, electric cars and reusable rockets.

We plan to lead in diversity, ensuring that all Californians, regardless of background, gender, race, orientation, ethnicity, nationality, circumstance or status, have the same opportunity to contribute to their communities and our state.

And we plan to lead in sustainability, developing new ways to generate energy, reduce carbon emissions and pollutants, responsibly grow the nation's food supply, and make certain that future generations are healthy.

These plans – and our success in meeting them – will move California's economy, society, and people forward together toward shared prosperity, equity and opportunity for success.

Of course, we know that in order to achieve these plans, we must also plan to lead in public higher education.

Californians expect it.

The California State University and its 23 campuses will continue to lead, but we need a commitment from the state that matches our ambitious plans to save the state's future-built goals.

Indeed, the only way to move California forward on its plans is through robust investment in the CSU. With this year's operating budget plan, the CSU will:

- Ensure quality through Graduation Initiative 2025 by keeping standards high, removing barriers to achievement, and providing students with necessary tools, advice and resources;
- Compensate our employees fairly, allowing our world-class and dedicated faculty and staff to serve our students and take pride in the CSU;
- Maintain affordability through an increased investment by the state;
- Expand access through enrollment growth, ensuring that more Californians are able to enroll in the CSU and earn a degree; and
- Renew and repair our aging facilities and infrastructure to provide the best environment possible for students to engage with faculty in learning, research, creative pursuits and discovery.

With your steadfast support for our operating budget plan and robust investment in the CSU, we will fulfill our six-decade-plus mission to serve the people of California.

Let's work toward the future, together.



Timothy P. White  
Chancellor  
The California State University

# THE CSU TODAY







This year, the CSU will serve more than 480,000 students, a number which has steadily grown over the past decade. Additionally, a record number of students, over 119,000, graduated last year.

In September 2016, the CSU reset the goals for Graduation Initiative 2025 to reduce time-to-degree, increase graduation rates, and eliminate achievement gaps for underrepresented students, low-income students, and first-generation students. In 2017-18, campuses invested \$87 million in recurring and one-time funds to reduce barriers to degree, hire more faculty, expand course offerings, and scale up existing student success initiatives. This investment allows the CSU to do its part to meet California's need for more bachelor's degrees by 2030.

At the close of the Great Recession, the CSU entered into new, multi-year collective bargaining agreements that committed to providing faculty and staff competitive salaries and benefits packages. Recruiting and retaining the best faculty and staff is key to providing a quality educational experience to all CSU students.

These priorities require new and significant recurring financial investments that cannot be supported by the state's current level of investment in higher education. Consequently, the CSU made the difficult choice to raise tuition in 2017-18 for the first time in six years. The new tuition revenue generated from the tuition increases helped to cover rising costs and expand Graduation Initiative 2025 priorities that are critical for student success and completion.

Heading into 2018-19, the CSU looks to build upon its momentum by proposing a \$6.8 billion operating budget, with the first priority being a \$263.0 million increase in general fund from the state. The budget plan seeks additional funds for:

- the second year of Graduation Initiative 2025;
- significant funding for compensation increases for all employee groups;
- enrollment growth of one percent, 3,641 full-time equivalent students;
- investment in critical infrastructure; and
- mandatory cost increases for health care, minimum wage and retirement costs.

With greater support, the CSU can go further and faster on the path it has set for itself with Graduation Initiative 2025. The operating budget increase proposed here will continue to ensure that all students have the opportunity to graduate in a timely manner, positively impacting their future, and producing the graduates needed to power California and the nation.

# 2018-19 CSU OPERATING BUDGET PLAN





The 2018-19 operating budget plan calls for continued and increased state investment in the CSU. We believe this budget plan, which totals \$282.9 million in new resources for 2018-19, reflects the current needs of the CSU and sustains the momentum built in recent years. The new resources are comprised of \$263.0 million in General Fund and \$19.9 million of tuition revenue from enrollment growth. Additionally, campuses will address inflationary cost increases of \$17.4 million using cost avoidance, efficiencies, and program reallocation. The CSU's \$6.8 billion total operating budget plan is comprised of: \$3.7 billion in state general fund and \$3.1 billion from tuition and fee revenue.

At the heart of the operating budget plan lies Graduation Initiative 2025. The CSU has set ambitious and challenging goals to raise four and six-year graduation rates, completely eliminate the achievement gap, and educate more students to meet the societal and workforce needs of the state. The operating budget includes a \$75.0 million increase for campuses for a multi-faceted approach, including a focus on students taking full-time course loads each term, using data to increase the availability of the right sequence of courses, hiring more tenure-track faculty, and restoring student services that were cut during the recession years.

The budget plan also dedicates an additional \$122.1 million for employee compensation increases. Faculty and staff are critical to the success of students. Funding requests for compensation are based on the cost of current and tentative collective bargaining agreements, as well as a compensation pool for non-represented employee groups in 2018-19.

The CSU anticipates funded enrollment growth of 3,641 resident full-time equivalent students (FTES), raising the total systemwide funded FTES to 367,772. A \$39.9 million expenditure augmentation is included in the budget plan to fund this enrollment growth.

This plan includes \$15.0 million for academic facilities and infrastructure needs. This would allow the CSU to slow the growth in the deferred maintenance backlog and reduce its overall impact across the system.

In addition to the Board of Trustees priorities outlined here, new state funding will be used to fund \$30.9 million of mandatory cost increases for health benefits, retirement, the operation and maintenance of new buildings, and the effect on salaries due to changes in state minimum wage laws.

New to this year's operating budget plan is the acknowledgment that campuses regularly face inflation and other cost increases and do so without funding from the state or the Office of the Chancellor. Instead, campuses confront cost increases on routine services, supplies and equipment and make difficult business choices. As a result, campuses are extremely efficient with their resources and, by comparison to other institutions, have considerably low administrative overhead.

Going forward, a number of fiscal challenges must be addressed so the CSU can focus on its core mission. The 2018-19 operating 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. Yet, without increased investment from the state, the CSU cannot meet its obligations to the people of California or its mission to provide a high-quality, affordable, and accessible education to all students.

## 2018-19 Operating Budget Increases

- \$75.0 million for Graduation Initiative 2025
- \$122.1 million for compensation
- \$39.9 million for a one percent increase in funded enrollment
- \$15.0 million for academic facilities and infrastructure needs
- \$30.9 million for mandatory costs



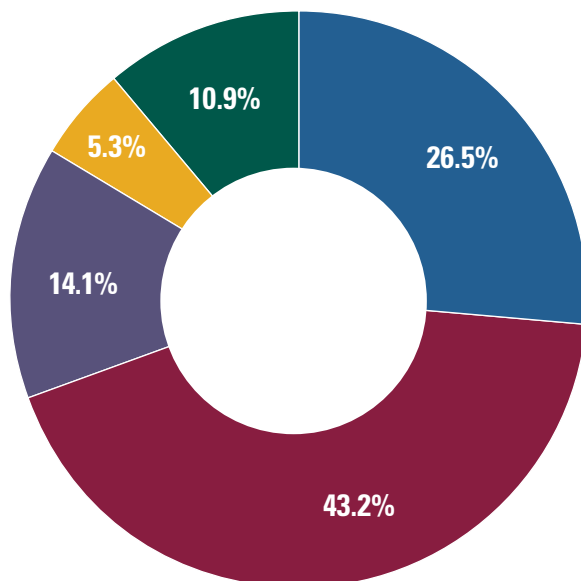
## Sources and Uses of Funds

### SOURCES OF FUNDS

<b>General Fund Increase</b>		<b>\$263,015,000</b>
Operating Budget	248,015,000	
Academic Facilities and Infrastructure	15,000,000	
<b>Tuition from 1% Enrollment Growth</b>		<b>19,878,000</b>
(3,641 Full-Time Equivalent Students' Revenue)		
<b>TOTAL NEW SOURCES</b>		<b>\$282,893,000</b>
<b>Cost Avoidance, Efficiencies &amp; Program Reallocation</b>		<b>17,400,000</b>

### USES OF FUNDS

<b>Graduation Initiative 2025</b>		<b>\$75,000,000</b>
<b>Compensation</b>		<b>122,100,000</b>
<b>One Percent Increase in Enrollment Growth</b>		<b>39,905,000</b>
<b>Academic Facilities and Infrastructure</b>		<b>15,000,000</b>
<b>Mandatory Cost Increases</b>		<b>30,888,000</b>
Health Benefits	12,029,000	
Retirement	11,100,000	
Minimum Wage Increase	4,158,000	
Maintenance of New Facilities	3,601,000	
<b>TOTAL NEW USES</b>		<b>\$282,893,000</b>
<b>Other Inflationary Cost Increases</b>		<b>17,400,000</b>



### Distribution of Budget Increases

- Graduation Initiative 2025
- Compensation
- One Percent Increase in Enrollment Growth
- Academic Facilities and Infrastructure
- Mandatory Cost Increases



## Three-Year Budget Summary

<b>Table 1: Operating Budget</b>	<b>2016-17 Actuals</b>	<b>2017-18 Final Budget<sup>1</sup></b>	<b>2018-19 Plan</b>
General Fund	\$2,911,449,000	\$3,077,995,000	\$3,326,010,000
Tuition and Other Fee Revenue	3,077,413,000	3,071,412,000	3,091,290,000
<b>TOTAL OPERATING BUDGET</b>	<b>\$5,988,862,000</b>	<b>\$6,149,407,000</b>	<b>\$6,417,300,000</b>
<b>Table 2: Academic Facilities and Infrastructure</b>	<b>2016-17 Actuals</b>	<b>2018-18 Final Budget<sup>1</sup></b>	<b>2018-19 Plan</b>
General Fund Debt Service and Capital Facilities <sup>2</sup>	\$311,809,000	\$316,879,000	\$316,879,000
Budget Plan: Maintenance and Infrastructure Totals	35,000,000	35,000,000	50,000,000
<b>TOTAL ACADEMIC FACILITIES AND INFRASTRUCTURE</b>	<b>\$346,809,000</b>	<b>\$351,879,000</b>	<b>\$366,879,000</b>
<b>Total Operating Budget General Fund Increase</b>			<b>\$248,015,000</b>
<b>Academic Facilities and Infrastructure Increase</b>			<b>15,000,000</b>
<b>Tuition from 1% Enrollment Growth</b>			<b>19,878,000</b>
<b>TOTAL SOURCES OF FUNDS</b>			<b>\$282,893,000</b>

<b>Table 3: Sum of Tables 1 &amp; 2</b>	<b>2016-17 Actuals</b>	<b>2017-18 Final Budget<sup>1</sup></b>	<b>2018-19 Plan</b>
Total Operating Budget	\$5,988,862,000	\$6,149,407,000	\$6,417,300,000
Total Academic Facilities and Infrastructure	346,809,000	351,879,000	366,879,000
<b>GRAND TOTALS</b>	<b>\$6,335,671,000</b>	<b>\$6,501,286,000</b>	<b>\$6,784,179,000</b>

<sup>1</sup> The 2017-18 GF Base in Table 1 includes \$39,310,000 in state funded 2017-18 employer paid retirement adjustment received mid-year. The \$351,879,000 for Debt Service and Capital Facilities is shown separately in Table 2.

<sup>2</sup> 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 appropriation.



## Three-Year Summary of State University Grants (SUGs) and Tuition Waivers

<b>Table 4</b>	<b>2016-17 Actuals</b>	<b>2017-18 Final Budget</b>	<b>2018-19 Plan</b>
SUG Awards <sup>1</sup>	\$634,020,000	\$701,204,000	\$701,604,800
Tuition Waivers <sup>2</sup>	71,617,000	75,239,000	75,338,000
<b>TOTAL SUG AWARDS AND WAIVERS</b>	<b>\$705,637,000</b>	<b>\$776,443,000</b>	<b>\$776,942,800</b>

<sup>1</sup> SUG awards cover tuition for eligible students.

<sup>2</sup> Includes the campus tuition waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08).

## Three-Year Budget Summary and Highlights by Program

<b>Table 5</b>	<b>2016-17 Actuals</b>	<b>2017-18 Final Budget</b>	<b>2018-19 Plan</b>
Instruction	\$2,490,867,000	\$2,671,051,000	\$2,671,051,000
Research	15,010,000	13,678,000	13,678,000
Public Service	13,720,000	12,483,000	12,483,000
Academic Support	637,971,000	641,665,000	641,665,000
Student Services	670,496,000	639,398,000	639,398,000
Institutional Support	778,827,000	849,747,000	849,747,000
Operation and Maintenance of Plant	1,051,817,000	932,770,000	932,770,000
Student Grants and Scholarships	676,963,000	740,494,000	740,494,000
New Expenditures (less efficiencies)	0	0	282,893,000
<b>TOTAL EXPENDITURES</b>	<b>\$6,335,671,000</b>	<b>\$6,501,286,000</b>	<b>\$6,784,179,000</b>

# SOURCES OF FUNDS





## State General Fund

The proposed budget includes a \$263.0 million increase to the CSU’s General Fund base budget, for a total of \$3.7 billion, including debt service that, when combined with tuition and fee revenue, represents an operating budget total of \$6.8 billion. The proposed General Fund increase will fund Graduation Initiative 2025, compensation increases, one percent enrollment growth, facilities and infrastructure needs, and various mandatory cost obligations including increased employer costs for health care and retirement.

## Tuition and Fee Revenue

The CSU receives about 46 percent of its gross operating revenue from tuition and fees. Estimated tuition and fee revenue in the 2018-19 operating budget is \$3.1 billion, with \$19.9 million in new tuition revenue from a one percent resident enrollment increase. From this tuition revenue, the CSU allocates over \$700 million for State University Grants.

## Cost Avoidance, Efficiencies, and Program Reallocation

Each year the CSU at its 23 campuses and the Chancellor’s Office face price increases and inflation. These cost increases in areas such as communication, information technology, contractual services, library subscriptions, instructional equipment, and travel are not built into the incremental budget request of the CSU. Instead, campuses make decisions annually to redistribute budgets to cover these costs, finding efficiencies in purchasing and cost sharing across the system, and reallocating from under-utilized programs to the most pressing needs of the campus. The cost increases in non-personnel costs for 2018-19 are estimated to be \$17.4 million using a ten-year average of the Higher Education Price Index.

## Sources of Funds:

The total proposed 2018-19 operating budget plan is \$282.9 million from a combination of state General Fund and tuition and fee revenue.

State General Fund Increase	\$263,015,000
Tuition from 1% Enrollment Growth	19,878,000
<hr/>	
<b>TOTAL</b>	<b>\$282,893,000</b>
Cost Avoidance, Efficiencies & Program Reallocation	17,400,000

The CSU’s highest priority is the full funding by the state of the 2018-19 operating budget plan. If the CSU is not fully successful in this effort, the university will have to consider other, more difficult options. One of those options is to consider raising tuition for the 2018-19 academic year. The university will follow the consultative process required by the Working Families Student Fee Transparency and Accountability Act. If a tuition proposal is made, it will be provided to student leadership later this fall, discussed with the Board of Trustees at its January 2018 meeting, and potentially considered by the Board of Trustees at its March 2018 meeting.



# USES OF FUNDS





## Graduation Initiative 2025: \$75,000,000

The CSU currently enrolls more than 480,000 students. One-in-three undergraduates are the first in their family to attend college, and more than half of CSU undergraduates are Pell recipients. In 2015-16, more than half of CSU bachelor's degrees earned were by first generation college students. Improving degree completion rates at the CSU will not only have significant consequences for individual students and their families but will also contribute to the state and national economy by moving thousands of additional graduates into the workforce annually. Today, CSU students earn nearly 100,000 bachelor degrees annually. Over the next 14 years with no gains in outcome rates, CSU students are estimated to earn 1.4 million bachelor degrees. Achieving the Graduation Initiative goals, coupled with enrollment growth, will enable the CSU to introduce an additional 500,000 college graduates into the workforce between now and 2030.

The CSU carefully established a set of five areas of investment that will be the most important for dramatically improving student success. It is in these five areas that campuses have invested over \$85.0 million in ongoing funding and \$47.5 million in one-time allocations. This funding started the ball rolling on strategic initiatives that can be brought to scale as momentum builds across the system. For 2018-19, an additional \$75.0 million will be invested as the second year of a six-year plan totaling \$450.0 million.

- **Improve Course Taking Opportunities** – For students to graduate sooner, they need to know which classes are required for their selected major, and campuses need to know when to offer them so that students can stay on-track to graduation. Investments will focus on offering more sections of high-demand courses, when students need them.
- **Tenure-Track Faculty Hiring** – In order to offer more courses, and redesign the CSU's approach to developmental education, more tenure-track faculty will be critical to the success of the initiative. Improved ratios of tenure-track faculty to lecturers will lay the groundwork for long-term success of all our students.
- **Enhanced Advising** – Advising students more effectively and efficiently is an imperative for Graduation Initiative 2025. Hiring more professional advisors and giving them the tools to provide clear and accurate education plans will help students align their academic goals and career goals, improving both student services and institutional efficiency.
- **Academic and Student Support** – Students can succeed academically when the university supports engagement and well-being. Expanded programs for student wellness and basic needs alongside improved academic support programs like supplemental instruction, tutoring and co-requisite models for developmental education will keep all students on track toward their chosen degree.
- **Data-Driven Decision Making** – Keeping advising, course scheduling and resources in line with student needs requires innovative use of data across campuses and the system. Campuses will continue to invest in student information systems and data tools to facilitate strategic and intentional campus decision making.

The CSU has already taken major steps to improve academic preparation. Beginning in fall 2018, two strategies will be implemented to change the way students work on academic skills in math and English. The CSU will offer credit-bearing academic courses rather than developmental courses, and strengthen the Early Start Program to offer students college credits in the summer before their first term. The CSU is also in the process of revising its assessment and placement protocols used to determine college readiness. Through these deliberate policy changes, the CSU is fundamentally changing the academic interventions provided to students, removing deficit models, and relying on innovative approaches to better serve students.

## Compensation Increase: \$122,100,000

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 \$122.1 million to fund a compensation pool for current, tentative, and pending contracts, new contracts open in 2018-19 and commitments to non-represented employees.

## Funded Student Enrollment: \$39,905,000

The CSU was established to provide a high-quality, affordable education to the top one-third of high school graduates and eligible community college transfer students in California. Each year, nearly 480,000 undergraduate students attend the CSU and more than 119,000 students graduate ready to contribute to their communities. The CSU is the largest and most diverse system of higher education in the country, and more and more qualified students apply for admission to the CSU each year.

As the population of California remains steady, the number of high school graduates completing admissions requirements for the CSU continues to grow. To meet growing demand from students, and the longer term workforce needs of California for more baccalaureate degrees, the CSU continues to ask for funding for enrollment growth in its annual operating budget request. The Public Policy Institute of California projects a shortage of baccalaureate degrees by 2030—in excess of one million degrees. For the CSU to do its part, the CSU has to graduate an additional 500,000 students by 2030, or about 5,300 additional degrees each year from 2018 through 2030. This growth is a part of the projections included with the goals of Graduation Initiative 2025.

As part of the 2018-19 operating budget plan the CSU requests \$39.9 million to fund one percent enrollment growth (3,641 FTES). Even with this funding, there are eligible students that the CSU cannot admit due to the lack of capacity or resources. A recent study commissioned by the Governor's Office of Planning and Research found that 41 percent of high school students in 2015 were eligible for CSU admission, which is far higher than the 33 percent target recommended by the Master Plan. The Board of Trustees will be adopting an enrollment management plan in March 2018 to better serve the students who qualify for the CSU, and that they have the opportunity to enroll at one of the 23 campuses.

### Enrollment Growth

<b>2017-18 Resident FTES Base</b>	<b>364,131</b>
Proposed Growth (1%)	3,641
<b>2018-19 TOTAL RESIDENT FTES</b>	<b>367,772</b>
Marginal Cost Rate per FTES	\$10,960
<b>Total Cost of Enrollment Growth</b>	<b>\$39,905,000</b>

## Academic Facilities and Infrastructure: \$15,000,000

The CSU prioritizes critical infrastructure and utility renewal projects and facility renovation to support the campuses' academic program needs. The \$15.0 million request will also enable the CSU to fund limited capacity growth to serve new enrollment. Under current bond market conditions, \$15.0 million would finance approximately \$225 million for capital projects across the system.

The budget plan will allow the CSU to keep pace with the aging infrastructure (annually growing by approximately \$150 million) and will help reduce the academic facility deferred maintenance backlog, which currently stands at approximately \$2 billion. For more information on specific projects and priorities, see the CSU 2018-19 Capital Outlay Program and the Five-Year Facilities Renewal and Improvement Plan.

## Mandatory Costs: \$30,888,000

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 and retirement benefits, state minimum wage cost increases, and the operations and maintenance of newly constructed facilities. The 2018-19 operating budget includes \$30.9 million to address increases in mandatory cost obligations.

Health Benefits	\$12,029,000
Retirement Benefits	11,100,000
Maintenance of New Facilities	3,601,000
State Mandate (minimum wage)	4,158,000
<hr/>	
<b>Total</b>	<b>\$ 30,888,000</b>

### Health Benefits

Permanent base budget costs associated with January 2018 employer-paid health care premium increases are over \$12.0 million. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU is governed by Government Code Section 22871 that defines the employer-paid contribution rates.

### Retirement Benefits (above state-funded)

Beginning with the 2014-15 fiscal year, a limit was placed on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. While the state's obligation to adjust retirement funding based on rate changes continues (Government Code Section 20814), the salary base applied to the incremental rate change is set to the CSU 2013-14 pensionable payroll level as reported by the State Controller's Office. The current projected CSU cumulative cost of retirement (above state-funded) from 2014-15 to 2018-19 is \$26.5 million. The \$11.1 million included here represents the 2018-19 share.

### Maintenance of New Facilities

The CSU is scheduled to open 315,545 square feet of new facilities in 2018-19. The cost to fund regular maintenance of these facilities is \$11.41 per square foot, for a total of \$3.6 million in 2018-19. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape, and administrative support.

### Minimum Wage Increase

In January 2018, the California minimum wage will increase from \$10.50/hour to \$11.00/hour. The estimated annualized cost of the increase is over \$4.1 million. Further, the California minimum wage will increase in each subsequent year until January 2022 when it reaches \$15/hour. The current projected CSU cumulative cost of minimum wage increases from 2017 to 2022 is \$66.0 million.

## Other Inflationary Cost Increases: \$17,400,000

As is the case with any large and complex organization, there are cost increases each year based on both explicit and implicit factors. The CSU has acknowledged and included mandatory cost increases (e.g. employee benefit costs) for many years in its operating budget request to the state. In addition to these explicit cost increases, the university faces implicit cost increases associated with the regular ongoing obligations of the university. These cost increases are affected by larger economic factors, such as inflation.

Inflation affects campus and system contracts, supplies, services, and equipment each year, but the CSU has not made it a practice to include inflationary cost increases in the annual operating budget request. It is necessary to start this practice to better understand the budgetary pressures that these costs represent and to acknowledge the success of campuses in absorbing these new costs to balance their budgets while also bolstering student success.

To estimate the effect of inflation on campus budgets, the Higher Education Price Index (HEPI) was applied to non-personnel costs such as communications, information technology (software, hardware, and infrastructure), library subscriptions, contractual services, instructional equipment, and travel. Over the past five years it is estimated that these inflationary cost increases accumulated to over \$46.4 million.

In addition to inflationary costs, this line in the budget acknowledges many new costs from recent state and federal mandates not accompanied by additional state or federal funding. Examples include American Disabilities Act compliance and accommodations, new positions for diversity and inclusion and federal Title IX compliance, Clery Act and California Fair Pay Act compliance, and State Fire Marshal and environmental regulations. The CSU is committed to providing an environment that recognizes the needs of all our students to study in a safe and adaptable educational setting. It must be acknowledged that new state and federal mandates and changes to various regulations increase costs that must ultimately be absorbed by individual campuses that must make year-to-year decisions to create greater efficiencies and reallocate funds to the highest priorities.

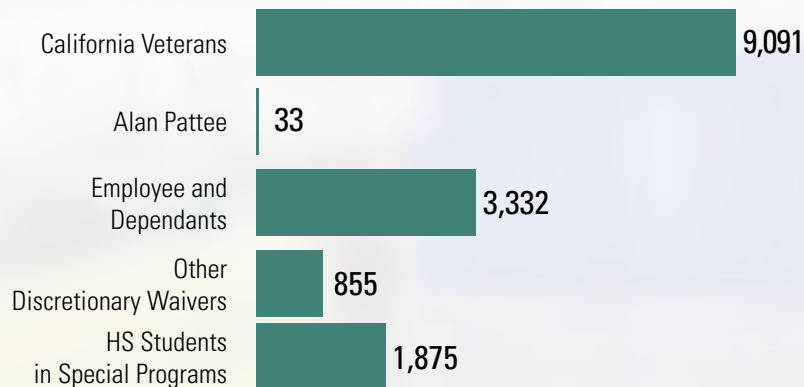
For the 2018-19 operating budget, it is estimated that inflationary cost increases and other unfunded obligations total \$17.4 million and the resulting, offsetting cost avoidance, efficiencies, and program reallocations represent a like amount.





# CSU FINANCIAL AID

## 2016–17 Systemwide Tuition Waivers



Each year, the CSU provides substantial financial aid from its operating budget to make the CSU an affordable opportunity for the largest number of California students as possible. For 2018-19, the CSU projects \$776.9 million in grants and waivers will be awarded. Tens of thousands of State University Grants (SUG) are awarded each year to assist students with the greatest financial need. The CSU also provides waivers for eligible students under state and CSU programs. A summary of the total value of institutional financial aid from 2016-17 through 2018-19 is included in Table 4 on page 9.

## State University Grant Program

The SUG program is an important 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.

For the first ten years of the program, until 1992-93, the state funded the SUG program. Since 1992-93, however, the CSU has continued to grow the SUG program by setting aside a portion of new revenue generated from increases in tuition.

As tuition prices went up during the Great Recession, the CSU expanded its commitment to financial aid grants to its students – in the form of SUG awards. Total systemwide SUG costs grew by 189 percent from \$242.7 million in 2007-08 to \$701.2 million in 2017-18. As the CSU continues its commitment to be an affordable option for all students in California, the number and value of SUG awards continues to rise. By 2018-19, nearly twelve percent of the total CSU operating budget will be dedicated to the SUG program. The CSU expects to provide at least \$701.6 million in SUG awards in 2018-19.

## Tuition Waivers

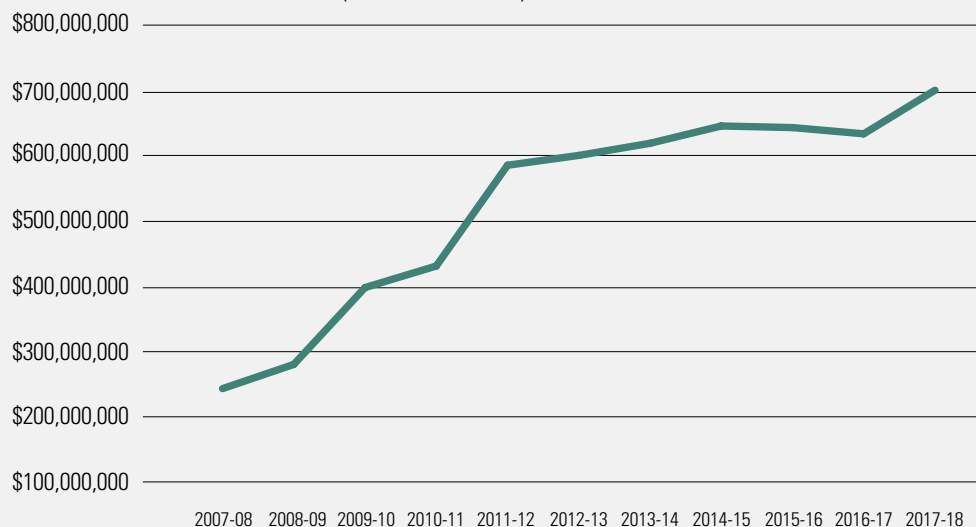
Under current state law, there are four mandatory resident tuition waiver programs:

- 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 student trustees (Education Code 66602).

In addition to the waiver programs mentioned above, the CSU also offers partial tuition waivers for employees and employee dependents pursuant to collective bargaining agreements and human resources technical memoranda. 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 or older, among others. The state has not provided General Fund support for any CSU tuition waiver programs since 1992–93.

In the 2016-17 college year (fall, winter, spring, and summer), 15,186 tuition waivers were granted to CSU students. When tuition rates are applied to these waivers based on student enrollment status, it amounts to approximately \$71.6 million in waivers provided by the CSU.

**State University Grants  
2007-08 to 2017-18**  
(in whole numbers)



# ONE-TIME REQUESTS





In addition to the permanent funding increases included in this plan, the 2018-19 operating budget plan seeks additional, one-time investments from the state. In the recent past, the state has proposed and provided one-time non-recurring funding for a variety of energy efficiency and maintenance projects on CSU campuses.

### **Cap-and-Trade: \$25,000,000**

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 \$25.0 million from the Cap-and-Trade Program for 2018-19 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.

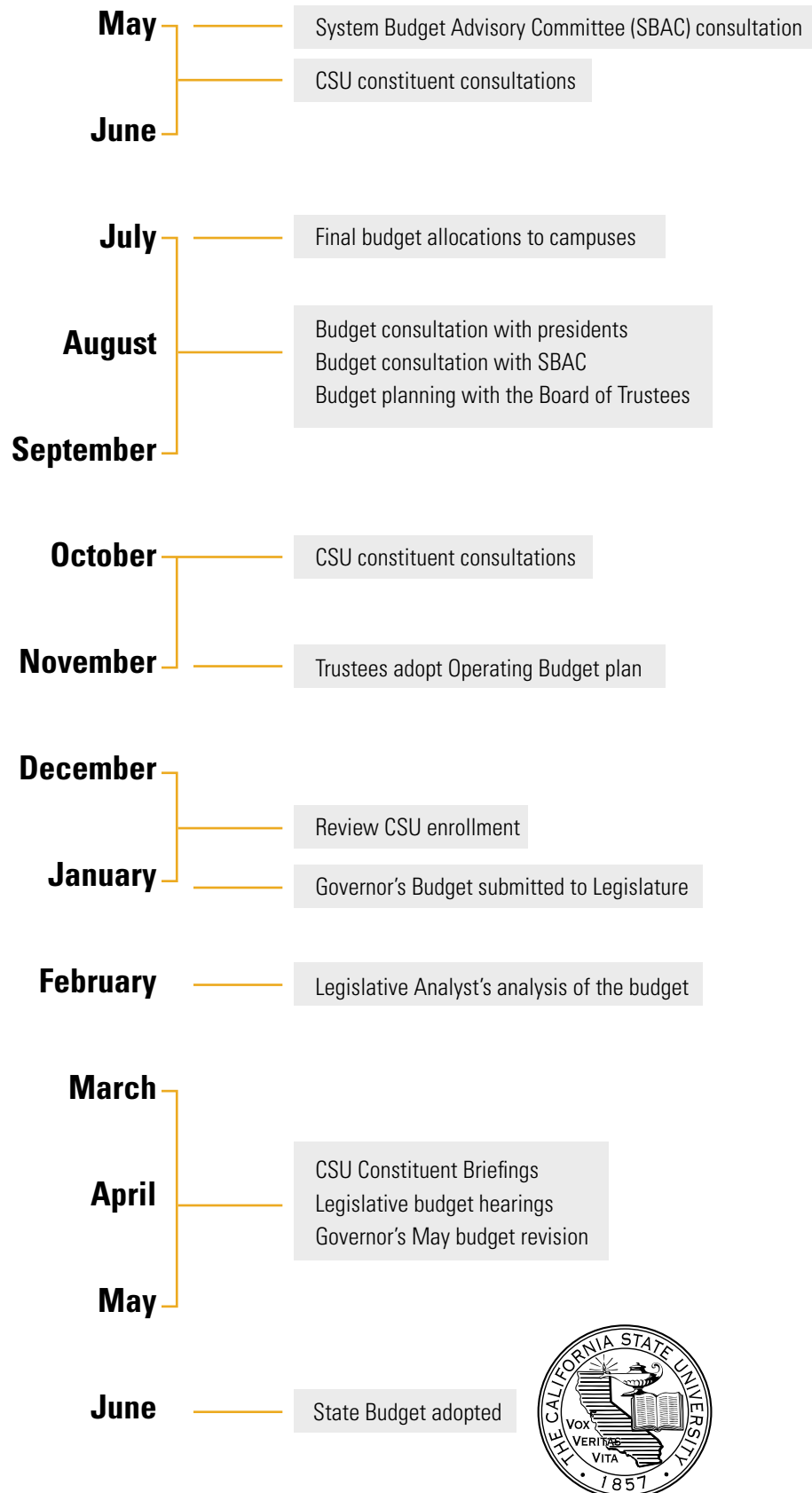
### **Deferred Maintenance Backlog: \$50,000,000**

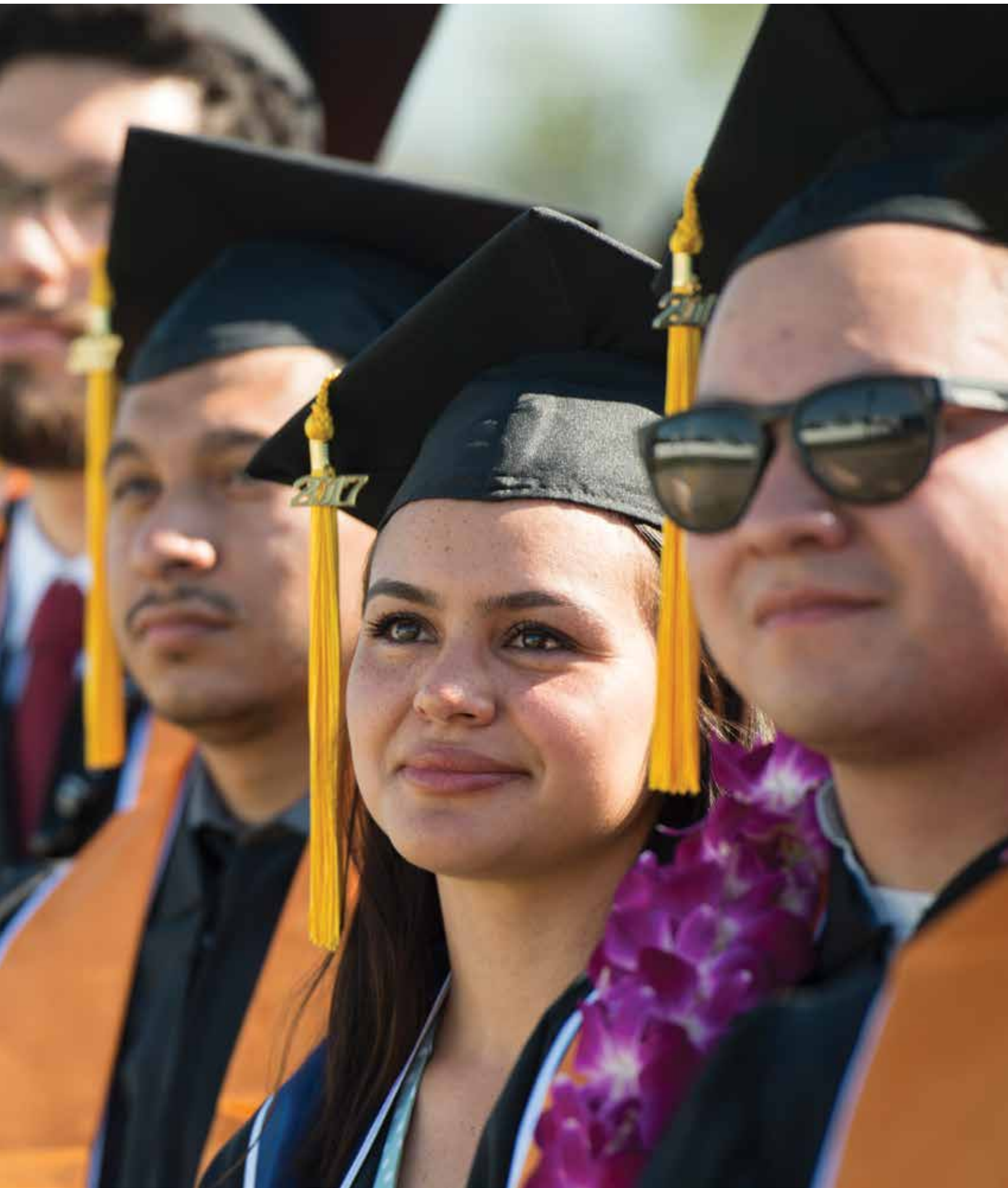
The CSU plan seeks an additional \$50.0 million of one-time funding to further address the growing maintenance backlog. Critical deficiencies identified throughout the 23 campuses will be addressed to enable campuses to continue essential operations, reduce the likelihood of catastrophic failures, and 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







# 23 California State University Campuses







**CSU** The California State University

401 Golden Shore, Long Beach, CA 90802

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## **COMMITTEE ON FINANCE**

### **Approval of a New Master Investment Policy for the California State University**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

This item requests that the California State University Board of Trustees approve a new Master Investment Policy for the California State University.

#### **Background**

Most CSU funds are currently invested through the CSU Systemwide Investment Fund-Trust (SWIFT) investment portfolio, which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash from the Chancellor's Office and campus-controlled bank depository and disbursement accounts is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT, and for investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, US Bancorp Asset Management and Wells Capital Management. Neither state general fund nor CSU auxiliary funds are included in the SWIFT portfolio.

The California State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State that might otherwise be invested in the SWIFT portfolio.

The California State University Investment Policy currently in effect is included as Attachment A.

On January 1, 2017, legislation became effective that granted new investment authority to the CSU. Key components of the new authority are:

1. Allows the CSU to invest in mutual funds, including equity mutual funds, subject to registration by, and under the regulatory authority of, the United States Securities and Exchange Commission and United States registered real estate investment trusts.
2. Limits the amount of funds that the CSU may place in the new investment options and phases in such investment as follows:
  - In the fiscal year ending June 30, 2017, no more than \$200,000,000.
  - In the fiscal year ending June 30, 2018, no more than \$400,000,000.
  - In the fiscal year ending June 30, 2019, no more than \$600,000,000.
  - In the fiscal year ending June 30, 2020, and each fiscal year thereafter, no more than 30 percent of all CSU investments.
3. Requires the board to establish an investment advisory committee to oversee investments. The committee must include a majority of members with investment expertise and who are not CSU employees. The State Treasurer has the option to serve, or appoint a deputy treasurer to serve, as a member of the committee.
4. Enhances investment reporting to the board and includes an annual reporting requirement to the legislature.
5. Restricts the use of earnings from the new investments to meet non-recurring capital needs, including deferred maintenance and critical infrastructure.
6. Prohibits the CSU from citing any losses associated with the new investments as justification for increases in student tuition or fees, and from seeking State general fund dollars to offset any losses associated with the new investments.

At its September 2017 meeting, the trustees established the CSU Investment Advisory Committee or “IAC” comprised of the following individuals:

- Ex Officio, the Chair of the Committee on Finance of the CSU Board of Trustees. Peter J. Taylor currently serves in this position. This position will also serve as Chair of the IAC.
- Ex Officio, the Executive Vice Chancellor and Chief Financial Officer of the California State University. Steve Relyea currently serves in this position. This position will also serve as Vice Chair of the IAC.
- Ex Officio, the Assistant Vice Chancellor, Financing, Treasury, and Risk Management, California State University. Robert Eaton currently serves in this position.
- Ex Officio, Timothy J. Schaefer, Deputy Treasurer for Public Finance at the State Treasurer’s Office.
- David Bach – Principal, The Bach Group; former investment officer for the California Public Employees’ Retirement System; board member for University Enterprises, Inc. at California State University, Sacramento.

- Leona M. Bridges – Director, San Francisco Municipal Transportation Agency; board member for the San Francisco State Foundation.
- Michael A. Lucki – Former Chief Financial Officer and member of the board of directors for CH2M Hill Companies, Ltd.; board member of the California State University Foundation.
- Irwin Rothenberg – Wealth Advisor, Buckingham Asset Management; board member for the Sonoma State University Foundation.

The basic charge of the IAC will be to oversee the portfolio of CSU investments that will be established under the new investment authority. The IAC will develop, periodically review, and amend, as needed, specific policies for the portfolio consistent with established investment policy of the board and state law; review and recommend the retention or replacement of investment managers; monitor portfolio asset allocations, review rebalancing activities; and monitor performance to stated objectives. All actions of the IAC will be in the form of recommendations to the board for approval or to staff for implementation under delegated authority.

### **New Master Investment Policy for the California State University**

The existing California State University Investment Policy needs to be updated and enhanced to effectively and prudently implement the new investment authority and related investment goals of the CSU. Staff has developed a draft of a new Master Investment Policy for the California State University (MIP) for the CSU, which is included herein as Attachment B. This item requests the board to approve the new MIP.

The MIP provides a framework for the investment of CSU funds and includes the following key elements as further described in the MIP:

- The articulation of standards and expectations to be met by parties involved in the investment of CSU funds, such as compliance with law, adherence to policy, “prudent investor” rule, acknowledgment of investment risk and potential loss of value, refraining from conflicts of interest, and the consideration of environmental, social, and governance factors in making investment decisions.
- Roles and responsibilities of the Board of Trustees, the chancellor and his or her staff, and the IAC, as fiduciaries for the investment of CSU funds, including delegations of authority from the Board of Trustees to the chancellor, staff, and the IAC to implement the provisions of the MIP.
- Investment objectives that shall govern CSU investments—safety of principal, liquidity needs of the CSU, and returns commensurate with acceptable levels of risk.
- Direction to the chancellor, staff, and the IAC to establish three investment portfolios, within acceptable allocation ranges and targets set by the Board of Trustees, each with their own investment objectives and policies.



The three portfolios will allow the CSU to segment funds necessary to be maintained in short-term investments for liquidity purposes from those available to invest over a longer time horizon in an effort to generate increased investment earnings over time and assist in the funding of CSU operating and capital needs.

The general purpose of each portfolio will be as follows:

**Liquidity Portfolio (Systemwide Investment Fund—Trust or SWIFT)**

The purpose of this portfolio will be to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives for this portfolio shall be safety of principal and liquidity. The existing SWIFT portfolio shall serve as the Liquidity Portfolio.

**Intermediate Duration Portfolio**

The purpose of this portfolio is to provide opportunity for modest, additional risk-adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this portfolio shall be safety of principal, liquidity, and return.

**Total Return Portfolio**

The purpose of this portfolio is to provide opportunity for additional risk-adjusted returns on CSU funds over a full market cycle. The investment objectives for this portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be the portfolio of investments that takes advantage of the new investment authority.

**Recommendation**

The following resolution is presented for approval:

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

1. Approve the Master Investment Policy for the California State University as presented in Agenda Item 5 and included as Attachment B of the November 7-8, 2017, meeting on the Committee on Finance;
2. Authorize the chair of the Committee on Finance; the chancellor; the executive vice chancellor and chief financial officer; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all actions necessary under delegated authority to implement this resolution.

This resolution supersedes RFIN 11-13-09 and shall take effect immediately upon approval by the Board of Trustees.

## **The California State University Investment Policy**

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

### **Investment Policy Statement**

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

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

### **Investment Authority**

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

A. State Treasury investment options include:

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

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

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

- Bonds or warrants of any county, city, water district, utility district or school district;
- California State bonds, notes, or warrants, or bonds, notes, or warrants with principal and interest guaranteed by the full faith and credit of the State of California;
- Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
- Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
- Bankers’ acceptances eligible for purchase by the Federal Reserve System;
- Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
- Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
- Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
- Student loan notes insured by the Guaranteed Student Loan Program;
- Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
- Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;

- B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in CSU investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio.

Furthermore, the CSU:

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

#### **Investment Reporting Requirements**

Annually, the chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by the CSU, including market values.

(Approved by the CSU Board of Trustees in January 1997; and as amended in September 2011 and November 2013)





DRAFT

Master Investment Policy  
For The California State University

Approved on November 8, 2017  
By The Board of Trustees of The California State University

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## **I. Scope and Purpose**

This California State University Master Investment Policy (“MIP”) governs the investment of California State University (“CSU”) funds. CSU investments are centrally managed on behalf of the CSU System and its campuses.

The purpose of the MIP, together with investment policies that govern individual Portfolios (as defined in Section IV) and are created pursuant to delegated authority contained herein, is to provide a framework for the investment of CSU funds consistent with the goals of the CSU Board of Trustees (the “Board”) and the educational mission of the CSU.

The MIP sets forth objectives, guidelines, and responsibilities that the Board deems to be appropriate and prudent in consideration of the needs of, and the legal requirements applicable to, the CSU’s investment program. The MIP is also intended to ensure that the Board, and any parties to whom the Board delegates authority, are fulfilling their fiduciary responsibilities in the oversight of CSU investments.

The MIP is a dynamic document and will be reviewed from time to time. The MIP will be modified, if necessary, to reflect the changing nature of the CSU’s assets and investment program, organizational objectives, and economic conditions.

## **II. Compliance with Law and Adherence to Policy**

CSU investments are to be managed in full compliance with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the CSU’s assets, including but not limited to the provisions of the California Education Code and California Government Code applicable to the investment of CSU funds, and in accordance with the policy objectives, guidelines, and responsibilities expressed herein.

## **III. Background and Investment Objectives**

The investment objectives for the investment of CSU funds have been established in conjunction with a comprehensive review of current and projected financial requirements. The Board desires to provide the Chancellor, the Chancellor’s Staff, and the IAC (as defined in Section V) with the greatest possible flexibility to maximize investment opportunities. However, as agents of the Board, the Chancellor, the Chancellor’s Staff, and the IAC must recognize the fiduciary

responsibility of the Board to conserve and protect the assets of the CSU investment program, and, by prudent management, prevent exposure to undue and unnecessary risk.

The following objectives shall govern the investment of CSU funds:

1. Safeguard the principal.
2. Meet the liquidity needs of the CSU.
3. Obtain the best possible return commensurate with the degree of risk the CSU is willing to assume in obtaining such return.

The Board acknowledges that these objectives may be weighted or prioritized differently for individual Portfolios depending upon the purpose of the Portfolio.

#### **IV. Investment Portfolios**

Consistent with its investment objectives, the Board has determined that CSU funds may be invested in three investment portfolios (individually, a “Portfolio” and together, the “Portfolios”) created by the CSU, with oversight by the Chancellor, the Chancellor’s Staff, and the IAC, and each with its own investment policy.

The three Portfolios and general purpose of each Portfolio are as follows:

##### **Liquidity Portfolio (Systemwide Investment Fund—Trust or “SWIFT”)**

The purpose of this Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives for this Portfolio shall be safety of principal and liquidity. The existing CSU Systemwide Investment Fund—Trust (SWIFT) shall serve as the Liquidity Portfolio and shall be comprised of investments authorized pursuant to California Government Code Sections 16330 and 16430.

##### **Intermediate Duration Portfolio (IDP)**

The purpose of this Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this Portfolio shall be safety of principal, liquidity and return. The Intermediate Duration



Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

#### **Total Return Portfolio (TRP)**

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Fund shall be comprised of investments authorized pursuant to California Government Code Sections 16330 and 16430, as well as California Education Code Sections 89724 and 89725.

The acceptable allocations for the Portfolios are as follows:

<b><u>Portfolio</u></b>	<b><u>Min – Target – Max</u></b>
Liquidity Portfolio (“SWIFT”)	<b>5% - 20% - 100%</b>
Intermediate Duration Portfolio (“IDP”)	<b>0% - 52% - 95%</b>
Total Return Portfolio (“TRP”) <b>30%<sup>1</sup></b>	<b>0% - 28% -</b>

In addition, the CSU may invest any amount (from 0% to 100%), in any California State Treasury investment option, available now, or in the future, that the IAC and the staff deem prudent, including, but not limited to:

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

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<sup>1</sup> Percentage allocations to the TRP are subject to annual phase-in restrictions through June 30, 2020 per state law.

## **V. Roles and Responsibilities**

### **Board of Trustees**

The Board assumes fiduciary responsibility to conserve and protect the investment assets of the CSU, and by prudent management, to prevent exposure to undue and unnecessary risk. However, the Board also acknowledges investments are inherently risky with risk of loss and, as such, are viewed with a long-term time horizon.

As a fiduciary, the primary responsibilities of the Board are to:

1. Maintain and approve the MIP.
2. Ensure that CSU investments are prudently diversified in order to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume.
3. Report annually to the California state legislature and the California Department of Finance regarding the investment of CSU funds.

The Board shall have oversight responsibility for investment of the assets and has delegated investment authority to the Chancellor, the Chancellor's Staff, and the IAC.

### **Chancellor and Chancellor's Staff**

As agents of the Board, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor responsible for CSU investments, and their designees (the "Chancellor's Staff"), recognize the fiduciary responsibility of the Board to conserve and protect the investment assets of the CSU and, by prudent management, to prevent exposure to undue and unnecessary risk.

The Chancellor and the Chancellor's Staff are hereby authorized to establish policies and procedures to implement the provisions of this MIP, including, but not limited to, the following activities:

1. Overseeing and implementing general administrative and investment operations for the Portfolios.

2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.
3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.
4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.
5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.
6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.
7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.
8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.
9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.
10. All other duties designated or delegated by the Board or the IAC.

### **Investment Advisory Committee**

As required by state law, the CSU has created an Investment Advisory Committee (the "IAC"), to provide investment advice and expertise to the Board, particularly with respect to the management of the TRP.

The IAC shall be an advisory body and shall make recommendations, as appropriate, to the Board for approval or to the Chancellor and the Chancellor's Staff for implementation. The IAC shall be responsible for overseeing all aspects of the TRP and is hereby authorized to recommend policies

and procedures for the creation and implementation of the TRP, including, but not limited to, the following activities:

1. Understanding the overall investments of the CSU and each of the Portfolios as informed by the Chancellor's Staff, investment advisors and/or investment managers.
2. Developing and approving an IAC charter to establish guidelines for operations of the IAC.
3. Developing, approving, and overseeing the implementation of an investment policy statement for the TRP.
4. Reviewing and approving target asset allocations and ranges for the TRP.
5. Monitoring and reviewing the performance of the TRP to its stated objectives.
6. Prudently reviewing, selecting, monitoring, and replacing investment management firms engaged to manage the TRP's assets.
7. Monitoring and supervising all service vendors and fees for the TRP.
8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

### **Prudence, Ethics, and Conflict of Interest**

All participants in the investment process shall act responsibly. The standard of prudence applied by the Board, the Chancellor, the Chancellor's Staff, and the IAC, as well as any external service providers, shall be the "prudent investor" rule. The "prudent investor" rule in part, states, "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

Furthermore, all participants in the investment process shall use the same care, skill, prudence, and due diligence under the circumstances then prevailing that a prudent person acting in a like



capacity and fully familiar with such matters would use in the conduct of an enterprise of like activities for like portfolios with like aims and in accordance and compliance and all other applicable laws, rules and regulations.

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the Chancellor's Staff or the IAC any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Portfolios. All investment personnel shall report any potential conflicts of interest consistent with Government Code Section 87200. Further, the Chancellor shall report to the Board in writing any issues that could reflect any conflict in the performance of the Portfolios.

#### **Document Acceptance of the Investment Policy Statement**

The Chancellor's Staff shall provide a copy of this MIP, and the relevant Portfolio investment policy, to each firm retained to provide investment services to the CSU and each such firm shall acknowledge in writing receipt of the document and accept its content.

## **VI. Environmental, Social and Governance Framework**

The Board acknowledges the importance of understanding the potential risks and value that environmental, social, and governance ("ESG") factors may have on CSU investments. Therefore, the Board expects that the consideration of ESG factors shall be integrated into the investment decision processes of the CSU.

Approved:

The California State University Board of Trustees  
November 8, 2017