

# **AMENDED**

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting:**     **10:30 a.m., Tuesday, March 24, 2020**  
                  **Virtually via Teleconference**

Lillian Kimbell, Chair  
Jack McGrory, Vice Chair  
Larry L. Adamson  
Jane W. Carney  
Rebecca D. Eisen  
Juan F. Garcia  
Hugo N. Morales  
Romey Sabalius  
Lateefah Simon  
Peter J. Taylor

**Consent**     1. Approval of Minutes of the Meeting of January 28, 2020, *Action*  
                  2. California State University Quarterly Investment Report, *Information*  
                  3. California State University Annual Debt Report, *Information*  
                  4. University Operational Effectiveness Initiatives, *Information*

**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**

**January 28, 2020**

**Members Present**

Lillian Kimbell, Chair  
Jack McGrory, Vice Chair  
Larry L. Adamson  
Jane W. Carney  
Rebecca D. Eisen  
Juan F. Garcia  
Hugo N. Morales  
Romey Sabalius  
Lateefah Simon  
Peter J. Taylor

Adam Day, Chair of the Board  
Timothy P. White, Chancellor

Trustee Lillian Kimbell called the meeting to order.

**Public Comment**

Public speakers made comments related to the reporting of use of funds for hiring of tenure track faculty and mental health issues. They also spoke in support of compensation increases.

**Approval of Minutes**

The minutes of the November 19, 2019 meeting of the Committee on Finance were approved as submitted.

### **CSU Fee Policy and 2019-2020 Student Fee Report**

An overview of the CSU Fee Policy and a report on the 2019-2020 student fees were presented.

Following the presentation, the trustees discussed various elements of student success fees, including the expiration of the freeze on these types of fees scheduled for January 2021. They asked how student referendum and alternative consultation works on campuses. Trustee Romey Sabalius commented about the manner in which some of the fees are approved via alternative consultation, and requested that alternative consultation be eliminated. Chancellor Timothy P. White cautioned against such a proposal because it will make it difficult to provide necessary well-being services expected by students and there is sufficient review and oversight by campuses and the Chancellor's Office. Trustee Douglas Faigin requested additional information on changes to Category II fees since 2015. Trustees requested additional information on efforts conducted by the campuses to inform students of proposed changes to fees and data on student votes related to fees.

### **2020-2021 Operating Budget Update**

An update on the 2020-2021 Governor's Budget Proposal and CSU budget request was provided.

Following the presentation, the trustees expressed disappointment in the amount of funding being proposed by the state and discussed the challenges of pursuing multi-year funding.

Trustee Kimbell adjourned the meeting of the Committee on Finance.

## **COMMITTEE ON FINANCE**

### **California State University Quarterly Investment Report**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

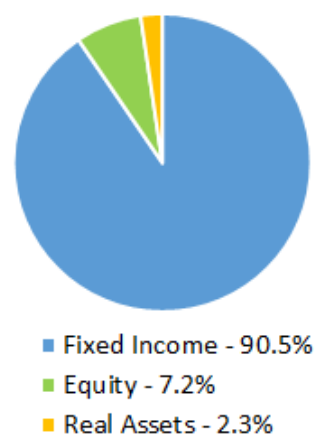
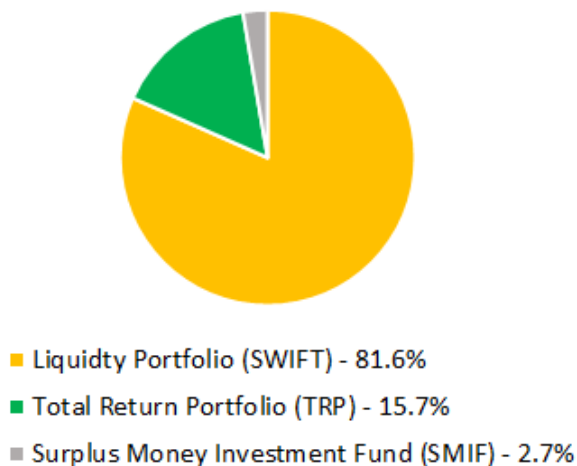
This item provides the quarterly investment report to the California State University Board of Trustees for the fiscal quarter ended September 30, 2019. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code 89726.

#### **Background**

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of September 30, 2019 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.23 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**CSU Investments – Balances, Allocations, and Returns  
September 30, 2019**

	<b>Balance</b>	<b>% of CSU Investments</b>	<b>Twelve Month Returns</b>
Liquidity Portfolio (SWIFT)	\$4.12 billion	81.6%	3.22%
Total Return Portfolio (TRP)	\$791 million	15.7%	6.06%
Surplus Money Investment Fund (SMIF)	\$136 million	2.7%	2.05%
<b>CSU Investments</b>	<b>\$5.05 billion</b>	<b>100%</b>	



**CSU Investment Portfolios**

For detailed information on the investment performance and characteristics of the CSU investment portfolios please see Attachment A.

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

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objective is safety of principal and liquidity.

The Liquidity Portfolio is managed through contracts with two investment management firms, US Bancorp Asset Management and Wells Capital Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the Liquidity Portfolio, for investment management purposes additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the State and the Liquidity Portfolio investment policy. Consistent with state law, the Liquidity Portfolio is restricted to high quality, fixed income securities.

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

Legislation effective January 1, 2017, expanded the CSU investment authority to allow investment in mutual funds (including equity mutual funds) and real estate investment trusts. The Total Return Portfolio was created to take advantage of the new investment authority.

The purpose of the TRP is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level.

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings, and may not be more than thirty percent of eligible CSU investments. The CSU Investment Advisory Committee (IAC), established by the Board of Trustees in September 2017, oversees the TRP and focuses on key issues such as investment policy, asset allocation, investment manager oversight, and investment performance.

The TRP investment policy provides a framework for the investment of portfolio funds in the TRP and includes the following key elements as further described in the TRP Investment Policy:

Investment Objectives	Investment Manager Selection
Spending Policy	Roles & Responsibilities
Time and Investment Horizon	Environmental, Social and Governance
Risk Tolerance	Framework
Expected Return	Risk Management
Asset Allocation	Monitoring and Control Procedures
Benchmarks	

The IAC has adopted an investment schedule for the TRP that utilizes a dollar-cost averaging approach and provides regular monthly contributions to the TRP. An initial investment of \$33.5 million into the TRP was made on April 1, 2018, with the goal of reaching the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. Since June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal of funding the TRP to as much as 30 percent of CSU investments by mid-2020. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Since the TRP Inception date<sup>1</sup> through September 30, 2019, the TRP investment earnings were approximately \$41.4 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 4.71 percent annualized (net of fees) or \$25.3 million cumulative during the time period.

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<sup>1</sup> The TRP Inception Date was April 1, 2018.

Finally, in October 2019, the IAC approved the first annual TRP Spending Dividend of approximately \$22.4 million which was allocated to the campuses for capital outlay or maintenance. Consistent with state law and specifically, Education Code 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

### **Surplus Money Investment Fund (SMIF)**

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

### **Next Steps**

Staff will continue implementing the TRP investment schedule with oversight from the IAC. Staff is also working on developing the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, with the goal of implementing this portfolio in 2020. The next investment report to the board is scheduled for the May 2020 meeting and will provide information on the fiscal quarter ending December 31, 2019.

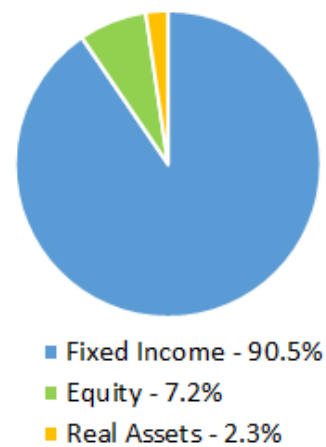
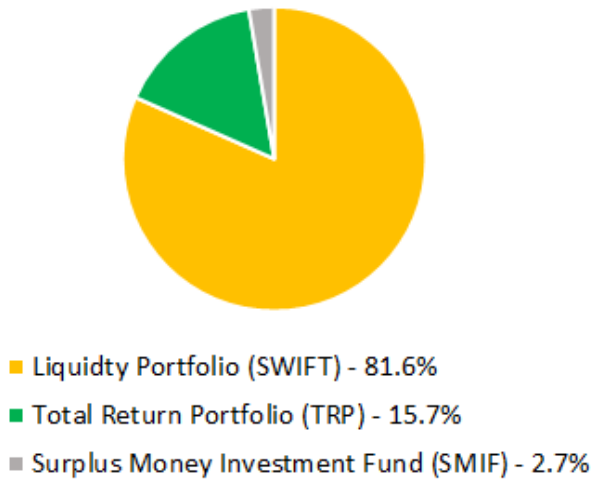
## CSU Quarterly Investment Report

**For the Fiscal Quarter Ended September 30, 2019**

CSU investments as of September 30, 2019 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.23 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

### Balances and Allocations as of September 30, 2019

	<u><b>Balance</b></u>	<u><b>% of CSU Investments</b></u>
Liquidity Portfolio (SWIFT)	\$4.12 billion	81.6%
Total Return Portfolio (TRP)	\$791.4 million	15.7%
Surplus Money Investment Fund (SMIF)	\$135.9 million	2.7%
<b>CSU Investments</b>	<b>\$5.05 billion</b>	<b>100%</b>



For the quarter ended September 30, 2019, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just over \$0.5 million, or about 0.012 percent (1.2 basis points) on CSU investments total balance as of September 30, 2019.

<sup>1</sup> Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 4.



### **CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)**

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objective is safety of principal and liquidity. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	<b>CSU Liquidity Portfolio</b>	<b>Benchmark<sup>2</sup></b>
1 Year Annualized Return <sup>3</sup>	3.22%	3.83%
3 Year Annualized Return	1.67%	1.57%
5 Year Annualized Return	1.39%	1.26%
10 Year Annualized Return	0.99%	1.03%
Annualized Since Inception Return <sup>4</sup>	1.41%	1.67%
Yield	1.88%	1.76%
Duration (Years)	1.07	1.45
Average Credit Rating	AA-	Aaa/AA+

### **Holdings by Asset Type (% of CSU Liquidity Portfolio):**

Treasuries	37.22%
U.S. Corporate Bonds	27.02%
U.S. Government Agencies	23.40%
CD's and Cash Equivalents	9.50%
Asset-Backed Securities	2.79%
Municipal Obligations	0.06%

<sup>2</sup> Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

<sup>3</sup> CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>4</sup> Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.

## CSU Total Return Portfolio (TRP)

The purpose of the Total Return Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission or in United States registered real estate investment trusts.

	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>5</sup></b>	<b>Policy Benchmark<sup>6</sup></b>
3 Months Return	1.04%	1.62%	0.87%
1 Year Return	6.06%	6.95%	5.47%
Annualized Since Inception Return <sup>7</sup>	7.46%	6.63%	5.75%

Since the TRP Inception date through September 30, 2019, the TRP investment earnings were approximately \$41.4 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 4.71 percent annualized (net of fees) or \$25.3 million cumulative during the time period.

Finally, in October 2019, the CSU Investment Advisory Committee approved the first annual TRP Spending Dividend of approximately \$22.4 million. The TRP Spending Dividend was allocated to the campuses for capital outlay or maintenance in November 2019. Consistent with state law and specifically, Education Code 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

### Holdings by Asset Type (% of CSU Total Return Portfolio):

Equity Mutual Funds	45.9%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.1%	Actively Managed Mutual Funds	26% <sup>8</sup>
Real Asset Mutual Funds	15.0%		

<sup>5</sup> The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.

<sup>6</sup> The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

<sup>7</sup> TRP Inception Date was April 1, 2018.

<sup>8</sup> The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan.

### Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	174.8	22%	0.030%	0.450%
	Vanguard Inflation-Protected Securities Fund	VIPIX	39.6	5%	0.070%	0.450%
	Lord Abbett High Yield Fund	LHYOX	47.6	6%	0.600%	0.730%
	Pacific Funds Floating Rate Income Fund	PLFRX	23.8	3%	0.720%	0.755%
	Payden Emerging Markets Bond Fund	PYEIX	11.9	1.5%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	11.9	1.5%	0.700%	0.850%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	189.9	24%	0.020%	0.770%
	Vanguard Developed Markets Index Fund	VTMNX	94.9	12%	0.050%	0.900%
	Driehaus Emerging Markets Growth Fund	DIEMX	47.1	6%	1.180%	1.150%
	DFA Emerging Markets Value Fund	DFEVX	23.6	3%	0.540%	1.150%
	RWC Global Emerging Equity Fund	RWCEX	7.9	1%	1.250%	1.150%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	55.2	7%	0.100%	0.905%
	Vanguard Energy Index Fund	VENAX	15.7	2%	0.100%	0.990%
	Vanguard Materials Index Fund	VMIAX	15.9	2%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	31.5	4%	0.950%	0.990%
<b>Cash</b>			0.0	0%	NA	NA
<b>Total</b>			791.4	100%		

### Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

#### Apportionment Annual Yield<sup>9</sup>

Trailing 12 month as of 09/30/19	2.05%
Average (FYE 06/30/07 – FYE 09/30/19)	1.13%

<sup>9</sup> Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.



# 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 or 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 Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

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

## **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.

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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.



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

## **COMMITTEE ON FINANCE**

### **California State University Annual Debt Report**

#### **Presentation By**

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

#### **Summary**

This item reports on the debt of the California State University Systemwide Revenue Bond program in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

#### **Background**

The Systemwide Revenue Bond (SRB) program, under the provisions and authorities of The State University Revenue Bond Act of 1947 (Education Code Sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with authority to establish procedures for the management of the SRB program consistent with the Board of Trustees' objectives for the use of debt, including the establishment of benchmark financial ratios to ascertain the financial viability of projects to be financed with CSU debt. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended by the Board of Trustees in November 2014 and is included as Attachment A.

The SRB program provides capital financing for projects approved by the CSU Board of Trustees, including student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other academic facilities. Revenues from these programs and revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the debt issued to finance the projects. A strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

Since the inception of the SRB program, the CSU has also issued commercial paper (CP) primarily to provide campuses with short term, lower cost capital financing on projects until long term bonds are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by Bond Anticipation Notes issued by the CSU. The CSU currently has a CP program in the amount of \$300 million, although both the Board of Trustees and the CSU Institute have authorized a CP program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in June 2020.

### **SRB and CP Portfolio Profile**

As of June 30, 2019, and February 29, 2020, outstanding SRB debt of the CSU was approximately \$6.2 billion and approximately \$7.2 billion, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.53%
Weighted Average Maturity:	15.7 Years
Interest Rate Mix:	97% Long Term Fixed Rate 3% Short Term Fixed Rate

As of December 31, 2019, outstanding CP was \$217.1 million at a weighted average interest rate of 1.39 percent.

### **SRB Operating Performance and Debt Service Coverage Ratios**

For the fiscal years ended June 30, 2017, June 30, 2018, and June 30, 2019, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Operating Revenues <sup>1</sup>	\$4,939	\$5,250	\$5,326
Operating Expenses <sup>1</sup>	<u>1,688</u>	<u>1,794</u>	<u>1,763</u>
Net Revenues	3,251	3,456	3,563
Annual Debt Service	\$301	\$363	\$384
Debt Service Coverage <sup>2</sup>	<b>10.80</b>	<b>9.52</b>	<b>9.28</b>

(1) Operating Revenues and Operating Expenses reflect the addition of student tuition fee revenue to the SRB pledge of gross revenues and the addition of associated expenses, effective April 2016.

(2) The minimum benchmark for the system, as established by executive order, is 1.45.

## **Activity since the March 2019 Annual Debt Report**

### Series 2019A, Series 2019B, Series 2020A, and Series 2016B-1 SRB Issuance

In July 2019, the CSU issued \$646,005,000 of SRBs comprised of the following series:

Series 2019A (Tax-exempt):	\$449,430,000
Series 2019B (Taxable):	\$81,335,000
Series 2020A (Forward Delivery/Tax-exempt):	\$65,240,000
Series 2016B-1 (Put Bond Remarketing/Tax-exempt):	<u>\$50,000,000</u>
Total par amount of the bonds:	\$646,005,000

All of the Series 2019A bonds were issued for new money projects at an all-in true interest cost of 3.29 percent. Approximately \$78.7 million of the Series 2019B bonds was also issued for new money projects at an all-in true interest cost of 3.46 percent.

The balance of the Series 2019B bonds and all of the Series 2020A bonds were used to refund about \$68 million in outstanding SRB debt for net present value savings of about \$10.3 million, or an average of about \$850,000 per year. The Series 2020A bonds closed in February 2020.

The Series 2016B-1 bonds were remarketed for a period of seven years at an interest rate of 1.60 percent.

### Series 2020B SRB Issuance

In February 2020, the CSU issued \$829,425,000 of taxable SRBs. Of this amount, \$621,760,000 was issued for new money projects at an all-in true interest cost of 2.9956 percent with approximately \$586 million of the new money coming due in 2051. The balance of \$207,665,000 was used to refund existing SRB debt, producing net present value savings of approximately \$40 million, or an average of about \$2.3 million per year.

### Projects Approved for Financing under Delegated Authority

In March 2018, the Board of Trustees amended Section II.f. of its Standing Orders in order to delegate authority to the chancellor to, among other things, authorize debt financing for projects valued up to \$40 million and authorize debt financing for all remodels, parking structures, and utilitarian projects, regardless of cost.

In June and September 2019, under this delegation of authority, the chancellor authorized debt financing for the following three projects:

- California State University, Sacramento Recreation/Wellness Center Expansion Phase 2 project with a not-to-exceed financing amount of \$18,840,000.
- California State University, Fullerton Eastside Parking Structure Phase II (PS5) project with a not-to-exceed financing amount of \$37,350,000.
- San Jose State University South Campus Multi-Level Parking Structure and Field Facility project with a not-to-exceed financing amount of \$45,125,000.

All three projects met CSU debt financing benchmarks. The Sacramento and Fullerton projects were included in the CSU's July 2019 SRB issuance, and the San Jose project is presently in CP and is expected to be included in a future SRB issuance.



**CSU Policy for Financing Activities**  
**Board of Trustees' Resolution**  
**RFIN/CPBG 11-14-01**

**WHEREAS**, The Board of Trustees of the California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

**WHEREAS**, The Board recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; and

**WHEREAS**, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

**WHEREAS**, Within a policy framework, the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

**WHEREAS**, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings or restructurings; and

**WHEREAS**, The Board finds it appropriate to use the limited debt capacity of the CSU in the most prudent manner; and

**WHEREAS**, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

**RESOLVED**, by the Board of Trustees of the California State University as follows:

**Section 1. General Financing Policies**

**1.1** The State University Revenue Bond Act of 1947 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the "CSU Bond Acts") provide the Board of Trustees with the ability to acquire,

construct, finance, or refinance projects funded with debt instruments repaid from various revenue sources.

**1.2** The long-term debt programs of the Board of Trustees established pursuant to the CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

**1.3** The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

**1.4** The Trustees' debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

**1.5** The Trustees' programs shall be designed to improve efficiency of access to the capital markets by consolidating bond programs where possible.

**1.6** The Chancellor shall develop a program to control, set priorities, and plan the issuance of all long-term debt consistent with the five-year capital outlay program.

**1.7** The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

## **Section 2. Financing Structure of the CSU's Debt Programs**

**2.1** To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty, and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

**2.2** The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added,

and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

**2.3** The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

**2.4** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the Trustees, to take any and all actions necessary to issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such financing transactions.

**2.5** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

### **Section 3. Other Financing Programs**

**3.1** The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible for, or are inappropriate for financing under the CSU Bond Acts. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing, if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the CSU Bond Acts financing program.

**3.1.1** Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

**3.1.2** These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

**3.1.3** If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

**3.2** The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the

Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

#### **Section 4. State Public Works Board Lease Revenue Financing Program**

**4.1** The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

**4.2** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

#### **Section 5. Credit of the State of California**

**5.1** The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

## **Section 6. Tax Law Requirement for Reimbursement of Project Costs**

**6.1** For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

**6.1.1** Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

**6.1.2** Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

## **Section 7. Effective Date and Implementation**

**7.1** Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

**7.2** This resolution supersedes RFIN 03-02-02 and shall take effect immediately.

## **COMMITTEE ON FINANCE**

### **University Operational Effectiveness Initiatives**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Robert S. Nelsen  
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Executive Director, Strategic Sourcing and  
Chief Procurement Officer

#### **Summary**

This item provides an update on operational effectiveness initiatives that have occurred since the March 2019 presentation to the California State University Board of Trustees.

The CSU uses resources strategically and routinely evaluates and improves university operations to support the academic mission and deliver a quality education to students. The CSU's commitment to good stewardship requires the 23 campuses and system office to continuously look for opportunities that optimize operations. Additionally, the CSU does not receive funding for inflationary cost increases, including the growing cost of compliance. Therefore, the 23 campuses and system office must avoid costs and find new revenue each year to balance the budget. Current initiatives to avoid costs and enhance effectiveness include exploring and implementing strategic procurement, simplifying and streamlining administrative processes, and consolidating services to lower costs and enhance services.

#### **Overview of Current Initiatives**

The CSU takes a focused approach to increase operational effectiveness and is intentional in its approach to avoid costs, generate revenue, and enhance quality. The overall strategy that we use include efforts to improve processes, collaborate across the system and other higher educational segments, institute a procurement vision focused on avoiding costs, and conducting assessments that identify future opportunities.

Campuses use process improvement methods to systematically identify and remove non-value-added work that allow us to redirect resources to other critical functions. The CSU has implemented a number of tools such as the balanced scorecard and process streamlining to support continuous improvement.

Procurement leaders across the 23 campuses and the Chancellor's Office created a strategic vision, titled 23C, to focus on forward-looking planning and collaboration. This effort has increased the focus on reducing costs across the system and leveraging the joint resources and bargaining power of the CSU.

Under the guidance of the Revenue Opportunities Workgroup convened by Trustees John Nilon and Douglas Faigin in 2019, two external firms were hired to complete a systemwide assessment of potential revenue that could be generated through holistic corporate partnerships. These firms have created comprehensive asset valuations for 20 of 23 campuses. Based on the results of these evaluations, the CSU is pursuing systemwide corporate partnerships in several categories.

In addition, the CSU has leveraged strategic partnerships between the campuses, auxiliary organizations, the California Community Colleges (CCC), and the University of California (UC), to decrease redundancies and increase effectiveness across the three segments. The results of these collaborative efforts are showcased at the California Higher Education Collaborative Conference, where the three systems gather to share "best practices", receive training in process improvement tools, and identify areas where they can work together. Significant benefits are also gained by sharing purchasing agreements with the UC, CCC, and other higher education consortia agreements.

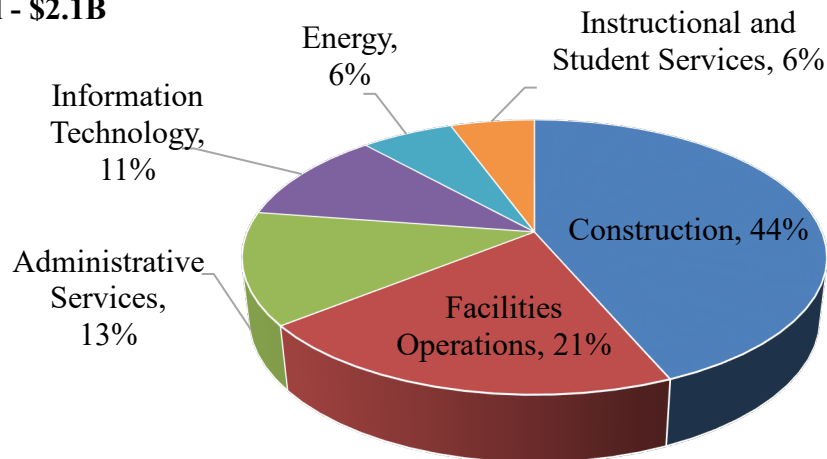
Many initiatives have been pursued to avoid costs while maintaining or improving the ability to deliver the core educational services of the CSU. This item describes the \$162.6 million dollars in cost avoidance and revenue generation achieved in 2018-2019 in a variety of areas including administrative services, information technology, construction, instructional and student services, energy, facilities operations, and strategic partnerships.

### **2018-2019 Cost Avoidance and Revenue**

CSU operating and construction expenditures in 2018-2019 are shown by category on the following pie chart. Corresponding avoided costs and revenue for 2018-2019 are provided on the following table below the pie chart.



**2018-2019 CSU Expenditures**  
**Total - \$2.1B**



**2018-2019 CSU Cost Avoidance and Revenue**

Category	Cost Avoidance/Revenue
Administrative Services	\$45.0M
Information Technology	\$35.1M
Construction	\$30.5M
Instructional and Student Services	\$20.6M
Energy	\$15.7M
Facilities Operations	\$14.6M
Strategic Partnerships	\$1.1M
<b>Total</b>	<b>\$162.6M</b>

We have implemented several initiatives in the administrative services category to avoid operational costs and increase revenue, netting \$45.0 million in 2018-2019. A significant contributor in this area was the use of the CSU's investment authority to earn \$22.4 million in revenue that has been distributed to the campuses as described in the Committee on Finance, Agenda Item 2 - California State University Quarterly Investment Report. Other administrative services efforts include coordinated insurance and risk management services, systemwide agreements for financial auditors, bank card and banking services, and a common shopping website for catalog-based purchasing. In addition, the CSU implemented process improvements across many campuses to automate workflows and reduce effort expended by faculty, staff, and students.

In the area of information technology, the CSU avoided \$35.1 million in costs. Several enterprise systems migrations have consolidated and standardized email systems, databases, and moved to the cloud. In addition, equipment refresh processes have helped to standardize equipment and consolidate software and hardware purchases. Other initiatives include enhanced information security features like two-factor authentication and creation of disaster recovery sites to help campuses secure information and avoid incidents and potential claims and ensure that our most critical services function in the event of a disaster.

Construction is a major component of the CSU's total expenditures and several methods have been deployed to avoid \$30.5 million in costs, and improve efficiencies in the management of construction projects. The CSU utilized tools and methods, including negotiation of fees, effective management of contingencies, competitive bidding, benchmarking costs, repurposing of space and renovation instead of new construction, as well as creative construction delivery approaches to avoid these costs.

Instructional and student services related initiatives yielded \$20.6 million in cost avoidance. Through the coordinated purchase of electronic library resources and consolidated contracts for academic technology and learning management systems across the CSU, students are able to access resources geared towards assisting them in achieving their educational goals.

In energy, \$15.7 million cost avoidance was achieved through direct purchase agreements with utility providers, energy efficiency and sustainability projects, and utilization of energy information systems, all designed to save money and improve sustainability.

Facilities operations initiatives avoided \$14.6 million in costs through irrigation projects, parking ticketing systems, operations restructuring, consolidated procurement of medical supplies and lab equipment, consolidated purchase of fleet vehicles with added opportunities for revenue generation, and collaboration with the UC and the CCC on the purchasing of facilities products for maintenance, repair, operations, and furniture.

In 2018-2019, CSU campuses achieved \$1.1 million in revenue and cost avoidance through strategic partnerships. In addition, the CSU hired The Superlative Group and ADC Partners to complete a systemwide assessment of potential revenue generated through holistic corporate partnerships. Based on this assessment, the CSU is pursuing systemwide corporate partnerships in the airline, freight/shipping, furniture, and hotel categories.

### **Future Initiatives**

The CSU will continue to explore opportunities to avoid costs and enhance effectiveness. In partnership with our campuses across the system we will continue to develop additional multi-campus agreements, leverage cloud services, and increase access to direct utility purchase agreement. In addition, we remain committed to furthering collaborations with the UC and CCC to expand sustainable procurement initiatives and broaden the use of systemwide administrative tools.