

AGENDA

COMMITTEE ON FINANCE

Meeting: **11:35 a.m., Tuesday, July 13, 2021**
 Virtually via Teleconference

Jack McGrory, Chair
Larry L. Adamson, Vice Chair
Jane W. Carney
Wenda Fong
Anna Ortiz-Morfit
Krystal Raynes
Romey Sabalius
Christopher Steinhauser

- Consent** 1. Approval of Minutes of the Meeting of May 18, 2021, *Action*
 2. Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under
 Delegated Authority, *Information*
- Discussion** 3. 2021-2022 Final Budget, *Information*

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

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

May 18, 2021

Members Present

Jack McGrory, Chair
Peter J. Taylor, Vice Chair
Larry L. Adamson
Jane W. Carney
Jack Clarke, Jr.
Wenda Fong
Maryana Khames
Anna Ortiz-Morfit
Krystal Raynes
Lateefah Simon

Lillian Kimbell, Chair of the Board
Joseph I. Castro, Chancellor

Trustee Jack McGrory called the meeting to order.

Public Comment

Public comment took place at the beginning of the meeting's open session, prior to all committees.

Approval of the Consent Agenda

The minutes of the March 23, 2021 meeting of the Committee on Finance were approved as submitted.

***PLEASE NOTE: Due to the Governor's proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor's Executive Orders N-25-20 and N-29-20 issued on March 12, 2020 and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor's Office staff, the May 17-19, 2021 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

Item number two, California State University, Monterey Bay Conceptual Approval of a Public-Private Partnership Mixed-Use Development Project, was approved as submitted (RFIN 05-21-02).

Item number three, California State University Annual Debt Report, was an information item.

Item number four, California State University Quarterly Investment Report, was an information item.

2021-2022 Operating Budget Update

Information about Governor Newsom's May revision proposal was shared. It proposes \$514.9 million in recurring operating funds and \$325 million in one-time funds for the CSU. Proposals to convert Humboldt State University into a polytechnic university and for an equity innovation hub at CSU Northridge were also included. Key details from the Senate and Assembly budget plans were highlighted.

Following the presentation, the trustees asked about the \$4 billion proposed by the state for student housing. Assistant Vice Chancellor for Budget Ryan Storm informed them that allocation and implementation details are not yet worked out. Funds may involve grants and could be prioritized for new construction or possibly to convert nearby commercial space into student housing.

The trustees expressed excitement about the additional funding being proposed by the governor, as well as the potential for a multi-year budget agreement. It was requested that if passed, the joint committee on Finance and Campus, Buildings, and Grounds discuss the planned uses of one-time funds for facilities and the approach for affordable student housing. Opportunities for efficiency and to collaborate with the California Community Colleges on housing were also mentioned.

Auxiliary Organizations

Information about auxiliary organizations and their purpose at the CSU was presented. They provide a wide variety of essential services that include student unions, bookstores, dining, childcare centers, and public radio. Auxiliaries also directly benefit students and provide them with opportunities to serve in student government or as board members, participate in research projects, on campus employment, and paid internships in their field of study. Information about auxiliary reporting requirements, their governing boards and rules, and contributions and revenues was shared.

Following the presentation, the trustees had no questions.

Trustee McGrory adjourned the meeting of the Committee on Finance.

COMMITTEE ON FINANCE

Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority

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 information to the California State University Board of Trustees on auxiliary liquidity loans that have been approved by the Chancellor under delegated authority.

Background

The Board of Trustees' CSU Policy for Financing Activities (RFIN/CPBG 11-14-01), as well as the Financing and Debt Management Policy (Executive Order 994) issued by the Chancellor pursuant to the CSU Policy for Financing Activities, stipulates that all borrowing by the CSU or any CSU auxiliary shall be made through the CSU's established debt programs (e.g., the CSU's Systemwide Revenue Bond and commercial paper programs) and approved by the Board of Trustees. The policy and executive order also recognize that there may be certain types of financing structures that are not well suited for the CSU's established debt programs. In such cases, the proposed financing structure shall be reviewed by the Chancellor's Office and then presented to the Board of Trustees for approval.

At its November 2020 meeting, the Board of Trustees revised the CSU Board of Trustees' Standing Orders to delegate authority to the Chancellor to approve auxiliary liquidity borrowings outside of the CSU's established debt programs, subject to the following parameters:

- Maximum amount: \$40,000,000.
- Maximum length of any borrowing, loan, or line of credit: Ten years.
- All auxiliary liquidity loans will comply with all legal and CSU policy requirements.
- Final terms and conditions of any auxiliary borrowing agreement established under this delegated authority shall not contain any provisions that will have a material adverse

impact upon the CSU's established debt programs or upon any financing already provided to such auxiliary through the CSU's established debt programs.

- Any auxiliary financings approved under this delegated authority will be reported to the Board of Trustees at each meeting of the Board of Trustees.
- The delegation of authority to the Chancellor to approve auxiliary liquidity loans will expire on November 18, 2023.

Auxiliary Liquidity Loans Approved by the Chancellor under the Delegated Authority

In June 2021, two auxiliary liquidity loans were approved by the Chancellor. Both approvals being reported herein are for the renewal of lines of credit that have been in place for a number of years and do not represent new auxiliary liquidity borrowing in response to COVID-19.

The Cal Poly Pomona Foundation, Inc. (CPPF) at California State Polytechnic University, Pomona

As part of its several areas of operation in support of the California State Polytechnic University, Pomona campus, CPPF provides dining, bookstore, apartment style housing, and other enterprise and administrative services to the campus. In the course of its normal business operations, CPPF will sometimes experience a gap in its cash flow position due to the seasonality in its receivables to meet current expenses. This approval allowed CPPF to renew an existing line of credit facility (matured June 25, 2021) to provide additional liquid resources and meet its working capital needs.

The key proposed terms of the line of credit from Wells Fargo Bank are as follows:

- The amount of the line of credit will be up to \$6 million.
- The term of the loan will be 364 days from document closing.
- The interest rate on the loan will be variable, equal to the London Interbank Offered Rate (LIBOR) plus 1.5 percent. (As of June 30, 2021, the three month LIBOR rate was 0.13 percent).
- The line of credit will require continual maintenance of CPPF's short-term and investment assets of not less than \$10 million.

San Diego State University Research Foundation (SDSURF) at San Diego State University

As part of its several areas of operation in support of the San Diego State University campus, SDSURF provides administrative services of grants and contracts for sponsored programs to the campus. In the course of its business operations, and since most grants and contracts are on a cost reimbursable basis, SDSURF has needed to utilize its own cash resources for up to 60 days prior to receiving repayment from granting agencies. To maintain additional liquid resources and meet its working capital needs, this approval allows SDSURF to renew an existing line of credit of facility (maturing September 26, 2021), which has not been drawn upon since its inception in 2006.

The key proposed terms of the line of credit from First Republic Bank (FRB) are as follows:

- The amount of the line of credit will be up to \$15 million, of which \$12 million will be made available under a working capital line of credit and \$3 million shall be a sublimit for a standby letter of credit.
- The term of the line of credit facility will be 5 years from document closing, with an expected maturity date of September 26, 2026.
- The interest rate is variable equal to the Wall Street Journal prime rate minus 1 percent with an interest rate floor of 2.5 percent. (As of June 30, 2021, the Wall Street Journal Prime Rate was 3.25 percent)
- Debt service coverage ratio of 1.25 for all outstanding debt, including debt with the CSU as well as FRB.
- The line of credit will require continual maintenance of certain SDSURF's minimum unrestricted liquid assets of \$8 million.
- The line of credit facility is secured by a deed of trust and lien on two real estate properties owned by SDSURF.

COMMITTEE ON FINANCE

2021-2022 Final Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This agenda item summarizes final budget-related decisions made by the State of California for fiscal year 2021-2022 affecting the CSU operating budget.

Background

Since the May Board of Trustees meeting, there have been several important developments on the 2021-2022 state budget. The governor's May Revision proposal concluded that the significant economic recovery has created a multi-year state budget surplus of \$75.7 billion dollars, supplemented by \$25 billion in added one-time federal support. Combined, these revenues are equivalent to two-thirds of the state's annual general fund budget.

As a result, the governor proposed the following significant items for the CSU:

- The governor provided a \$74.4 million recurring state General Fund unallocated increase in support of the Board of Trustees priorities such as Graduation Initiative 2025 and mandatory cost increases. This complemented the \$111.5 million proposed in January for the same purpose. Together, they total \$185.9 million.
- The governor proposed a \$458 million investment to convert Humboldt State University to a polytechnic university. This included \$433 million in one-time funding to improve facilities and infrastructure and \$25 million recurring in support of ongoing operating costs.
- The governor proposed \$25 million in one-time funding to support construction of a Center for Equity in Innovation and Technology on the Northridge campus.

On June 14, 2021, the state legislature adopted a bicameral budget agreement and proposed the following significant items for the CSU:

- Concurrence with the governor's proposals of \$185.9 million recurring in support of the Board of Trustees budget priorities.
- \$50 million recurring to increase teacher preparation programs at CSU campuses.
- \$338 million to convert Humboldt State University to a polytechnic university. This included \$313 million in one-time funding to improve facilities and infrastructure and \$25 million recurring in support of ongoing operating costs.
- Also, the legislature proposed or adopted other facility and infrastructure projects supported by one-time funding, which include:
 - The Center for Equity in Innovation and Technology at Northridge (\$25 million).
 - Infrastructure improvements at Dominguez Hills (\$60 million).
 - A building replacement at Stanislaus' Stockton Center (\$54 million).
- The stated intent to add recurring funding in 2022-2023 to increase resident student enrollment by an estimated 9,434 full-time equivalent students.

In summary, the governor's plan would have increased the CSU's recurring funding by \$549 million and the legislature's plan would have increased the CSU's recurring funding by \$598 million.

CSU and the Final Budget Agreement

On June 25, 2021, the governor, senate president pro tempore, and assembly speaker reached a three-party consensus on the 2021-2022 state budget. This final budget agreement struck a compromise on the CSU recurring operating budget and included several one-time augmentations.

On the operating budget, the agreement increased the recurring CSU operating budget by \$550.1 million above 2020-2021 levels—all from the state general fund. This included a \$299 million funding restoration, an unallocated increase of \$185.9 million in support of the Board of Trustees priorities such as Graduation Initiative 2025 and mandatory cost increases, \$30 million to support student basic needs and mental health, and \$25 million for recurring operating costs related to the conversion of the Humboldt campus to a polytechnic. In total, recurring state support for the CSU operating budget now stands at \$4.2 billion.

The final budget agreement also included several, one-time increases in support of other state leadership priorities including \$325 million for deferred maintenance and infrastructure needs, \$433 million for facilities and infrastructure related to the conversion of the Humboldt campus to a polytechnic, \$140 million to several campuses for a variety of physical improvements, and \$31.3 million to several campuses for a variety of programmatic improvements.

The following tables capture the items included in the Board of Trustees budget request for the 2021-2022 fiscal year and the items funded by the state Budget Act of 2021.

Recurring Sources of Funds	Request	Final Budget
• State General Fund	\$556.0	\$550.1
Total Incremental Recurring Sources of Funds	\$556.0	\$550.1

Recurring Uses of Funds	Request	Final Budget
• Restoration of 2020-2021 General Fund Reductions	\$299.0	\$299.0
• Graduation Initiative 2025: Highest Campus Priorities	120.0	120.0
• Graduation Initiative 2025: Basic Needs Initiative	30.0	15.0
• Graduation Initiative 2025: Student Mental Health	-	15.0
• Academic Facilities & Infrastructure	50.0	-
• Mandatory Costs	57.0	55.3
• Operating Costs for Polytechnic Transition at Humboldt	-	25.0
• Other Costs	-	10.6
• Summer Term Financial Aid	-	6.0
• Learning Management System	-	2.0
• Stockton Center Enrollment Growth at Stanislaus	-	1.0
• Mervyn Dymally Institute at Dominguez Hills	-	1.0
• Cost Increases for Corporation for Education Network Initiatives in California	-	0.2
Total Incremental Recurring Uses of Funds	\$556.0	\$550.1

One-Time Sources of Funds	Request	Final Budget
• State General Fund	\$1,200.0	\$976.3
Total Incremental One-Time Sources of Funds	\$1,200.0	\$976.3

One-Time Uses of Funds	Request	Final Budget
• Deferred Maintenance & Infrastructure	\$1,200.0	\$325.0
• Facility Costs for Polytechnic Transition at Humboldt	-	433.0
• Infrastructure Improvements at Dominguez Hills	-	60.0
• Stockton Center Building Replacement at Stanislaus	-	54.0
• Emergency Grant Aid to Students	-	30.0
• Ctr for Equity in Innovation and Technology at Northridge	-	25.0
• Faculty Professional Development and Equal Opportunity Practices	-	10.0
• Computing Talent Initiative at Monterey Bay	-	10.0
• Stop Asian and Pacific Islander Hate at San Francisco	-	10.0
• Nursing and Health Programs at Bakersfield	-	6.0
• Project Rebound	-	5.0
• Nursing Program at Humboldt	-	2.5
• Evaluation of Non-Faculty Staff Existing Salary Structure	-	2.0
• Physician Assistant Program at San Bernardino	-	1.8
• Arboretum at Fullerton	-	1.0
• Pedestrian Bridge at Fullerton	-	1.0
Total Incremental One-Time Uses of Funds	\$1,200.0	\$976.3

There are other significant state budget decisions that will positively impact the CSU in the future. State leaders adopted concepts and set aside funding for such items as campus facilities, student housing, student mental health, and financial aid. It is anticipated that additional detail will emerge from the state later this year. Further, the funding is not directly available to the CSU, but the CSU will be able to apply for grant funding or draw down funding from other state departments and agencies for these purposes. The two most notable items are: A new capacity expansion and affordable student housing program, which will provide \$2 billion in one-time funds to build new campus facilities or expand existing ones at the CSU and the University of California (UC) as well as develop more affordable student housing at the CSU, the UC, and the California Community Colleges. Financial aid changes loosen the age and time out of high school eligibility for the Cal Grant program and larger grant aid for middle and low-income students through the Middle-Class Scholarship Program. The financial aid changes mean that more CSU students will be eligible for state financial aid and that more of their cost of attendance will be covered than in the past.

Conclusion

The state completed its work on the budget for 2021-2022. The state has invested an extraordinary sum in the CSU – \$550 million in recurring funding, nearly \$1 billion in one-time funding, and the CSU is poised to receive hundreds of millions more for facilities, student mental health, student housing, and financial aid. The CSU greatly appreciates all CSU stakeholders' advocacy efforts. These efforts were vital in keeping the CSU a budget priority for legislators and the governor, thereby restoring prior budget cuts, and significantly investing more in the institution and its students.