

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:45 p.m., Tuesday, March 26, 2024
Glenn S. Dumke Auditorium

Julia I. Lopez, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Douglas Faigin
Mark Ghilarducci
Leslie Gilbert-Lurie
Anna Ortiz-Morfit
Jose Antonio Vargas
Darlene Yee-Melichar

- Consent**
1. Approval of Minutes, *Action*
 2. California State University Annual Debt Report, *Information*
 3. California State University Quarterly Investment Report, *Information*
 4. Approval to Issue Debt for a Capital Project at California State University, Dominguez Hills, *Action*
- Discussion**
5. EAB's 2024 Higher Education State of the Sector, *Information*
 6. Multi-University Collaboration and Cost Reduction Initiatives, *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**

January 31, 2024

Members Present

Julia I. Lopez, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Douglas Faigin
Mark Ghilarducci
Leslie Gilbert-Lurie
Jose Antonio Vargas
Darlene Yee-Melichar

Wenda Fong, Chair of the Board
Mildred García, Chancellor

Trustee Lopez called the meeting to order.

Public Comment

Public comment occurred at the beginning of the meeting's open session before all committees.

Approval of the Consent Agenda

The minutes of the November 8, 2023, meeting of the Committee on Finance were approved as submitted.

Item 2, Approval to Issue Debt for Affordable Housing at California State University, Dominguez Hills was approved as submitted (RFIN 01-24-01).

Item 3, Approval of Third-Party Financing at California Polytechnic State University, San Luis Obispo was approved as submitted (RFIN 01-24-02).

Item 4, Law Enforcement Regulated Equipment and Tools Annual Report was an information item.

Discussion Agenda

The committee had three items on the discussion agenda.

Item 5, Auxiliary Organizations, Information

This information item provides an overview of the California State University (CSU) auxiliary organizations, which are separate legal entities supporting the university's mission, ensuring student success and financial stability through services and activities. Operating under legal provisions and university policies, these nonprofits encompass various entities and follow strict financial reporting standards. Approved activities are outlined in operating agreements, with budgets subject to the university president's approval.

Trustee McGrory emphasized the need for rigorous auditing and financial oversight over auxiliaries, similar to the general fund. Additionally, Trustee McGrory suggested a forensic report on Capital Public Radio. Steve Relyea noted ongoing forensic analysis of issues when they arise and detailed the multiple layers of auxiliary financial reviews. Audit & Advisory Services at the Chancellor's Office allocates 15-20% of its resources to auxiliary audits.

Trustee Yee-Melichar asked about the financial transparency of auxiliaries. Steve Relyea referred to the CSU's transparency and accountability website and form 990. President Beck and VP Donahue highlighted the close coordination between university leadership and auxiliaries. Presidents examine finances and approve budgets.

Trustee Brar questioned whether certain profitable operations could be brought under direct CSU management for additional revenue streams.

Chancellor's Office staff explained why auxiliaries are developed, including benefits and the ability to respond nimbly to opportunities.

President Beck emphasized auxiliaries exist to serve students and support the academic mission. Their structure facilitates entrepreneurship and innovation.

Item 6, 2024-25 Operating Budget Update, Information

This information item summarizes the latest developments in the state and California State University budget plans for 2024-25. The state expects a tax revenue shortfall and resulting budget shortfall for the 2024-25 cycle. For context, this deficit represents about a six percent budget deficit, on average, for the past, current, and budget years.

Governor Newsom has proposed deferring the CSU budget compact funds due to the state's difficult financial situation. Lopez indicates that the governor's budget proposal marks the start of the financial reality the CSU will be facing. Although there is an appreciation of the state's commitment, the central issue is identifying adequate funding amidst considerable existing commitments. There is a need to clarify the advocacy approach, detail precise funding requirements for critical systemwide initiatives, and establish priorities for whatever state revenue is ultimately allocated. With deficit budgeting not viable long-term, the path forward requires

decisiveness in specifying needs, detailing funding sources, and strategically prioritizing asks and advocacy to secure adequate support.

Trustee McGrory reiterated that there is a major fiscal challenge ahead with limited options. Over the next few months, the Finance Committee will work to develop a multi-year strategy. Revitalizing advocacy by clearly detailing consequences, such as cutting courses, based on real campus experiences was suggested. Efficiencies and cuts alone won't be enough. Trustee McGrory suggested returning in March with budget assumptions and proposed solutions. Trustee Gilbert-Lurie suggested that the finance committee meet before the March meeting to develop an actionable plan.

The Board stressed the need for a clear budget and advocacy strategy targeting state legislators, focused on communicating the widespread impact of cuts on students, faculty and staff. Maintaining funding for existing priorities like student success and the Graduation Initiative should continue. Unified, systemwide messaging is critical for effective advocacy, with Trustees utilizing their roles as ambassadors prepared with talking points to convey the CSU's message. Trustee Rodriguez emphasized the need to quickly develop messaging so trustees can start advocating for the CSU.

Trustee Aguilar-Cruz asked about communication plans for presidents to inform students, faculty and communities about cost reductions, wanting to avoid fear and mistrust. President Yao noted the university budget committee communicates the transparent budget model. President Mahoney highlighted 20 budget roadshows and campus-wide emails as forums used. Steve Relyea mentioned a systemwide communication plan will be developed. Trustee Aguilar-Cruz requested that the communication plan should involve student government.

Chancellor García committed to strong advocacy for the CSU and greater involvement in the strategic financial plan.

Ben Chida (Governor's Office) reiterated the Administration's commitment to supporting the CSU and fulfilling the compact, signaling this as a priority.

Item 7, 2023-24 Student Fee Report, Information

This information item reports the annual 2023-24 campus-based mandatory fees to the California State University Board of Trustees as required by policy. Campus-based mandatory fees are required for enrollment under the authority of the president once established by the chancellor. The 2023-24 average systemwide campus-based mandatory fees are \$1,880 per student which is an increase from 2022- 23 of \$98 per student.

Trustee Lopez suggested revisiting the topic of affordability with a broad rubric to have a more comprehensive conversation.

Trustee Lopez concluded the business of the Committee on Finance.

COMMITTEE ON FINANCE

California State University Annual Debt 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 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 provisions and authorities of the State University Revenue Bond Act of 1947 (California 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 can be found at: <https://calstate.policystat.com/policy/11691604/latest>.

The SRB program provides capital financing for projects of the CSU approved by the 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 May 2025.

SRB and CP Portfolio Profile

As of June 30, 2023, and December 31, 2023, outstanding SRB debt of the CSU was approximately \$8.6 billion and approximately \$9.1 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:	3.35%
Weighted Average Maturity:	15.0 Years
Interest Rate Mix:	97% Long Term Fixed Rate
	3% Short Term Fixed Rate

As of December 31, 2023, outstanding CP was \$147,225,000 at a weighted average interest rate of 4.40 percent.

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2021, June 30, 2022, and June 30, 2023, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions; June 30, 2023 figures are preliminary):

	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>
Operating Revenues	\$4,790	\$5,362	\$5,606
Operating Expenses	<u>1,622</u>	<u>1,886</u>	<u>2,307</u>
Net Revenues	3,168	3,476	3,299
Annual Debt Service	\$470	\$489	\$514 ¹
Debt Service Coverage ²	6.74	7.11	6.42

(1) For the fiscal year ended June 30, 2023, the amount of annual debt service allocated to tuition was \$147 million and the amount allocated to other fees was \$367 million.

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

Activity since the March 2023 Annual Debt Report

Series 2023A and Series 2023B SRB Issuance, and Series 2016B-3 SRB Remarketing

In July 2023, the CSU issued \$899,355,000 of SRBs comprised of the following series:

Series 2023A (Tax-exempt):	\$337,155,000
Series 2023B (Taxable):	\$462,200,000
Series 2016B-3 (Tax-exempt put bond remarketing):	<u>\$100,000,000</u>
Total par amount of the bonds:	\$899,355,000

All of the proceeds from the Series 2023A and Series 2023B bonds were used for new money projects, with the Series 2023A bonds issued at an all-in true interest cost of 4.03 percent and the Series 2023B bonds issued at an all-in true interest cost of 5.17 percent. The Series 2016B-3 put bonds were remarketed for an additional three years at a rate of 3.125%.

Projects Approved for Financing under Delegated Authority

In March 2018, the Board of Trustees amended Section II(f). of its Standing Orders 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.

Since the last report to the Board of Trustees, under this delegation of authority, the chancellor authorized debt financing for the following projects:

- In March 2023, the San Diego State University – Aztec Shops, Ltd. Viva 5750 Apartment Acquisition project with a not-to-exceed financing amount of \$39,620,000. This project met CSU debt financing benchmarks and was included in the CSU’s 2023 SRB issuance.
- In August 2023, the California Polytechnic State University, San Luis Obispo – Cal Poly Corporation Morabito Place Acquisition and Renovation project with a not-to-exceed financing amount of \$24,150,000. This project met CSU debt financing benchmarks and will be included in a future CSU SRB issuance.
- In September 2023, the San Diego State University – Aztec Shops, Ltd. The Essential Student Housing Property Acquisition project with a not-to-exceed financing amount of \$42,290,000. This project met CSU debt financing benchmarks and will be included in a future CSU SRB issuance.

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

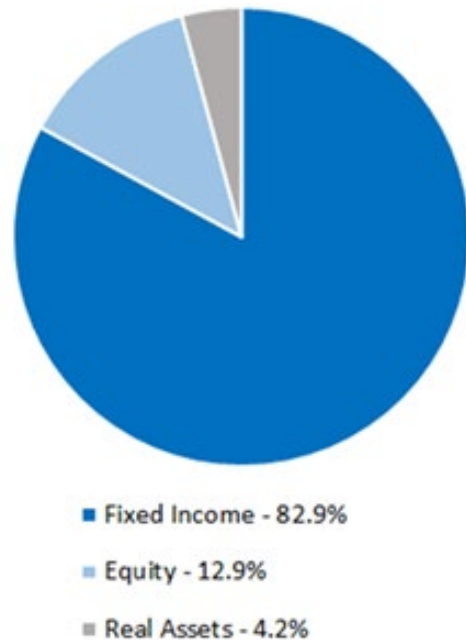
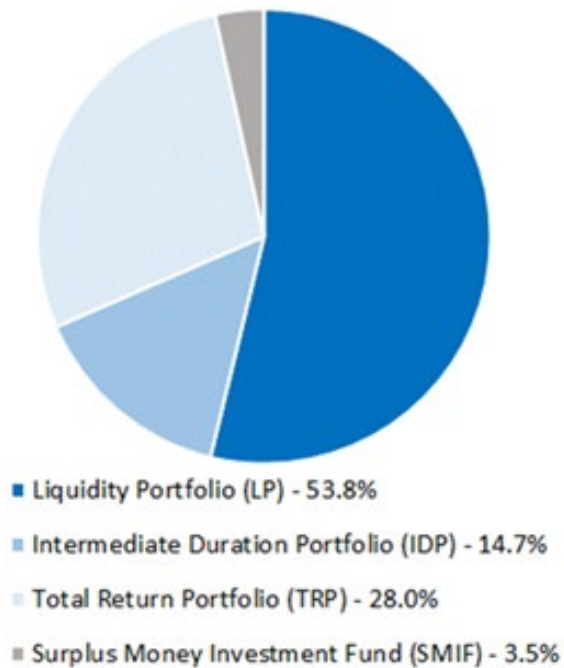
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended September 30, 2023. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

Background

The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of September 30, 2023 consisted of investments in the Liquidity Portfolio, the Intermediate Duration Portfolio (IDP), 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 \$1.70 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, 2023

	Balance	% of CSU Investments	Twelve Month Returns
Liquidity Portfolio (LP)	\$4.513 billion	53.8%	3.65%
Intermediate Duration Portfolio (IDP)	\$1.232 billion	14.7%	2.14%
Total Return Portfolio (TRP)	\$2.351 billion	28.0%	10.75%
CSU Investment Portfolios	\$8.10 billion		
Surplus Money Investment Fund (SMIF)	\$0.291 billion	3.5%	2.66%
Total CSU Investments	\$8.39 billion	100%	



CSU Investment Performance

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

CSU Liquidity Portfolio

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

The Liquidity Portfolio is managed through contracts with two investment management firms, BlackRock Financial Management and Payden & Rygel, 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 Intermediate Duration Portfolio (IDP)

The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. The IDP is managed through contracts with three investment management firms, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the IDP, 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 IDP investment policy. Consistent with state law, the IDP is restricted to high quality, fixed income securities.

CSU Total Return Portfolio (TRP)

The purpose of the TRP is to provide the 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 sixty-five 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	

With the passage of AB 2422, effective January 1, 2023, up to sixty-five percent of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. Considering these legislative changes, in January of 2023 the IAC took two actions and in March of 2023 the Board of Trustees took one action. First, the IAC approved a recommendation to the Board of Trustees to revise the California State University Master Investment Policy. These recommended revisions were presented to and approved by the Board of Trustees at the March 2023 meeting. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP from January of 2023 to December of 2024. At present, \$720 million of the additional \$1.25 billion has been invested in the TRP. The investment schedule may also be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed its statutory limit as a percent of CSU investments.

Since the TRP Inception date¹ through September 30, 2023, the TRP investment earnings were approximately \$207.6 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 3.24% annualized (net of fees) or a cumulative \$138.2 million, which was about 3.0 times higher than Liquidity Portfolio investment earnings.

In October 2023, the IAC approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, 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.

¹ The TRP Inception Date was April 1, 2018.

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. To facilitate certain expenditures, the CSU maintains modest amounts of funds with the State. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

Reporting Requirements

California Education Code § 89726 requires quarterly investment reports to the Board of Trustees and an annual report to the State Legislature and the Department of Finance.

Recent Actions/Next Steps

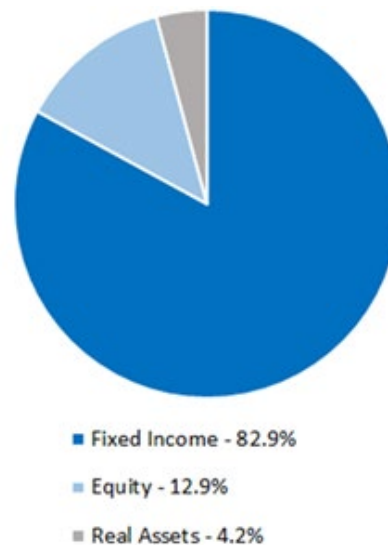
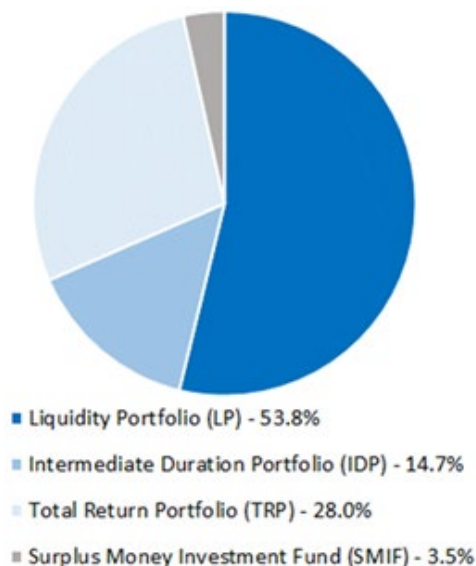
The next investment report to the board is scheduled for the May 2024 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending December 31, 2023.

CSU Quarterly Investment Report For the Fiscal Quarter Ended September 30, 2023

CSU investments as of September 30, 2023, consisted of investments in the CSU Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), 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 \$1.70 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, 2023

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (LP)	\$4.513 billion	53.8%
Intermediate Duration Portfolio (IDP)	\$1.232 billion	14.7%
Total Return Portfolio (TRP)	\$2.351 billion	28.0%
Surplus Money Investment Fund (SMIF)	\$0.292 billion	3.5%
CSU Investments	\$8.39 billion	100%



For the quarter ending September 30, 2023, direct investment management fees¹, advisory, and custodial fees totaled just under \$1.1 million, or about 0.013 percent on CSU investments' average balance for the three months ending September 30, 2023.

¹ 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 6.

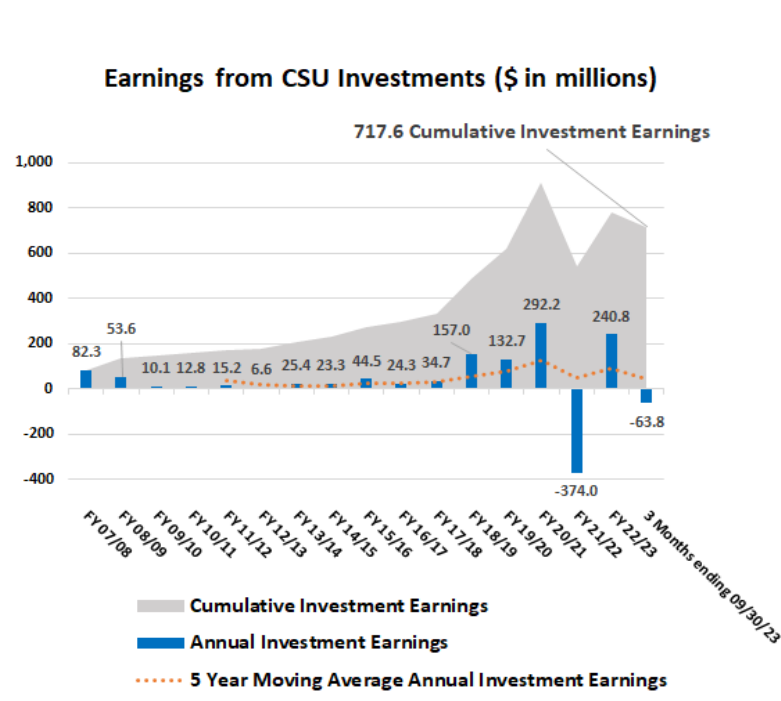
CSU Consolidated Investment Portfolio

The following table displays performance returns for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio, IDP, and TRP.²

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (LP)
1 Year Return	5.06%	10.75%	2.14%	3.65%
3 Year Annualized Return	0.70%	3.05%	N/A	0.33%
5 Year Annualized Return	1.93%	4.12%	N/A	1.38%
10 Year Annualized Return	1.40%	N/A	N/A	1.14%
Since Inception Return ³	1.46%	4.67%	-5.28%	1.30%

As of September 30, 2023, the TRP since inception investment earnings were approximately \$207.6 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 3.24 percent annualized (net of fees) or a cumulative \$138.2 million, which was about 3.0 times higher than Liquidity Portfolio investment earnings.

Investment Earnings from CSU Investments Support Campus Operations and Student Experience



² CSU Consolidated Investment Portfolio returns exclude SMIF.

³ Inception Dates for the CSU portfolios were: Consolidated Investment Portfolio, July 1, 2007; Liquidity Portfolio, July 1, 2007; IDP, October 1, 2021; and TRP, April 1, 2018. CSU Consolidated Investment Portfolio, Liquidity Portfolio, and IDP returns reported gross of fees and as total return, including income and gains (realized and unrealized).

CSU Liquidity Portfolio (LP)

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

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark⁴</u>
1 Year Return ⁵	3.65%	3.13%
3 Year Annualized Return	0.37%	-0.11%
5 Year Annualized Return	1.42%	1.28%
10 Year Annualized Return	1.14%	0.93%
Annualized Since Inception Return ⁶	1.30%	1.42%
Yield	4.82%	5.24%
Duration (Years)	0.90	1.35
Average Credit Rating	AA-	AA+

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

Treasuries	48.2%	U.S. Government Agencies	4.8%
U.S. Corporate Bonds	22.2%	Cash Equivalents	4.3%
Commercial Paper	11.4%	Agency MBS	1.9%
Certificates of Deposit	7.1%	CA Municipal Obligations	0.1%

⁴ Benchmark for the Liquidity Portfolio is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

⁵ Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁶ Inception Date for the Liquidity Portfolio was July 1, 2007.

CSU Intermediate Duration Portfolio (IDP)

The purpose of the Intermediate Duration Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	CSU Intermediate Duration Portfolio	Benchmark⁷
3 Months Return ⁸	-1.93%	-2.03%
1 Year Return	2.14%	1.85%
Annualized Since Inception Return	-5.28%	-5.30%
Yield	5.63%	5.52%
Duration (Years)	4.71	4.69
Average Credit Rating	A+	AA-

Holdings by Asset Type (% of CSU Intermediate Duration Portfolio):

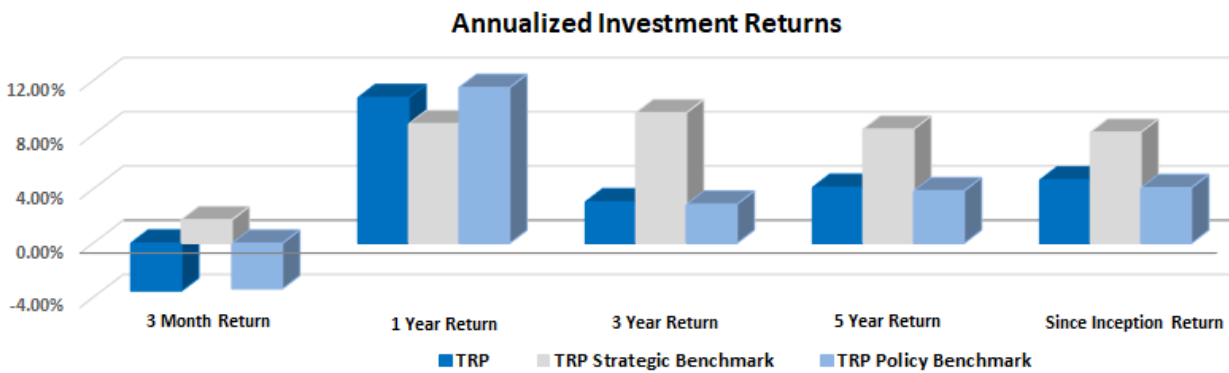
U.S. Corporate Bonds	55.6%	U.S. Government Agencies	1.4%
Agency MBS	29.2%	CA Municipal Obligations	1.2%
Treasuries	9.9%	Cash Equivalents	0.5%
Asset-Backed Securities	2.1%	Supranationals	0.1%

⁷ Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

⁸ Inception Date for the IDP was October 1, 2021. IDP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

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.



	CSU Total Return Portfolio	Strategic Benchmark ⁹	Policy Benchmark ¹⁰
3 Months Return	-3.52%	1.73%	-3.36%
1 Year Return	10.75%	8.82%	11.49%
3 Year Annualized Return	3.05%	9.63%	2.88%
5 Year Annualized Return	4.12%	8.42%	3.87%
Annualized Since Inception Return ¹¹	4.67%	8.19%	4.10%

In October 2023, the CSU Investment Advisory Committee approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with Education Code Section § 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.

⁹ The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.6% per annum.

¹⁰ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

¹¹ TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	45.85%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.06%	Actively Managed Mutual Funds	26% ¹²
Real Asset Mutual Funds	15.09%		

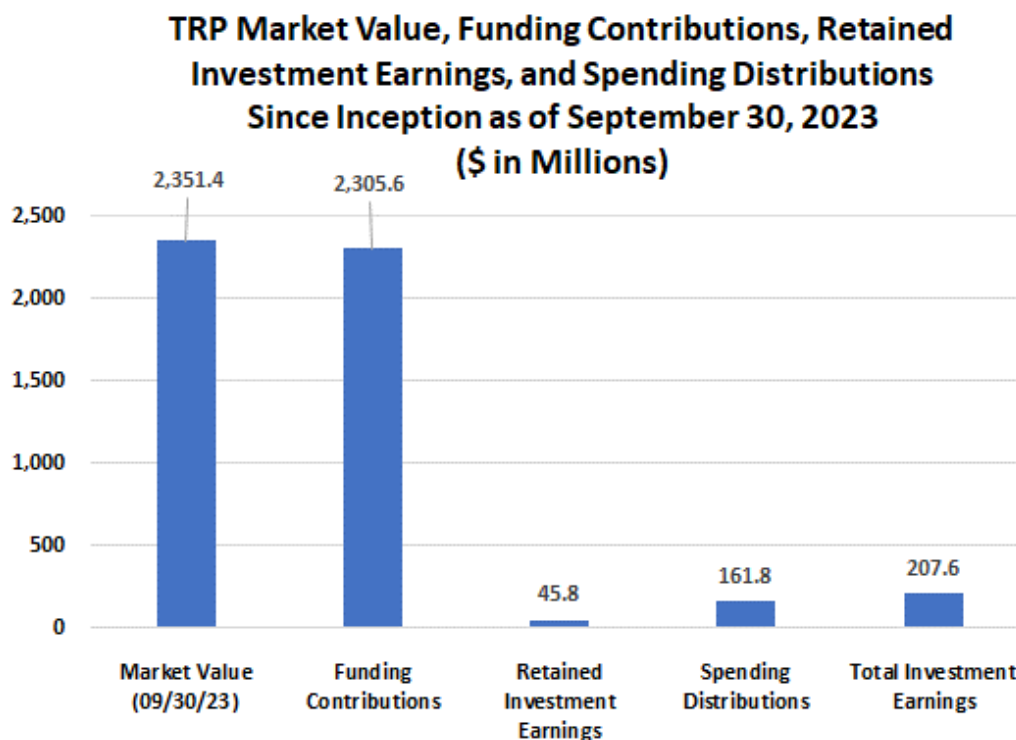
Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	518.9	22.07%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	118.0	5.02%	0.07%	0.44%
	Lord Abbett High Yield Fund	LHYOX	140.8	5.99%	0.60%	0.69%
	Aristotle Floating Rate Income Fund	PLFRX	70.5	3.00%	0.70%	0.75%
	Payden Emerging Markets Bond Fund	PYEIX	35.1	1.49%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	35.1	1.49%	0.70%	0.80%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	561.3	23.87%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	280.5	11.93%	0.04%	0.88%
	Driehaus Emerging Markets Growth Fund	DIEMX	141.8	6.03%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	70.8	3.01%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	23.8	1.01%	1.20%	1.01%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	178.7	7.60%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAx	76.6	3.26%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	99.6	4.23%	0.95%	0.97%
Cash			0.0	0.00%	NA	NA
Total			2,351.4	100%	0.24%	0.73%

¹² 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. The total TRP Fund Expense Ratio and total Median Fee Per Asset Class are weighted averages using the percent of the Total Return Portfolio shown in the table for each fund and their respective asset class.

TRP Annual Spending Distributions Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of September 30, 2023. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.



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 Yield¹³

Trailing 12 month as of 09/30/23	2.66%
Average (FYE 06/30/07 – 09/30/23)	1.15%

¹³ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.

COMMITTEE ON FINANCE

Approval to Issue Debt for a Capital Project at California State University, Dominguez Hills

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 the California State University Board of Trustees to 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 principal amount not-to-exceed \$73,655,000 to provide financing for a campus capital project:

California State University, Dominguez Hills Health, Wellness, and Recreation Center

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 Board of Trustees. Revenues from these programs and other revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and 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.

California State University, Dominguez Hills Health, Wellness, and Recreation Center

The California State University, Dominguez Hills Health, Wellness, and Recreation Center (the “Project”) received schematic approval from the Board of Trustees’ Committee on Campus Planning, Buildings and Grounds at the May 2023 meeting. The Project will construct a 73,000 gross square foot facility organized in two wings. The northern wing will have multipurpose rooms and studios, a general fitness area, offices, training rooms, and wellness rooms. The southern wing will have a gymnasium, consisting of two multi-activity courts and an elevated running track. A swimming pool will be in the central courtyard, situated between the two buildings.

The not-to-exceed principal amount of the proposed bonds is \$73,655,000, based on a total project budget of \$86,500,000 with funding of \$20,000,000 from a one-time State appropriation approved in 2021-2022, \$2,000,000 from an athletics department reserve contribution, and \$1,500,000 from campus reserves for the pool. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$10,655,000), are expected to be funded from bond proceeds. The Project is scheduled to start construction in April 2024 with completion expected in March 2026.

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	\$73,655,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$5,117,077
Projected debt service coverage including the new project:	
Net revenue – Dominguez Hills pledged revenue programs: ¹	1.36
Net revenue – Projected campus student union program:	1.05

1. Combines 2027-28 information for all campus pledged revenue programs with 2027-28 information for the project.

The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.71% 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 1.05 in fiscal year 2027-28, the first full year of operations for the Project, which is below the CSU benchmark of 1.10 for the program. However, the campus financial plan is projecting continuing improvement to the student union program debt service coverage ratios after the fiscal year 2027-28, such that the student union program debt service coverage ratio exceeds the CSU benchmark by 2031-32 and continues to increase thereafter. Therefore, staff recommends approval of the project with this exception. When combining the Project with information for all campus pledged revenue programs, the campus’ overall net

revenue debt service coverage ratio for the first full year of operations is projected to be 1.36, which is better than the CSU benchmark of 1.35 for a campus.

In coordination with CSU's Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing resolutions to be distributed to the Board prior to this meeting that authorize interim and permanent financing for the Project described in this agenda. The proposed resolutions 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 principal amount not-to-exceed \$73,655,000 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, the revenue bonds, and the related debt instruments.

Approval of the financing resolutions for this project as described in this Agenda Item 4 of the Committee on Finance at the March 24-27, 2024, meeting of the CSU Board of Trustees is recommended for:

California State University, Dominguez Hills Health, Wellness, and Recreation Center

COMMITTEE ON FINANCE

EAB's 2024 Higher Education State of the Sector

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Sally Amoruso
Chief Partner Officer
EAB

Summary

Higher education is facing a moment of reckoning, where students, faculty and staff, and society as a whole re-examine its purpose and value. In particular, the national conversation is questioning the relevance of colleges and universities like never before: mainstream press headlines that attack value for money, employers who speak loudly about “down-credentialing,” and public perception polls that show trust in institutions is at an all-time low. Simultaneously, we face declines in demographics, college-going rates, and student mental health that pose dangers to our mission and business model.

In this item EAB will focus on four trends most shaping the strategic and operational direction of colleges and universities, focusing on strategic planning and decisions needed to address both immediate challenges as well as longer-term threats. These trends include public perception of higher education value, enrollment and demographics, sustainable business models, and student readiness and well-being.

COMMITTEE ON FINANCE

Multi-University Collaboration and Cost Reduction Initiatives

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Susan Borrego
President
California State University, Stanislaus

Soraya Coley
President
California State Polytechnic University, Pomona

David Beaver
Chief Procurement Officer
Contract Services & Procurement

Ed Clark
Chief Information Officer
Information Technology Services

Megan Cluver
Principal
Deloitte Consulting

Summary

The budget challenges of the 2023-2024 and 2024-2025 fiscal years require that in addition to focusing on revenue and advocacy, the California State University (CSU) system must look at its cost structure and find new ways to reduce costs without harming the academic experience for students.

This item will cover cost reduction strategies the CSU system and its universities have put in place or plan to implement, as well as ways universities are collaborating to streamline activities and be even more effective in delivering on the mission to provide students with a quality education into the future.

The CSU strategically and routinely evaluates and improves university operations to support the academic mission and deliver quality education to students. The CSU's commitment to good stewardship requires the 23 universities 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 universities and system office must reduce costs by \$138 million to meet anticipated operating budget challenges in the current fiscal year and will also need to find ways to address anticipated budget gaps in future years.

Overview of Current Initiatives

The CSU is taking a focused approach to reduce costs and enhance quality. The overall strategy used includes efforts to improve processes, collaborate across the system and other higher educational segments, institute a procurement vision focused on reducing costs, and conducting assessments that identify future opportunities.

Procurement Strategies

Universities use process improvement methods to systematically identify and remove non-value-added work that allows them to redirect resources to other critical functions. The CSU has implemented several tools such as the balanced scorecard and process streamlining to support continuous improvement.

Procurement leaders across the 23 universities and system 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.

The 23C initiative was created to better leverage the collective buying power and strength of the 23 procurement departments across the CSU.

- Our **vision** is to support the CSU's mission of educating tomorrow's leaders by becoming a strategic partner contributing to the financial health of the CSU, higher education and bolstering California's economy.
- Our **mission** is to be a trusted partner through collaboration to maximize value across the CSU by optimizing the procurement of goods and contracted services.
- Our commitment to customer service excellence is guided by our core **values** of integrity, transparency, inclusiveness, and professionalism.

In the past year, procurement teams across the 23 universities have recorded more than 700 savings projects and generated \$8 million in administrative savings across the CSU. Additional information may be found in the [23C Aggregated Annual Impact Report](#). These savings cross many different areas such as information technology hardware and software, furniture, banking,

construction, facility operations and services, motor vehicles, food and beverage, travel, office supplies, and consulting services.

Since the 23C initiative started back in 2019, the procurement teams have recorded savings of over \$300 million. In addition to these savings, the procurement team at the CSU Office of the Chancellor has negotiated approximately 300 Master Enabling or Systemwide Contracts for use across all 23 universities that reflect pricing commensurate with the CSU collective buying power. In addition to competitive pricing within these systemwide contracts, many also include incentives in the form of rebates that go back to the universities. Last year alone, the CSU received rebates of \$8 million shared across all 23 universities.

Strategic Partnerships

As a refresher to a project initiated a few years ago, the CSU has been looking to develop new revenue streams through strategic partnerships that extend beyond a typical transactional relationship between the CSU and large suppliers and looks for ways to develop deeper relationships that could include sponsorships, scholarships and financial incentives based on university media rights and access to students, faculty, and staff.

The initial project resulted in a first-ever multi-university pouring rights agreement, which is the exclusive rights of a beverage maker to have its products sold at a particular venue or institution. Last year, the first systemwide Dining Partnership was finalized resulting in significant value to those universities electing to participate. To date, 11 universities have joined the Dining Partnership generating millions of dollars back to the CSU. The team is now working on projects in the area of banking as well as a network of digital kiosks deployed across multiple universities.

Financing Collaboration

The CSU Office of the Chancellor's Financing department has handled all of the CSU's debt issuance, investments, and cash management for many years. Rather than duplicate financing teams at each university, the CSU leverages its size and opportunities for efficiencies to generate tremendous cost savings. The CSU has been able to save significant amounts of money in the amount of interest paid on Systemwide Revenue Bond debt, by lowering fees on investment portfolios, by saving on personnel expenses, and through lower banking fees. Based upon conservative estimates, savings in these areas have totaled \$68 million over the last fiscal year alone.

Construction Delivery

Job Order Contracting (JOC) is a flexible, cost-effective unit price contracting method used by the CSU to complete maintenance, repair, and refurbishment of university infrastructure and building facilities. JOCs are publicly advertised for competitive bidding and awarded to the lowest responsive and responsible bidders in accordance with the State Public Contracting Code. Savings from JOCs for the last fiscal year totaled \$3.5 million.

Owner Controlled Insurance Program (OCIP)

OCIP is a tool the CSU employs on all Public Works Construction projects over \$10 million to purchase general liability and workers' compensation insurance. In place since 2013, it is advantageous for the CSU to purchase this insurance coverage. The large buying power of the CSU and a strong track record of low incidents and claims allow the CSU to purchase insurance at rates lower than most contractors can obtain. Savings for OCIP for the last fiscal year totaled \$15.65 million.

Energy Procurement

The CSU purchases electricity for 13 universities and the Office of the Chancellor on the wholesale energy market in a program called Direct Access. Universities that participate in Direct Access typically have lower rates than if they purchased through their local investor-owned utility. Additionally, universities that have invested in renewable energy projects such as solar and battery storage are seeing better than predicted savings as a result of pre-negotiated pricing models for the energy produced that are not impacted by rising energy costs. Their projects help universities to mitigate against the unpredictability of the energy market. Savings from Energy procurement for the last fiscal year totaled \$5.3 million.

Capital Collaborations

The Capital Planning Design and Construction (CPDC) department at the CSU Office of the Chancellor closely partners with the universities in all aspects of facilities planning and management. In some cases, it has been beneficial for CPDC to provide resources to augment staff required for key projects. Examples include providing Cal Maritime with project management support for the new, larger pier being built to support the National Security Multi-Mission Vessel. Additionally, CPDC is partnering with California State University, East Bay and Sonoma State University to provide Sustainability and Energy Project support in areas that have been challenging to staff.

Academic Technologies

Academic Technology Services continues to increase systemwide savings while providing quality teaching and learning resources for students. By utilizing the combined volume of the CSU, Academic Technologies Services has been able to procure library resources at discounts much higher than any one university could have received on its own. In some cases, discounts received are more than 70% below the list price and have allowed universities to save millions of dollars each year. Most importantly, the CSU's adoption of open educational resources, via the Affordable Learning Initiative, has saved students many millions of dollars that would have otherwise been spent on expensive textbooks and instructional materials.

Information Technology

The CSU saved \$23 million in cost through the migration of critical enterprise systems to the Cloud, consolidation of software and hardware purchases, and enhanced security features such as two-factor authentication and disaster recovery sites to help secure information and reduce

incidents and potential claims and ensure that the CSU's most critical services are up and running in the event of a disaster. There were additional savings from systemwide common management system virtualization, bulk discounts, and contract negotiations.

For the first time, four universities within the CSU system (San Diego State University, California State University, San Bernardino, California State Polytechnic University, Humboldt, and California State University, Stanislaus) are part of the National Research Platform (NRP), with more universities set to follow. The NRP is a partnership of more than 50 institutions across the United States, supported by the National Science Foundation (NSF). This collaboration is an example of shared resources being the best approach; because researchers often need only segments of time on these platforms during their projects. The initiative is funded by an NSF grant, co-authored by the CSU and University of California stakeholders, and supported by faculty.

Common Human Resources System (CHRS)

CHRS is a new human resource system that aims to standardize data and business processes across the CSU system. The multi-year initiative will enable collaboration opportunities and consolidated data entry to reduce training and labor costs. All 23 universities are now live using the Employee Onboarding system, and four universities went live in November 2023 on the larger Human Resources shared system. Additionally, all 23 universities are currently live on the employee recruitment and onboarding system, and a pilot to improve the number of qualified and interested applicants for the recruitment of Sworn Officers as a single system has shown positive results.

Future Opportunities: Multi-University Collaboration

In recent years, the CSU has increasingly faced challenges that threaten its long-term sustainability. Currently, decentralized operations do not position the CSU to leverage its collective size to address these challenges. However, recent momentum demonstrates that now is the time for the CSU to meaningfully unite in shaping its future as one.

The California State University, Office of the Chancellor engaged Deloitte Consulting's Higher Education Strategy Practice to identify and assess opportunities across the CSU for multi-university collaboration.

The CSU started working with the Deloitte team in August 2023 to launch the Multi-University Collaboration Initiative, which was intended to identify and assess opportunities for the CSU to collaborate across the system. The project was conducted through three major phases. Current state and opportunity identification, future state visioning, and analysis and finalizing and delivering the report. The Deloitte team also supported project management and change management throughout these phases, as stakeholder engagement was a key focus of this work. Gathering feedback from stakeholders across the CSU was critical in the identification and assessment of multi-university collaboration opportunities. Deloitte engaged a wide spectrum of leaders, including university presidents, vice presidents, other leadership groups, and subject matter experts and deployed a variety of engagement mechanisms, including interviews, working sessions, and surveys, in addition to collecting and analyzing relevant data.

FIN

Agenda Item 6

March 24-27, 2024

Page 6 of 6

The project culminated in the development of business cases for six prioritized opportunities. Top multi-university collaboration opportunities identified by way of this initiative include Payroll Processing, Employee Benefits, Public Works Procurement, Tactical & Strategic Procurement, Payment Processing, and Information Security. These are multi-university and multi-year projects.

The following initiatives were also identified as top opportunities and are currently underway: Academic Program Review, Student Success, Financial Aid, and Title IX.