AGENDA

COMMITTEE ON FINANCE

Meeting: 1:30 p.m., Tuesday, September 19, 2017
Glenn S. Dumke Auditorium

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

Consent

Approval of Minutes of the Meeting of July 18, 2017

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

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

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


Discussion

5. Planning for the 2018-2019 Operating Budget, Information

6. California State University Reserve Policy and Summary of Reserves, Information
Members Present

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

Trustee Peter J. Taylor called the meeting to order noting there were no requests for public comment.

Approval of Minutes

The minutes of the May 23, 2017 meeting were approved as submitted.

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for an Auxiliary Project at California Polytechnic State University, San Luis Obispo

Trustee Taylor presented agenda item one as a consent action item. The committee recommended approval of the proposed resolution (RFIN 07-17-08).

Final Approval of the University Glen, Phase 2 Housing Project at California State University Channel Islands

Information about the project development agreement was presented.

Following the presentation, trustees asked questions related to the land value and long term maintenance of the property. Trustees also asked questions related to the use of revenue from the development and housing preference for university employees.

The committee recommended approval of the proposed resolution (RFIN 07-17-09).
Auxiliary Organizations

Information about the CSU auxiliaries and the functions they perform was presented.

Following the presentation, trustees asked questions related to the administration of research and grant programs, the trustees’ fiduciary responsibility, and auxiliary board oversight. Trustees also asked questions related to CSU policies applied to auxiliaries, the investment of reserves, staffing, and administration of services.

2017-2018 Final Budget

Information about the governor’s budget and its effects on the CSU’s 2017-2018 operating budget was presented.

Following the presentation, trustees asked questions related to additional funding provided in the governor’s budget and the legislature’s directive on redirection. Trustees also asked questions related to enrollment, eligible denied students, and the Graduation Initiative 2025.

Trustee Taylor adjourned the meeting on Finance Committee.
COMMITTEE ON FINANCE

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

Presentation By

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

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program in an aggregate amount not-to-exceed $141,130,000 to provide financing for the San Diego State University New Student Residence Hall project.

The trustees are being asked to approve resolutions related to this financing.

Background

The SRB program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and other revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the bonds issued to finance the projects. The consolidated pledge of gross revenues to the bondholders strengthens the SRB program and has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute’s issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.
San Diego State University New Student Residence Hall

The San Diego State University New Student Residence Hall project is also presented for amendment of the 2017-2018 Capital Outlay program and schematic approval at the September 19-20, 2017 meeting of the Committee on Campus Planning, Buildings and Grounds. (See Agenda Item 3 for the Committee on Campus Planning, Building and Grounds.) The approximately 183,000 gross square foot facility will include approximately 850 beds, as well as a two-story food service and community space, and will provide freshmen housing, thereby freeing up beds in existing apartment and suite style facilities for use by sophomores in support of the campus’ sophomore success program. The project received support from the Housing Proposal Review Committee in May 2017 and will be funded from housing program revenues and reserves.

The not-to-exceed par amount of the proposed bonds is $141,130,000, based on a total budget of $130,000,000 with a contribution of $5.2 million from housing program reserves. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $16,330,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in October 2017 with completion expected in June 2019.

The following table summarizes key information about this financing transaction.

<table>
<thead>
<tr>
<th>Not-to-exceed amount</th>
<th>$141,130,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization</td>
<td>Approximately level debt service over 30 years</td>
</tr>
<tr>
<td>Projected maximum annual debt service</td>
<td>$9,270,965</td>
</tr>
<tr>
<td>Projected debt service coverage including the new project:</td>
<td></td>
</tr>
<tr>
<td>Net revenue – San Diego pledged revenue programs: ¹</td>
<td>1.47</td>
</tr>
<tr>
<td>Net revenue – Projected for the campus housing program:</td>
<td>1.40</td>
</tr>
</tbody>
</table>

¹ Combines 2015-2016 information for all campus pledged revenue programs with 2020-2021 projections for the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.29 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 housing program net revenue debt service coverage of 1.40 in 2020-2021, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. Combining the project with projected information for all campus pledged revenue programs yields overall net revenue debt service coverage for the first full year of operations of 1.47, which exceeds the CSU benchmark of 1.35 for a campus.
Trustee Resolutions and Recommendation

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the project described in this agenda item. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate amount not-to-exceed $141,130,000 and certain actions relating thereto.

2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 1 of the Committee on Finance at the September 19-20, 2017, meeting of the CSU Board of Trustees is recommended for:

San Diego State University New Student Residence Hall
COMMITTEE ON FINANCE

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

Presentation By

Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

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

Robert S. Nelsen
President
California State University, Sacramento

Summary

California State University, Sacramento requests conceptual approval to pursue a plan, through University Enterprises, Inc. (“UEI”), a campus auxiliary organization, to construct a new student housing apartment complex on city-owned land adjacent to the campus.

Background

As part of its 2015 campus master plan, the campus is focused on increasing and improving its student housing offering to support student success and graduation initiatives, as well as accommodate and serve students outside of the local area. However, such goals are challenged by the limited campus housing portfolio, with approximately 2,000 beds on-campus dedicated almost exclusively to housing lower-division students and serving only six percent of the student population. As for upper-division students, off-campus housing has been provided through UEI under a lease with a third-party owner for 141 units with 403 beds, however, that lease expires in 2022, at which time the campus housing supply will be reduced significantly.

A market analysis was completed in April of 2017 that confirmed strong demand for student housing of up to 1,260 apartment-style beds, based on a survey among the campus student population.
Project Description

The proposed site is 11 acres of land at the southeast edge of the campus currently owned by the city of Sacramento, providing an ideal location for off-campus development of an upper-division student housing, given its close proximity to the campus. Over the years, the city has allowed use of the site for an adult men’s baseball league, which, at its own expense, previously constructed two baseball fields, parking, restrooms, and a small office.

In June 2015, UEI entered into a 10-year lease-purchase agreement with the city, allowing the campus to encumber the site for future off-campus housing development. Before commencing with such development, however, the campus and UEI are required under terms of the agreement to compensate the city for the loss of its facilities by constructing replacement baseball fields and facilities at another city-owned site, which shall be made available by the city at no cost to the campus or the auxiliary.

The project development is expected to include the construction of approximately 1,000-beds in apartment-style units, comprising a mix of four-bedroom single occupancy units, two-bedroom double occupancy units, and one-bedroom studio units. Replacement of the baseball facilities will be considered part of the project. In June 2017, the campus received support from the Land Development Review Committee for the project concept.

Budget and Financing

The campus and UEI anticipate leasing the development site under a long-term ground-lease to a developer selected through a competitive bid process. No campus or auxiliary funds will be committed to the project and the developer will be responsible for the related financing, construction, and management of the property during the term of the lease. Additionally, the developer will contribute the upfront funding necessary to allow UEI to fully acquire the site and to construct the required replacement baseball facilities. The lease will be structured to ensure that UEI receives, at a minimum, ground-lease rent based upon fair market value of the site.

The developer will be responsible for funding all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Through provisions in the legal documents, the campus and UEI will ensure that the facility is well maintained and adequately funded by maintenance reserves throughout the life of the agreement.
Educational Benefits

The proposed project would create a housing continuum, complimentary to the core campus housing supporting first- and second-year students. This new housing community will support academic success and graduation initiatives, and bring students closer to the academic resources of the campus. The project will also strengthen connections to the university within the upper division and transfer student populations. Students who reside in campus housing experience enhanced faculty and peer interactions, which is linked to better learning outcomes and academic success.

There are direct benefits related to the academic success of students who live in on-campus housing, including higher retention rates and better grades. Additionally, according to the Southwest Association of College and University Housing Officers, students who live in campus housing have been shown to have timelier graduation rates and more often attend graduate school and earn advanced degrees. Beyond individual academic success, other benefits of living in campus housing include convenience, cost savings, social and personal development, and alumni connections.

Revenues from the ground lease will be used to support various campus programs with focus on student success, retention, and graduation rates.

Approval of the Final Development Plan

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

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the Trustees:
1. Approve the concept of a public/private partnership for a student-housing development on city-owned land adjacent to the California State University, Sacramento campus;
2. Authorize the chancellor and the campus to enter into a due diligence access and option agreement which provides the developer with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
3. Authorize the chancellor, the campus, and UEI to enter into negotiations for agreements, as necessary, to develop a final plan for the public/private partnership as explained in Agenda Item 2 of the September 19-20, 2017 meeting on the Committee on Finance; and

4. Will consider the following additional action items prior to any consideration of the final plan:
   a) Approval and certification of Final California Environmental Quality Act (CEQA) documentation.
   b) Approval of a development and financial plan negotiated by the campus and the developer with the advice of the chancellor;
   c) Approval of an amendment to the Non-State Capital Outlay Program;
   d) Approval of the schematic design standards.
COMMITTEE ON FINANCE

Conceptual Approval of a Public-Private Partnership Mixed-Use Development 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

Willie J. Hagan
President
California State University, Dominguez Hills

Summary

This item requests conceptual approval to pursue a public-private partnership plan for a mixed-use development on the California State University, Dominguez Hills campus.

Background

The campus is in the process of revising its campus master plan. The revised campus master plan will provide a framework for implementation of the University’s goals and programs by identifying needed facilities and improvements through the 2035 planning horizon. The main objective of the campus master plan is to guide the long-term land use development of the campus over the next 20 years. The proposed uses include academic facilities, on-campus housing, and uses to help support the academic mission of the campus.

As a component of this larger vision, the campus seeks to optimize the use of underutilized land at the eastern end of the campus and generate additional sources of revenue to advance academic programs and student success, support development of academic facilities, and increase the social and economic vitality of the campus and local community. The campus contracted with a consulting firm to conduct market analysis and identify potential opportunities for a real property development in this part of the campus. Findings from the analysis, including inquiries to numerous development firms, indicate strong demand for a mixed-use development that includes rental housing for faculty, staff, and community members, retail space, and a business park, all within a 76.5-acre site, referred to as “University Village.”
**Project Description**

The project proposes the construction of a mixed-use project, comprised of approximately 2,000 residential units, a one-acre park, and approximately 94,000 square feet of ground-floor retail facilities on approximately 43.5 acres of the site. In addition, the campus proposes to develop a business park complex on the remaining 33 acres of the site at the eastern edge of the campus along Central Avenue. The combined 76.5-acre site has several attributes conducive to residential and business park development, including access to recreational and cultural amenities, faculty research expertise, and student recruitment opportunities via its adjacency to the university and the proximity of the site to four freeways, downtown Los Angeles, and the ports of Long Beach and Los Angeles.

In July 2017, the campus received support from the Land Development Review Committee for the project concept.

**Budget and Financing**

The campus anticipates leasing the site under a long-term ground-lease structure to one or more developer teams, based on specific project expertise, selected through competitive processes. No campus funds will be committed to the project and the developer team(s) will be responsible for the related financing, construction, and management of the property during the term of the lease. The lease will be structured to ensure that the campus receives ground-lease rent based upon fair market value of the land, at minimum.

The developer will be responsible for funding all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Through provisions in the legal documents, the campus will ensure that each facility construction is consistent with design standards established for the project and is well maintained and adequately funded by maintenance reserves throughout the life of the agreement.

**Educational Benefits**

The development of the project site will provide additional revenue to support academic programs and enhance student success, as well as provide funding to support academic facilities. In addition, the project will help support the academic mission of the campus by providing greater access to much-needed residential and retail options for employees, visiting scholars, and graduate students with families, in addition to community members.

The business park aspect also will expand university connections with businesses and enhance opportunities for additional student internships, shared facilities, equipment, and technology, innovative learning environments, and faculty and student research opportunities.
Approval of the Final Development Plan

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

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public/private partnership for a mixed-use development and the release of the Request for Qualifications/Proposals;

2. Authorize the chancellor and the campus to enter into due diligence access and option agreements which provide selected developer(s) with a limited-term option, along with the responsibility for the development of final plans, schematic drawings, and necessary environmental analyses during the option period(s);

3. Authorize the chancellor and the campus to enter into negotiations for agreements as necessary to develop final plans for the public/private partnership as explained in Agenda Item 3 of the September 19-20, 2017, meeting on the Committee on Finance;

4. Will consider the following additional action items prior to any consideration of final plans:
   a) Certification of Final California Environmental Quality Act (CEQA) documentation.
   b) Approval of development and financial plans negotiated by the campus and the developer with the advice of the chancellor;
   c) Approval of amendments to the Non-State Capital Outlay Program;
   d) Approval of the schematic design standards.
COMMITTEE ON FINANCE

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

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 annual investment report for fiscal year 2016-2017 pursuant to the California State University Investment Policy. The item also provides an update on the progress made in implementing the CSU’s new investment authority signed into law in September, 2016 and effective January 1, 2017, including a request to the board to establish an investment advisory committee pursuant to the new investment authority.

Background

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

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State that might otherwise be invested in the SWIFT portfolio. The Local Agency Investment Fund (LAIF) is used by the State Treasurer to invest local agency funds. Since 2009-2010, the CSU has not invested funds in LAIF.
The year-end results for these two funds are reported in Attachment A. The State Treasurer also created the State Agency Investment Fund (SAIF) in 2011 to address liquidity needs created by the economic downturn at that time. The CSU moved funds out of its SWIFT portfolio into the SAIF to assist the State from September 2011 through April 2013, but no CSU funds have been in the SAIF since that time.

The California State University Investment Policy in effect during fiscal year 2016-2017 is included as Attachment B.

**Investment Account Performance**

As of June 30, 2017, the outstanding balance in the SWIFT portfolio totaled $3.76 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the California State University Investment Policy and state law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2017, the SWIFT portfolio’s holdings by asset type were as follows:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Treasuries</td>
<td>22.36%</td>
</tr>
<tr>
<td>US Government Agencies</td>
<td>36.10%</td>
</tr>
<tr>
<td>Corporate Securities—Long Term</td>
<td>29.16%</td>
</tr>
<tr>
<td>Corporate Securities—Short Term</td>
<td>12.38%</td>
</tr>
</tbody>
</table>

The SWIFT portfolio provided a return of 0.55 percent during the 12 months ended June 30, 2017. This return was greater than the benchmark for the portfolio, which is a treasury based index.

<table>
<thead>
<tr>
<th>Period</th>
<th>SWIFT Portfolio</th>
<th>SWIFT Benchmark</th>
<th>LAIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Month Return</td>
<td>0.03%</td>
<td>-0.01%</td>
<td>N/A</td>
</tr>
<tr>
<td>3 Months Return</td>
<td>0.29%</td>
<td>0.18%</td>
<td>0.23%</td>
</tr>
<tr>
<td>12 Months Return</td>
<td>0.55%</td>
<td>0.10%</td>
<td>0.75%</td>
</tr>
<tr>
<td>Annualized Return since SWIFT Inception</td>
<td>1.27%</td>
<td>1.59%</td>
<td>1.01%</td>
</tr>
</tbody>
</table>

For the year ended June 30, 2017, investment management and custodial fees totaled just under $1.9 million, or about 0.048 percent (4.8 basis points) on average outstanding balances throughout the year.

---

1 Bank of America Merrill Lynch 0-3 Year Treasury Index  
2 LAIF investment returns are provided as a benchmark since LAIF would be the primary investment alternative if the CSU did not invest funds in its own portfolio. LAIF outperformed the SWIFT portfolio for the twelve months ended June 30, 2017 due to the mix of securities in the portfolio and differences in the treatment of unrealized gains/losses.
Update on Implementation of the CSU’s New Investment Authority

The CSU’s new investment authority was signed into law in September of 2016 and became effective January 1, 2017. Key components of the new authority are:

1. Allows the CSU to invest in mutual funds, including equity mutual funds, subject to registration by, and under the regulatory authority of, the United States Securities and Exchange Commission and United States registered real estate investment trusts. Previously, the CSU had been restricted to investing in fixed income securities allowed under Government Code 16430.
2. Limits the amount of funds that the CSU may place in the new investment options and phases in such investment as follows:
   - In the fiscal year ending June 30, 2017, no more than 200,000,000.
   - In the fiscal year ending June 30, 2018, no more than 400,000,000.
   - In the fiscal year ending June 30, 2019, no more than 600,000,000.
   - In the fiscal year ending June 30, 2020, and each fiscal year thereafter, no more than 30 percent of all CSU investments.
3. Requires the board to establish an investment advisory committee to oversee investments. The committee must include a majority of members with investment expertise and who are not CSU employees. The State Treasurer has the option to serve, or appoint a deputy treasurer to serve, as a member of the committee.
4. Enhances investment reporting to the board and includes an annual reporting requirement to the legislature.
5. Restricts the use of earnings from the new investments to meet non-recurring capital needs, including deferred maintenance and critical infrastructure.
6. Prohibits the CSU from citing any losses associated with the new investments as justification for increases in student tuition or fees, and from seeking State general fund dollars to offset any losses associated with the new investments.

Investment Advisory Committee

As noted above, in order to take advantage of the new investment authority, the board needs to establish an investment advisory committee. This item requests the board to establish such investment advisory committee, hereafter referred to as the CSU Investment Advisory Committee or “IAC”. Based upon review of a number of candidates and consultation with the Chair of the Committee on Finance of the Board of Trustees, staff proposes that the IAC membership be comprised of the following individuals:

- Ex Officio, the Chair, Committee on Finance of the CSU Board of Trustees. Peter J. Taylor currently serves in this position. This position will also serve as Chair of the IAC.
Ex Officio, the Executive Vice Chancellor and Chief Financial Officer of the California State University. Steve Relyea currently serves in this position. This position will also serve as Vice Chair of the IAC.

Ex Officio, the Assistant Vice Chancellor, Financing, Treasury, and Risk Management, California State University. Robert Eaton currently serves in this position.

David Bach – Principal, The Bach Group; former investment officer for the California Public Employees’ Retirement System; board member for University Enterprises, Inc. at California State University, Sacramento.

Leona M. Bridges – Director, San Francisco Municipal Transportation Agency; board member for the San Francisco State Foundation.

Michael A. Lucki – Former Chief Financial Officer and member of the board of directors for CH2M Hill Companies, Ltd.; board member of the California State University Foundation.

Irwin Rothenberg – Wealth Advisor, Buckingham Asset Management; board member for the Sonoma State University Foundation.

As noted above, the State Treasurer has the option to serve, or appoint a deputy treasurer to serve, as an ex officio member of the committee, and the State Treasurer’s Office has indicated that the State Treasurer will exercise this option and appoint Timothy J. Schaefer, Deputy Treasurer for Public Finance, to serve on the IAC.

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

**New Master Investment Policy**

In light of the new investment authority and other investment goals of the CSU, the existing California State University Investment Policy (Attachment B) needs to be updated and enhanced. Staff is in the process of developing a new Master Investment Policy (MIP) for the CSU with the goal of presenting a final version of the MIP for approval by the board at a future meeting.
The MIP will be designed to provide a framework for the investment of CSU funds and will include the following key elements:

- The articulation of standards and expectations to be met by parties involved in the investment of CSU funds, such as compliance with law, adherence to policy, “prudent investor” rule, refraining from conflicts of interest, and the consideration of environmental, social, and governance factors in making investment decisions.

- Roles and responsibilities of the Board of Trustees, the chancellor and his staff, and the IAC, as fiduciaries for the investment of CSU funds, including delegations of authority from the Board of Trustees to the chancellor, staff, and the IAC to implement the provisions of the MIP.

- Investment objectives that shall govern CSU investments—safety of principal, liquidity needs of the CSU, and returns commensurate with acceptable levels of risk.

- Direction to the chancellor, staff, and the IAC to establish three investment portfolios, within acceptable allocation ranges and targets set by the board, each with their own investment objectives and policies.

The three portfolios and general purpose of each portfolio will be as follows:

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

The purpose of this portfolio will be to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The existing SWIFT portfolio shall serve as the Liquidity Fund.

**Intermediate Duration Fund**

The purpose of this portfolio is to provide opportunity for modest, additional risk-adjusted returns on CSU funds not needed for immediate liquidity.

**Total Return Fund**

The purpose of this portfolio is to provide opportunity for additional risk-adjusted returns on CSU funds over a full market cycle. The Total Return Fund shall be the portfolio of investments that takes advantage of the new investment authority.
Next Steps

Staff will continue working on the MIP with the goal of presenting it for approval at a future meeting of the board. Staff and the IAC will also work together on implementing the provisions of the investment authority, in particular, developing the policies and procedures for the Total Return Fund, with the goal of moving CSU funds into the portfolio in the first half of 2018. Staff and the IAC will report on implementation progress at future meetings of the board.

Recommendation

The following resolution is presented for approval:

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

1. Establish the Investment Advisory Committee and approve the membership of the Investment Advisory Committee as presented in Agenda Item 4 of the September 19-20, 2017, meeting on the Committee on Finance;

2. Authorize the Chair of the Committee on Finance; the chancellor; the executive vice chancellor and chief financial officer; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all actions necessary to implement this resolution.
Surplus Money Investment Fund (SMIF)
The Surplus Money Investment Fund (SMIF) is a vehicle used and 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. Cash in this account is available on a daily basis. The portfolio’s composition includes Certificates of Deposit and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of fiscal year ended (FYE) June 30, 2017, the amount of CSU funds invested in SMIF was approximately $93 million.

<table>
<thead>
<tr>
<th>SMIF Performance</th>
<th>Quarterly Apportionment Yield Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment Annualized Return</td>
<td>FYE 06/30/07 - FYE 06/30/17</td>
</tr>
<tr>
<td>FYE 06/30/17</td>
<td>0.74%</td>
</tr>
<tr>
<td>FYE 06/30/16</td>
<td>0.42%</td>
</tr>
</tbody>
</table>

Local Agency Investment Fund (LAIF)
The Local Agency Investment Fund (LAIF) is a vehicle used and managed by the State Treasurer to invest local agency funds. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2017 there were no CSU funds invested in LAIF.

<table>
<thead>
<tr>
<th>LAIF Performance</th>
<th>Quarterly Apportionment Yield Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment Annualized Return</td>
<td>FYE 06/30/07 - FYE 06/30/17</td>
</tr>
<tr>
<td>FYE 06/30/17</td>
<td>0.75%</td>
</tr>
<tr>
<td>FYE 06/30/16</td>
<td>0.43%</td>
</tr>
</tbody>
</table>
The California State University Investment Policy

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

**Investment Policy Statement**

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

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

**Investment Authority**

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

A. State Treasury investment options include:

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

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

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
• Bonds or warrants of any county, city, water district, utility district or school district;

• California State bonds, notes, or warrants, or bonds, notes, or warrants with principal and interest guaranteed by the full faith and credit of the State of California;


• Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding $500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;

• Bankers’ acceptances eligible for purchase by the Federal Reserve System;

• Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);

• Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;

• Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;

• Student loan notes insured by the Guaranteed Student Loan Program;

• Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;

• Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;

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

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;

- Limits reverse repurchase agreements to unencumbered securities already held in the purchased with the proceeds of the repurchase (but in any event not more than one year) and;

- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

**Investment Reporting Requirements**

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

(Approved by the CSU Board of Trustees in January 1997; and as amended in September 2011 and November 2013)
Planning for the 2018-2019 Operating Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The California State Constitution requires the submittal of the governor’s budget proposal each year by January 10. In order to meet consequent deadlines of the Department of Finance, it is necessary to commence planning for the 2018-2019 California State University Operating Budget. The CSU Board of Trustees will be provided preliminary assumptions for purposes of preparing the 2018-2019 budget request to the governor. The final budget request will be presented to the board for review and approval in November 2017.

State Budget Overview

Significant tax revenues produced by Propositions 30 and 55 and the economic recovery have allowed the state to continue to invest in public higher education. Specifically, it is estimated that state tax revenues will have increased by $39.1 billion (or 45 percent) between the recession low point in 2011-2012 and the current fiscal year 2017-2018. In addition, the economic recovery allowed the state to set aside $9.9 billion in operating reserves and retire $1.8 billion of operating debt in 2017-2018. The CSU has benefited from the state’s recovery with permanent, unallocated general fund increases of $815 million over the last five years.

While the state made significant budgetary strides since the Great Recession, significant expenditure obligations and risks persist. The state is challenged by long-term debts, deferrals, and budgetary obligations in excess of $280 billion, according to estimates by the Department of Finance. The preponderance of these obligations are health and pension costs for state employees and teachers. Other obligations and risks are outstanding loans, K-14 funding obligations, state property deferred maintenance, and unpredictable changes to Medicaid that could influence the state budget. While the state’s economy is growing, capital gains taxes make up a significant portion of the state budget revenue picture. This revenue source is highly volatile and it can cause dramatic swings in state revenue from one year to the next.
The message on the near term economy is growth. If the state’s economic expansion continues, revenues could grow by four percent in 2018-2019, 4.5 percent in 2019-2020 and five percent in 2020-2021, according to projections by the Legislative Analyst’s Office earlier this year. Separately, the Department of Finance earlier this year estimated more modest revenue growth of three percent in 2018-2019, three percent in 2019-2020, and 3.5 percent in 2020-2021. Under these assumptions, the potential over the next three fiscal years ranges from a modest investment in higher education to the potential for additional growth. However, it is widely recognized by economists that the average length of an economic expansion is five years with the longest expansion being ten years. The current period has seen expansion over eight years. A downturn in economic growth sometime in the next one to three years would have a negative impact on the state general fund and the state’s ability to continue to invest in CSU students.

The Governor’s Funding Plan for CSU

In January 2013, Governor Brown’s budget proposal included a four-year plan to provide funding stability to CSU and the University of California (UC). This multi-year plan called for state funding increases totaling $511 million to each university system and required no tuition increases between 2013-2014 and 2016-2017. Recognizing that both CSU and UC endured state funding reductions in equal dollar amounts during the recent fiscal crisis and that an ongoing investment in higher education is important to the vitality of the state’s economy, the governor’s administration has since added additional years and new permanent funding commitments. The Governor’s commitments, versus the CSU’s requests and final budget allocations for the last five years are as follows.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Governor's Budget</th>
<th>CSU Request</th>
<th>Final State Budget</th>
<th>Unfunded</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-2014</td>
<td>$125.1</td>
<td>$371.9</td>
<td>$125.1</td>
<td>$246.8</td>
</tr>
<tr>
<td>2014-2015</td>
<td>142.2</td>
<td>237.6</td>
<td>142.2</td>
<td>95.4</td>
</tr>
<tr>
<td>2015-2016</td>
<td>119.5</td>
<td>216.6</td>
<td>216.5</td>
<td>0.1</td>
</tr>
<tr>
<td>2016-2017</td>
<td>139.4</td>
<td>241.7</td>
<td>154.0</td>
<td>87.7</td>
</tr>
<tr>
<td>2017-2018</td>
<td>157.2</td>
<td>324.9</td>
<td>177.2</td>
<td>147.7</td>
</tr>
<tr>
<td>2018-2019</td>
<td>102.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-2020</td>
<td>105.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$890.4</strong></td>
<td><strong>$1,392.7</strong></td>
<td><strong>$815.0</strong></td>
<td><strong>$577.7</strong></td>
</tr>
</tbody>
</table>

(in millions)

Additionally, the governor indicated for 2018-2019 and 2019-2020, the CSU should anticipate three percent increases in state appropriation in each of those years, which closely aligns with forecasted rates of inflation. This is down from prior proposals of four percent per year. It is important to note that the anticipated three percent proposal only represents a 1.5 percent increase to the total operating budget, because state appropriations make up approximately half of the
CSU’s total operating budget. Absent any other revenue source, this means that the governor’s likely funding proposal for 2018-2019 would not meet the anticipated rate of inflation. Consequently, it would be challenging for CSU to meet basic cost increases, let alone the next critical installment of the Graduation Initiative 2025.

**Early Estimates are that CSU Operating Budget Request Will Exceed State Plan for 2018-2019**

The preliminary 2018-2019 budget plan would allow the CSU to provide another round of investment in Graduation Initiative 2025, meet its mandatory cost obligations including compensation increases, and grow full-time equivalent student (FTES) enrollment. Additionally, progress could be made on infrastructure and deferred maintenance needs.

The governor’s three percent proposal would provide a $102 million increase in 2018-2019. For illustration purposes only, the governor’s funding plan would only afford the CSU the opportunity to fund the next installment of the Graduation Initiative and a small portion of mandatory cost increases. It would not be enough to permanently invest in other budget priorities such as reasonable compensation increases for all employee groups, infrastructure, and FTES enrollment growth.

At this early stage, the state’s funding plan does not include sufficient resources to meet the CSU preliminary budget plan and it has been a long-held CSU position that the state should fully fund the Trustees’ operating budget request each year. However, as demonstrated in the table above, the state has seldom fully funded the gap between the governor’s proposal and the Trustees’ request. If a gap were to occur in 2018-2019, the CSU would have to consider several budget-balancing options, including:

- more aggressive advocacy for additional state funding;
- limit investment in new budget priorities;
- pursuit by the Chancellor’s Office of more systemwide cost savings and effectiveness;
- redirect campus resources from low to higher priorities;
- new revenue sources; and
- a tuition increase.

The Chancellor’s Office will engage in a consultation process with students, faculty, staff, campus executives, the state, and other CSU stakeholders to explore alternatives for balancing budget priorities and necessary resources.
2018-2019 CSU Operating Budget—Preliminary Planning Approach

It is very early in the budget development process and it is premature and unnecessary to discuss budget gap-closing strategies at this time. Instead, the board can begin the discussion of CSU priorities to build an operating budget request for 2018-2019. The planning approach presented below represents a range of funding levels that can be balanced to communicate the university’s key funding needs. At this stage, it is important for the board to provide input on fiscal policy priorities for 2018-2019.

These estimated incremental funding amounts or ranges provide an opportunity for discussion about priorities and would add to the 2017-2018 base budget of $6.6 billion.

Preliminary Expenditure Plan - $256 Million to $377 Million

Graduation Initiative 2025 - $75 million

The CSU will continue to invest in people, programs, technologies, and strategies that have demonstrated success in improving graduation rates, shortening time-to-degree, and eliminating achievement gaps. Each campus has developed multi-year plans to reach their Graduation Initiative 2025 goals that will require multi-year investments across the system in: tenure track faculty hiring, increased course taking opportunities, enhanced advising and education plans, academic and student support, and leveraging data for campus decision-making. Over the course of this second year of the Graduation Initiative 2025, campuses plan to spend at least $75 million on their local priorities to improve student success and completion with particular focus on those efforts that improve 4-year graduation rates for first time freshmen and 2-year graduation rates for transfer students. To properly support the Graduation Initiative, an incremental recurring investment of $75 million in 2018-2019 is necessary. This would fund the second year of a 6-year, $450 million investment plan in support of the Graduation Initiative.

Full-Time Equivalent Student Enrollment Growth - $40 million to $120 million

Demand for the CSU remains constant, as more students graduate from high school having met the A-G requirements for admission to the CSU, and more transfer students complete the Associate Degree for Transfer. The Budget Act of 2017 requires the CSU to adopt an application redirection policy to give first time freshman students the option to have their applications reviewed by other campuses without campus-wide or program impaction, if the first choice campus has prospective student demand that exceeds available space at that campus.
The range of $40 million to $120 million represents a one to three percent increase in full-time equivalent students (FTES). This increase would allow for growth in the average unit load for continuing students in support of graduation rate goals, and a steady number of students admitted and served. Additional tuition revenue from new students and state general fund cover the costs of accommodating additional enrollment. For planning purposes, each one percent increase in enrollment would cost approximately $40 million and would allow for growth of approximately 3,600 FTES.

Employee Salaries – To Be Determined

At this time, collective bargaining is beginning or underway for many bargaining units, and costs for 2018-19 cannot be determined.

Facilities and Infrastructure Needs - $10 million to $25 million

There are examples of academic and plant facilities on every CSU campus that are in need of repair or replacement. The systemwide state-supported deferred maintenance backlog will be reduced to approximately $2.0 billion once funded projects are completed. The previous support from the state of one-time and recurring funds has enabled a reduction in the backlog from $2.6 billion to $2.0 billion. This is good progress, but, unfortunately, the backlog will grow by approximately $150 million per year as facilities continue to age and due to the partial funding of the operating budget request in 2017-2018. Unlike 2014-2015 and 2015-2016, the CSU was not able to dedicate new permanent funding for annual debt service on longer-term bond-financed projects in 2016-2017 or 2017-2018 due to the funding of other budget priorities and insufficient revenue levels.

Under estimated bond market conditions, $10 million of recurring funds dedicated in 2018-2019 would finance approximately $150 million of needed infrastructure projects. On the low end, this would roughly keep pace with the aging infrastructure, and would slightly reduce the backlog. At the higher end of $25 million, the CSU will make progress in shrinking the maintenance backlog as well as refurbish and construct approximately $375 million of campus infrastructure. In addition, the CSU continues to look to other ways to fund its infrastructure needs and we will keep the board informed on ways to do so.

Agenda item 4 of the September 19-20, 2017 meeting of the Committee on Campus Planning, Buildings and Grounds includes the preliminary list for the 2018-2019 Capital Outlay program. The list prioritizes critical infrastructure and utility renewal projects and facility renovation to support the academic program needs. The addition of $10 million to $25 million in recurring funds would enable the CSU to fund increased capacity for student growth and complement the plan to address deficiencies in existing facilities. The CSU continues to refine the planning and financing process in light of the increased capital financing authority granted in 2014.
The CSU plans to request $50 million in one-time funds to further address the deferred maintenance backlog and $25 million of one-time cap and trade funds for greenhouse gas and energy reduction projects in line with our sustainability programs.

*Mandatory Costs - $131 million to $157 million*

Chancellor’s Office staff anticipate that mandatory cost increases for existing university commitments will range from $131 million to $157 million in 2018-2019. These cost increase calculations use the Higher Education Price Index (HEPI), an inflationary factor that projects cost increases for goods and services utilized by higher education institutions in the United States. These cost increases also factor in state of California estimates, such as retirement and health care rate changes. Mandatory costs also include increases to operations and maintenance of newly-constructed space and other compensation-related costs, such as state wage law changes. If operating budget requests do not include these types of mandatory cost increases, campuses must redirect resources from other program areas to meet those cost increases. Setting aside funding for mandatory costs helps preserve the integrity of CSU programs.

**Preliminary Revenue Plan**

The preliminary operating budget priorities for 2018-2019 continue to address many of the CSU’s educational and operational needs. However, if required to do so, it would be exceedingly difficult for the CSU to operate within the confines of the governor’s funding plan without receiving additional resources. For illustration purposes, increased Graduation Initiative 2025 and a portion of mandatory cost commitments would use all of the $102 million available from the governor’s funding plan. Without additional revenue, budget management strategies could include reductions to any planned new investments in employee compensation, FTES enrollment growth, or infrastructure. This scenario would not serve prospective and current student needs, would not address the deferred maintenance and critical infrastructure backlog, and would not sustain fiscal stability within the CSU.

At this preliminary stage, the planning effort focuses on stating the CSU’s budget priorities and needs. Accounting for enrollment growth revenue and the governor’s funding commitment of $102 million, the preliminary plan’s range of new investments would require additional new ongoing revenues from state and tuition revenue sources ranging from $134 million to $215 million.

Additional information on revenue will be discussed at the November 2017 meeting after the Board provides input on its budget priorities at the September 2017 meeting and after preliminary numbers are further refined by the Chancellor’s Office.
Conclusion

This is an information item presenting a preliminary framework for the 2018-2019 CSU Operating Budget request to the governor and the Department of Finance. Using feedback provided by trustees at the September 2017 meeting, Chancellor’s Office staff will present an updated and detailed operating budget recommendation for the board’s approval in November 2017.
COMMITTEE ON FINANCE

California State University Reserve Policy and Summary of Reserves

Presentation By

Brad Wells
Associate Vice Chancellor
Business and Finance

Summary

This information item is intended to provide an overview of the nature and purpose of operating reserves established by the campuses. In accordance with CSU Policy 2001.00 Campus Reserves, all campuses are encouraged to build and maintain an appropriate level of operating reserves and designate these reserves for various specified purposes. Designated purposes for these non-reoccurring reserves may include capital projects, capital renovation, facilities maintenance and repair, encumbrances, catastrophic events, or any other specified purpose consistent with the underlying operating fund requirements and restrictions. Campuses designate these reserves as part of the year-end closing activity. Annually, after year-end closing, the chancellor’s office prepares a summary of the campus CSU operating funds reserve designations.

Statutory Restrictions

The CSU operates under a statutory financial accounting structure with statutory “funds” established to record revenue and expenses for specified purposes. These statutory designations limit or restrict what can be done with money deposited into the fund. For example, Education Code 89703 requires that “All revenues received by the trustees from housing rental rates and fees under this section may be pledged for the acquisition, construction, and improvement of student housing projects.” The fees paid by students who live on campus are deposited into the housing fund and used only for the purposes allowed by Education Code section 89703. There are many restrictive statutes that apply to the CSU and comprise the “legal basis” CSU accounting structure. Reserves are established within statutory funds, including the CSU operating fund, and the purpose of each reserve is designated according to systemwide policy guidelines. As of June 30, 2017, designated reserves retained in the operating fund totaled $1.7 billion. An additional $957 million in designated reserves are retained in other statutorily restricted funds.
Need for Reserves

There are three primary needs that warrant continued emphasis on the development of prudent reserves over time including short-term obligations, capital facilities and maintenance, and reserves for operations.

Reserves for Short-Term Obligations

Reserves for short-term obligations are designated for prior-year open commitments, and encumbrances, near-term debt service payments, and financial aid obligations. These amounts vary year-to-year and are typically paid out within a few months following the end of the fiscal year. Short-term obligation reserves are generally used to bridge operating costs from one fiscal year to another.

Reserves for Capital Facilities and Maintenance

Beginning with the 2014-2015 fiscal year, the state transferred responsibility to the CSU for the maintenance, repair, and construction of state academic facilities, adding to the existing responsibility for self-support facilities. As a result, campuses have established multi-year plans to build capital reserves required to help fund over $2 billion in critical deferred maintenance costs and support capital development costs that are now the responsibility of the CSU. In conjunction with the 2016-2017 five-year capital program, the board established guidelines for academic projects with the expectation that campuses would contribute ten percent of the project cost from reserves as a way to stretch limited capital funding and enhance the ability of campuses to shorten capital development timelines by using local reserves to advance project predevelopment activities.

Reserves for Operations

Additionally, the CSU reserve policy encourages campuses to build operating reserves to deal with economic uncertainties associated with cyclical state recessions and to support year-to-year consistency in the university’s operations. The policy target applicable to reserves for economic uncertainties is five to six months of operating costs associated with the fund applicable to the reserve. This target is derived from the prudent reserve ratios suggested by the National Association of College and University Business Officers, a nationally recognized organization focused on financial administration in higher education. Reserves for economic uncertainty are also considered by rating agencies during periodic assessments of the CSU’s debt program. Operating reserves improve the debt-to-equity ratio, which is one of the measures used to evaluate financial viability, and contribute to CSU’s relatively high bond ratings that result in more favorable interest rates on bonds issued to fund the capital program.