

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:30 a.m., Tuesday, November 19, 2019
Glenn S. Dumke Auditorium

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

- Consent**
1. Approval of Minutes of the Meeting of September 24, 2019, *Action*
 2. Annual Systemwide Hate Violence on Campus Report, *Information*
- Discussion**
3. Approval of the 2020-2021 Operating Budget Request, *Action*
 4. California State University Annual Investment Report, *Information*

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

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

September 24, 2019

Members Present

Lillian Kimbell, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Juan F. Garcia
Hugo N. Morales
Romey Sabalius
Lateefah Simon
Peter J. Taylor
Timothy P. White, Chancellor
Adam Day, Chair of the Board

Trustee Lillian Kimbell called the meeting to order.

Public Comment

Public speakers made comments related to reporting of use of funds approved for tenure track hiring, bargaining, lack of legal representation provided to medical personnel facing Title IX complaints, and minimum security and safety standards for campuses.

Approval of Minutes

The minutes of the July 23, 2019 meeting of the Committee on Finance were approved as submitted.

Planning for the 2020-2021 Operating Budget

The preliminary 2020-2021 operating budget proposal was presented for trustee feedback. The proposal includes ongoing funding requests for Graduation Initiative 2025, enrollment growth, compensation, facilities, and mandatory costs. The proposal includes additional one-time funding for deferred maintenance.

Following the presentation, some of the trustees made comments about various elements of the proposal including enrollment and employee compensation. They expressed support for student basic needs partnerships and the Educational Opportunity Program (EOP). It was clarified that additional ongoing funds are being requested for the Graduation Initiative's student engagement and well-being component, which includes food and housing insecurity and mental health, and for programs and practices that have been shown to increase graduation rates, like EOP. The trustees asked question about enrollment growth, workforce demand, and student application redirection. The trustees requested further details on the six pillars of Graduation Initiative 2025 and student application redirection data.

Trustee Kimbell adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Annual Systemwide Hate Violence on Campus Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Fernando Solorzano
Chief of Police, California State University, Long Beach
Chair of CSU Council of Chiefs

Summary

This item provides an annual report of reported hate violence instances on California State University campuses, pursuant to California Education Code § 67380(a) (5), for the 2018 calendar year.

The statute requires that the number of arrests for, and reported incidents of, hate violence be reported to the CSU Board of Trustees, who “shall ... make a report containing a compilation of that information available to the general public on the Internet Web site of each respective institution.”

In the 2018 calendar year there were a total of ten reported incidents of hate violence on five campuses and one reported instance of non-criminal acts of hate violence.

Background

The CSU seeks to maintain a safe educational and working environment, which includes compliance with safety laws and regulations. These include the federal Jeanne Clery Disclosure of Campus Security and Crime Statistics Act (Clery Act) (20 U.S.C. § 1092(f)) and the federal Violence Against Women Reauthorization Act of 2013, which amends the Clery Act under the Campus Sexual Violence Elimination Act provision (Campus SaVE Act). State laws and regulations include the Higher Education Act (California Education Code § 67380 *et seq.* and 67390 *et seq.*).

Hate crime is defined in California Penal Code §422.55. Hate violence for reporting purposes is defined in California Education Code § 67380(c)(1) as *“any act of physical intimidation or physical harassment, physical force or physical violence, or the threat of physical force or physical violence, that is directed against any person or group of persons, or the property of any person or group of persons because of the ethnicity, race, national origin, religion, sex, sexual orientation, gender identity, gender expression, disability, or political or religious beliefs of that person or group.”*

Conclusion

For the year ending December 31, 2018, eleven reported incidents of hate violence (ten hate crimes and one incident of non-criminal acts of hate violence) will be reported on the California State University and 23 campus web pages, in accordance with California Education Code §67380(a)(5).

COMMITTEE ON FINANCE

Approval of the 2020-2021 Operating Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item seeks approval by the California State University Board of Trustees of the 2020-2021 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2020-2021 request, which contains historical detail as well as prospective information for the Board of Trustees' consideration.

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. To meet consequent deadlines of the Department of Finance, it is necessary to adopt the proposed 2020-2021 CSU Operating Budget Request at the November CSU Board of Trustees meeting.

At its September 2019 meeting, the Board of Trustees reviewed a preliminary plan for purposes of crafting the CSU's operating budget request to the state. That preliminary plan included consideration of past and forecasted information regarding the state's economy and tax revenue as well as past and planned funding of the CSU. With that history and context, the focus of this item are the details of the proposed 2020-2021 CSU Operating Budget Request.

The budget outlined in Attachment A is the official presentation of the CSU operating budget request and, if approved, will be distributed to the governor, legislators, and other policy makers in the capitol. It can be accessed, along with additional supplemental detail, at www.calstate.edu/budget.

Amended

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Proposed 2020-2021 CSU Operating Budget Request

The proposed operating budget request prioritizes certain areas of recurring expenditures to continue the CSU's commitment to Graduation Initiative 2025, increase student access to the university, increase compensation for faculty and staff, attend to the highest priority academic infrastructure and deferred maintenance needs, fund basic needs partnerships with recurring dollars and fund mandatory cost obligations.

The 2019-2020 baseline CSU operating budget totals \$7.2 billion. As shown in the below table and in Attachment A, the 2020-2021 Operating Budget Request proposes a base increase of \$648.3 million. The CSU's highest priority is to advocate for \$563.7 million in new general fund from the state. An additional \$84.6 million in new tuition revenue would be available from a five percent enrollment increase representing approximately 18,707 full-time equivalent students (FTES). With such an investment, the state will be in a better position to meet the overall economic and future workforce needs of California.

| Incremental Expenditures | in millions |
|---|--------------------|
| Graduation Initiative 2025 | \$105.0 |
| <i>Year 4 of 6</i> | <i>\$75.0</i> |
| <i>Remaining Year 3 of 6</i> | <i>30.0</i> |
| 5 Percent Increase in Enrollment | 248.6 |
| Salaries and Benefits | 177.4 |
| <i>Compensation Pool</i> | <i>139.8</i> |
| <i>Health Rate Changes</i> | <i>26.0</i> |
| <i>Retirement Rate Changes</i> | <i>11.6</i> |
| Academic Facilities & Infrastructure Needs | 75.0 |
| Basic Needs Partnerships | 15.0 |
| Mandatory Costs | 27.3 |
| Total Incremental Expenditures | \$648.3 |
| | |
| Anticipated Revenue | |
| Tuition from Enrollment Growth | \$84.6 |
| Board of Trustees General Fund Increase Request | 563.7 |
| Total Incremental Expenditures | \$648.3 |

The proposed operating budget request also includes a one-time funding request. The CSU seeks an additional \$500 million of one-time funding to further address the growing maintenance backlog of buildings and utility infrastructure systems that have passed their useful life.

Potential Opportunities to Address Operating Budget Revenue Needs

The CSU's highest priority is to advocate for increased state funding to cover the full operating budget request. The CSU will work collaboratively with stakeholders and partners across the system including trustees, students, faculty, staff, union leaders, alumni, business partners, and friends to make the case in Sacramento for the level of new funding that supports our stated priorities. With the historic gains made in four-year and six-year graduation rates, the aggressive targets set out in Graduation Initiative 2025, and with the state focused on these same goals, arguments for increased state funding are strong.

While additional general fund is the highest priority and the best option for the university, the state allocation will not be known until a final budget agreement is reached in June 2020. At this stage, before the governor's budget proposal is released in January 2020, it is not known if the CSU will receive enough new general fund dollars to meet its mandatory obligations and invest in its ongoing priorities.

Consequently, all options must remain open for as long as appropriate. As a regular and routine business matter, the CSU will follow state statutory guidelines and prepare for and discuss with California State Student Association leadership, a written tuition proposal that will align with the rate of inflation. At this point, the CSU does not anticipate a need to raise tuition rates for 2020-2021, but will keep the option open in case of unforeseen state budget or economic circumstances. The CSU must ensure that the university has the resources it needs to maintain the quality of academic and supportive services for students, while maintaining authentic access to the university.

If funding is not secured for the operating budget request through state general fund or new tuition resources, priority areas of the operating budget would be reduced or eliminated and campuses would have to redirect funding from designated balances, reserves and existing programs. It is possible that fewer course sections would be available to students, average unit loads would go down not up, and ultimately it could take longer for students to graduate, costing students more money and creating challenges for Graduation Initiative 2025 efforts.

Cost Pressures for the Institution and Students

Each year, inflation and other cost increases affect campus' budget decisions. For the most part, annual operating budget requests address these types of increases through the salary and benefits, and mandatory costs categories described above. However, in recent years, campuses have not received annual funding increases to cover inflationary costs in areas such as information technology, contractual services, library subscriptions, travel and instructional equipment. It is anticipated that these costs will increase for 2020-2021 as inflation remains steady in California.

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Campus leaders regularly work to cover inflationary costs without additional resources and they deserve credit for being both efficient with their resources and effective in their outcomes.

Above and beyond efforts to address regular inflationary pressures, the CSU will continue to pursue cost-avoidance strategies and administrative efficiencies to be good stewards of state and tuition resources, in addition to addressing as many unfunded cost increases as possible. Some specific examples of this include the intersegmental CalUsource and CSU's 23C procurement initiatives.

The same inflationary pressures that affect the CSU's annual budget affect students' ability to pay for the costs of attendance beyond tuition and fees—food, housing, transportation, instructional materials and technology. The CSU currently provides nearly \$950 million of institutional aid, which includes \$701 million for the State University Grant Program. An additional \$733 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition and fees and some portion of other expenses and keeps average loan debt levels well below the national average.

Even with these levels of institutional, state and federal support for financial aid programs, some students struggle to cover the costs of attendance. The CSU understands that this is a significant problem that needs a solution. That is why the CSU has been, and continues as, an active participant in statewide efforts that include all segments of higher education, the California Student Aid Commission, legislative staff, and the governor's administration to transform the state's Cal Grant programs to better address the financial needs of today's students. With housing costs and the overall cost of living in California at record highs, the CSU is strongly committed to working with students, segment partners and state leaders to identify and implement financial aid solutions that optimally support CSU students.

Conclusion

The budget cycle is just beginning. At this time there are no funding assumptions from the state and it is not known at what level the state will provide the necessary resources to properly invest in operating budget priorities at the CSU. As the budget cycle moves forward, the CSU will work with its partners across California to advocate for full funding by the state of the Board of Trustees' operating budget request.

This is an action item presenting final recommendations for the CSU 2020-2021 Operating Budget Request to the governor and legislature. It is the CSU's goal that the state fully fund the budget plan so that the CSU can focus on the transformational goals of Graduation Initiative 2025 while continuing to invest in enrollment growth, faculty and staff compensation, and important infrastructure needs.

Recommendation

The following resolution is presented for approval:

RESOLVED, that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their consistent, multi-year investment in the CSU since the end of the Great Recession; and be it further

RESOLVED, that the Board of Trustees understands there are numerous competing interests for budgetary support given policy priorities and possible fiscal constraints under which California operates; and be it further

RESOLVED, that the future of California rests on CSU's ability to provide a high-quality, affordable, and accessible education to nearly 500,000 students each year; and be it further

RESOLVED, by the Board of Trustees that the proposed CSU 2020-2021 Operating Budget Request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that any changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, that copies of this resolution and the 2020-2021 Operating Budget Request as reflected in this agenda item be transmitted to the governor, to the director of the Department of Finance, and to the legislature.



2020–21 OPERATING BUDGET

www.calstate.edu/budget

APPROVED BY THE CSU BOARD OF TRUSTEES NOVEMBER 20, 2019

\$648M

2020-21
PROPOSED INCREASE

\$7.2B

CURRENT
OPERATING BUDGET

127,400

2018-19 GRADUATES

481,210

STUDENTS IN FALL 2018

LARGEST

PUBLIC 4-YEAR UNIVERSITY
IN THE COUNTRY

2020-21 PROPOSED INCREASE



- Graduation Initiative 2025 **\$105M**
- Basic Needs Partnerships **\$15M**
- 5 Percent Increase in Enrollment **\$249M**
- Salary and Benefits Increases **\$177M**
- Academic Facilities and Infrastructure **\$75M**
- Mandatory Cost Increases **\$27M**

2020-21 PROPOSED OPERATING BUDGET



- Tuition and Fees **\$3.2B**
- General Fund **\$4B**
- 2020-21 Proposed Increase **\$648M**

WHO DO WE SERVE?

94%

OF STUDENTS ARE FROM CALIFORNIA

32%

OF UNDERGRADUATES ARE THE FIRST IN THEIR FAMILIES TO ATTEND COLLEGE

47%

OF UNDERGRADUATES ARE TRADITIONALLY UNDERREPRESENTED STUDENTS OF COLOR

91%

OF NEW UNDERGRADUATE TRANSFERS ARE FROM CALIFORNIA COMMUNITY COLLEGES

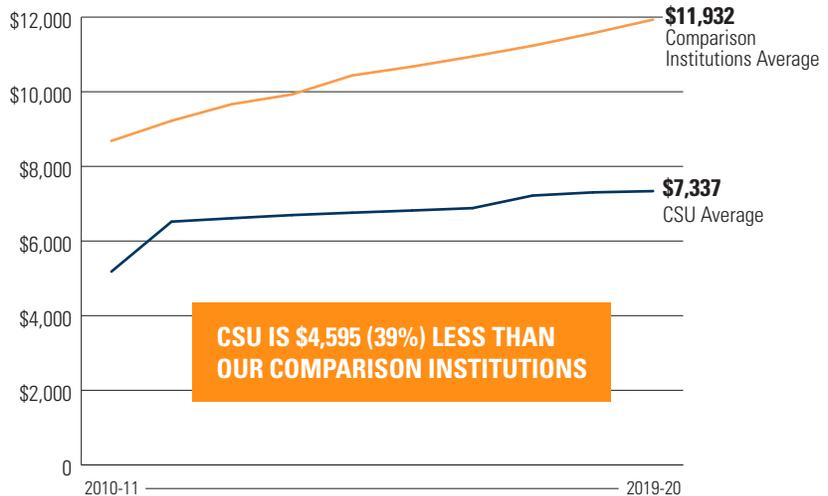
THE CSU SERVES A DIVERSE STUDENT POPULATION



- African American 19,301 **4.0%**
- American Indian 1,064 **0.2%**
- Asian American 75,008 **15.6%**
- Hispanic/Latinx 199,521 **41.5%**
- White 110,570 **23%**
- Pacific Islander 1,378 **0.3%**
- Two or More Races 21,390 **4.4%**
- Unknown 21,953 **4.6%**
- Nonresident Alien 31,025 **6.4%**

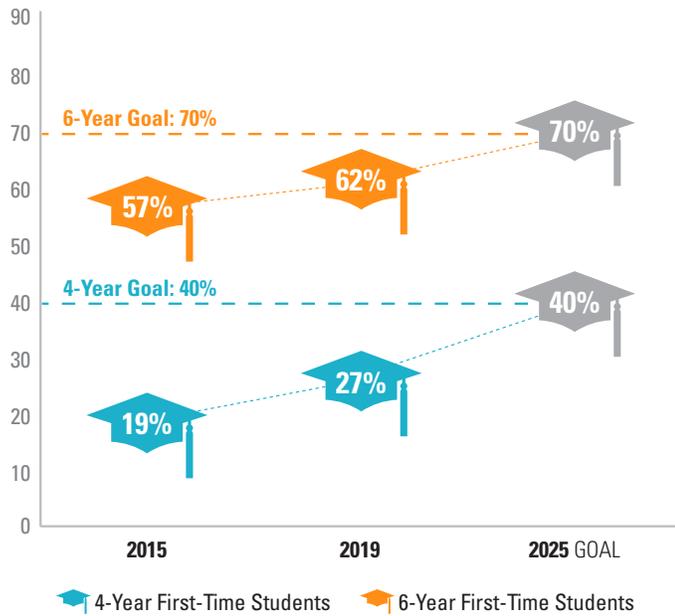
CSU TUITION AND FEES VS. COMPARISON INSTITUTIONS

(Based on Average Resident Undergrad)

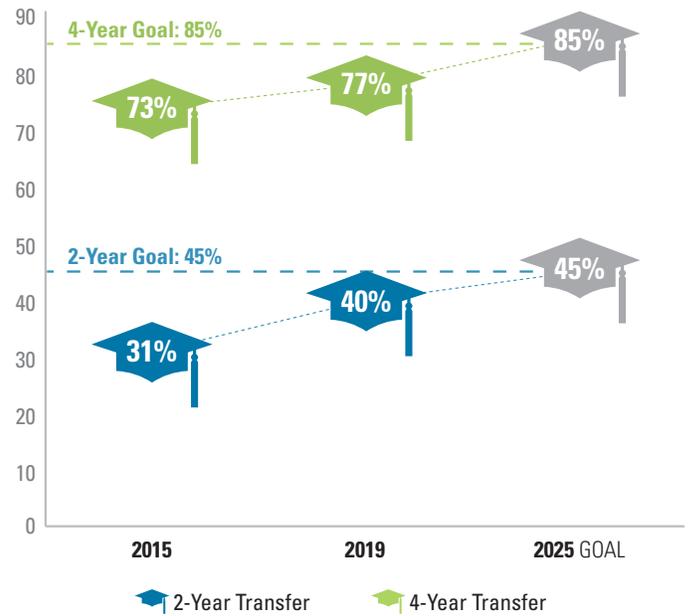


CSU IS ON TRACK TO MEET ITS SYSTEMWIDE GRADUATION RATE GOALS BY 2025

FIRST-TIME STUDENTS GRADUATION INITIATIVE 2025 GOALS



TRANSFER GRADUATION INITIATIVE 2025 GOALS



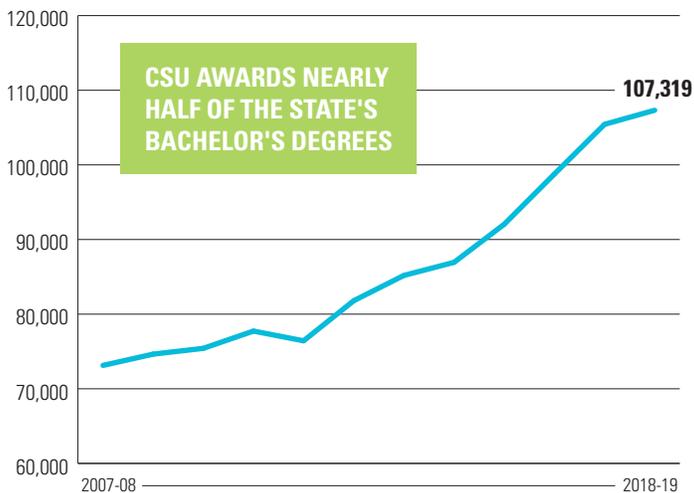
CSU'S STATE UNIVERSITY GRANT PROGRAM AWARDED MORE THAN **\$701 MILLION** TO OVER **135,000** STUDENTS.

84%
OF CSU STUDENTS
RECEIVED FINANCIAL AID

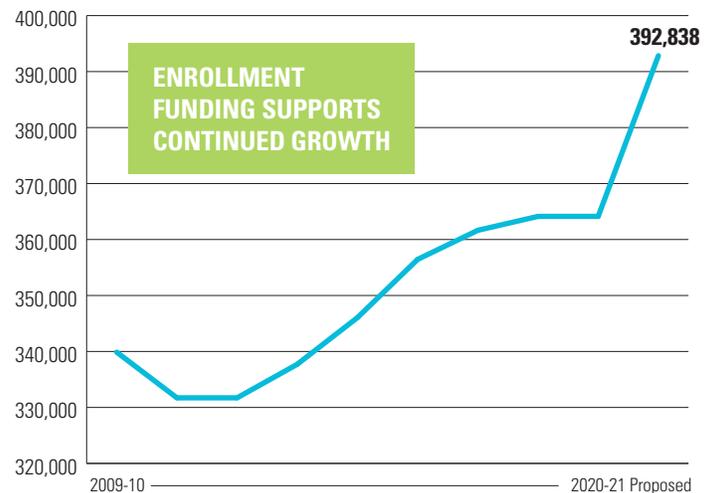
59%
OF CSU UNDERGRADUATES PAID
\$0 TUITION

50%
OF CSU UNDERGRADUATES
RECEIVED A FEDERAL PELL GRANT

CSU IS AWARDING MORE BACHELOR'S DEGREES THAN EVER



RESIDENT FULL-TIME EQUIVALENT STUDENTS (FTES) FUNDED ENROLLMENT





19
SEVADA

CSU
Channel Islands
Nursing
BSN, RN, PE

CSU
Channel Islands
Nursing



CHANCELLOR'S MESSAGE

Thanks in large part to the state's steadfast financial support, the California State University stands as a beacon of inclusive excellence and value in a higher education landscape increasingly plagued by issues of access and affordability. The CSU is the nation's largest and most economically, ethnically and racially diverse four-year university system, providing an affordable, high-quality education to more than 480,000 students.

The CSU's remarkable value proposition continues to be acknowledged—and lauded—nationally. In fact, the Washington Monthly included each of the CSU's 23 campuses in its 2019 "Bang for the Buck" rankings, noting that "the California State University system continues to dominate... showing a commitment to upward mobility across the system and across the state."

Indeed, the CSU is a powerful engine for social mobility through the life-changing opportunities higher education provides. But we stand ready to do more for Californians, for whom a college degree has never been more important in our global knowledge economy. And we can do more for California, which requires an increasingly educated workforce to drive the state's future prosperity. I believe our trustees' budget plan represents a vital and effective path forward. With this plan, the CSU will:

- Increase authentic access through enrollment growth, so that more Californians from all backgrounds can earn a degree, equipped with the knowledge, skills and personal qualities they need to succeed.
- Elevate student success for all while eliminating equity gaps for historically underserved students via Graduation Initiative 2025.
- Repair and modernize our aging facilities and infrastructure to promote academic achievement while providing the safest possible environment for our students, faculty and staff.
- Promote our students' mental and physical well-being while supporting their basic needs, including housing and food security.
- Ensure welcoming, inclusive campus environments, including space, programming and dedicated staff to support first-generation students and students of color.
- Continue to collaborate and cooperate with the other segments of California's public higher education system to increase educational opportunities for all Californians.

Momentum is building at the CSU. We are awarding record numbers of degrees. Completion rates are at all-time highs. More is being done than ever before to ensure authentic access to an affordable quality education for all, regardless of income, background, gender, race, ethnicity or status.

With your commitment to provide the necessary financial support, that momentum will continue to build, propelling California toward its brightest future. Let's make that future a reality—together.

Timothy P. White
Chancellor
The California State University

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THE CSU TODAY

The California State University system continues to use all its available resources to help students succeed. In the 2019-20 final budget, CSU received from the state a permanent base budget increase of \$332.9 million. The state-funded retirement adjustment of \$39.3 million received in a subsequent General Fund appropriation is also included in the tables below. The 2019-20 current year total CSU operating budget of \$7.2 billion is comprised of \$4.0 billion in state General Fund and \$3.2 billion in tuition and fees. New resources to fulfill the CSU's budget request for 2020-21 are \$648.3 million, as shown in Table 1.



TABLE 1: OPERATING BUDGET & INFRASTRUCTURE

| | 2018-19 Past Year | 2019-20 Current Year | 2020-21 Budget Year | 2020-21 Increase |
|--|------------------------|-------------------------|------------------------|----------------------|
| General Fund, Operations | \$3,432,147,000 | \$3,681,289,000 | \$4,170,071,000 | \$488,782,000 |
| General Fund, Academic Facilities and Infrastructure | 340,560,000 | 340,560,000 | 415,560,000 | 75,000,000 |
| Tuition and Fee Revenue | 3,277,627,000 | 3,155,886,000 | 3,240,442,000 | 84,556,000 |
| TOTAL OPERATING BUDGET AND INFRASTRUCTURE | \$7,050,334,000 | \$7,177,735,000 | \$7,826,073,000 | \$648,338,000 |

TABLE 2: EXPENDITURES BY PROGRAM AREA

| | 2018-19 Past Year | 2019-20 Current Year | 2020-21 Budget Year | 2020-21 Increase |
|------------------------------------|------------------------|-------------------------|------------------------|----------------------|
| Instruction | \$2,790,353,000 | \$2,904,223,000 | \$2,904,223,000 | |
| Research | 33,894,000 | 24,729,000 | 24,729,000 | |
| Public Service | 23,264,000 | 18,513,000 | 18,513,000 | |
| Academic Support | 727,469,000 | 735,210,000 | 735,210,000 | |
| Student Services | 784,122,000 | 777,430,000 | 777,430,000 | |
| Institutional Support | 839,137,000 | 953,193,000 | 953,193,000 | |
| Operation and Maintenance of Plant | 1,101,001,000 | 1,019,543,000 | 1,019,543,000 | |
| Student Grants and Scholarships | 751,094,000 | 744,894,000 | 744,894,000 | |
| New Expenditures | -- | -- | \$648,338,000 | \$648,338,000 |
| TOTAL EXPENDITURES | \$7,050,334,000 | \$7,177,735,000 | \$7,826,073,000 | \$648,338,000 |



The operating budget is focused on fulfilling CSU's core mission: to serve students with a high-quality, affordable and accessible education. As shown in Table 2, the CSU spends 72 percent, \$5.2 billion, of its total operating budget on instruction, academic support, student services and financial aid. All of these activities promote student success, enrich the academic experience and ensure that each eventual CSU graduate is ready to professionally succeed.



With sustained state support, the CSU continues to be one of the best investments in California. As the largest and most diverse university system in the country, the CSU is doing its part to meet the workforce needs of California while remaining one of the nation's most affordable public four-year universities.

- Enrolled 481,210 students in Fall 2018;
- Graduated 127,400 students in 2018-19, 1,480 more than 2017-18;
- Awarded 107,319 bachelor's, 19,545 master's and 536 doctorate degrees in 2018-19;
- Doctoral programs serve 2,168 students from diverse backgrounds, preparing them for leadership roles in education and nursing, and filling roles in critical fields like physical therapy, occupational therapy and audiology;
- Improved graduation rates for four-to-six-year first-time and transfer students by 26 percent since 2015;
- Opened or expanded food pantries or food distribution systems on every campus and continue to build community partnerships to support student well-being, housing and food insecurity; and
- Plan to hire 367 new tenure-track faculty systemwide.

The CSU also continues to maximize efficiencies and economies of scale to find cost savings and cost avoidance whenever possible. Through joint contracts, energy partnerships and sustainability efforts the CSU is making significant strides in this area.

- Partnered with University of California, California Community Colleges and other higher education consortia agreements to reduce costs in purchasing goods and services mainly for construction projects, information technology and academic support.
- Energy efficiency projects in calendar year 2018 resulted in \$1.4 million in incentives earned and \$653,000 in annual cost avoidance from energy efficiency partnerships with Southern California Edison and Pacific Gas & Electric.
- The Pomona and Dominguez Hills campuses partnered with Southern California Edison and the University of California on a \$20 million four-year clean energy optimization pilot program that will help reduce carbon emissions and improve energy efficiency.
- The Chancellor's Office recently launched a "Sustainable Auto-Sub" program with Staples Business Advantage, a major CSU vendor. This program automatically substitutes commonly purchased products with more environmentally sustainable alternatives that have been identified, eliminating the need for each purchaser to individually evaluate products against sustainability criteria. This program is expected to substantially improve the CSU's performance in sustainable procurement while also yielding annual cost savings of more than \$400,000.

DESIGNATED BALANCES & RESERVES: \$1.7 BILLION

CSU's operating fund designated balances and reserves pay for nonrecurring expenses to manage short-term obligations and commitments, provide funding for capital infrastructure repairs and maintenance and help ensure that operating costs can be paid during times of economic and budget uncertainty. Recently, CSU's reserve policy was revised to encourage campuses to accumulate a minimum of one-quarter and a maximum of one-half of the annual operating budget. The policy also requires designation and reserve amounts to be established and reported annually by the campuses and the system office. These amounts are published on CSU's financial transparency portal and reported annually to the Board of Trustees.

Designated for Short-Term Obligations: \$814 million

Balances designated for short-term obligations are for open contracts and purchase orders, near-term debt service payments, financial aid obligations and programs that are in development. Balances designated for short-term obligations are sufficient to cover expected needs and are typically used in the following fiscal year.

Designated for Capital Projects: \$356 million

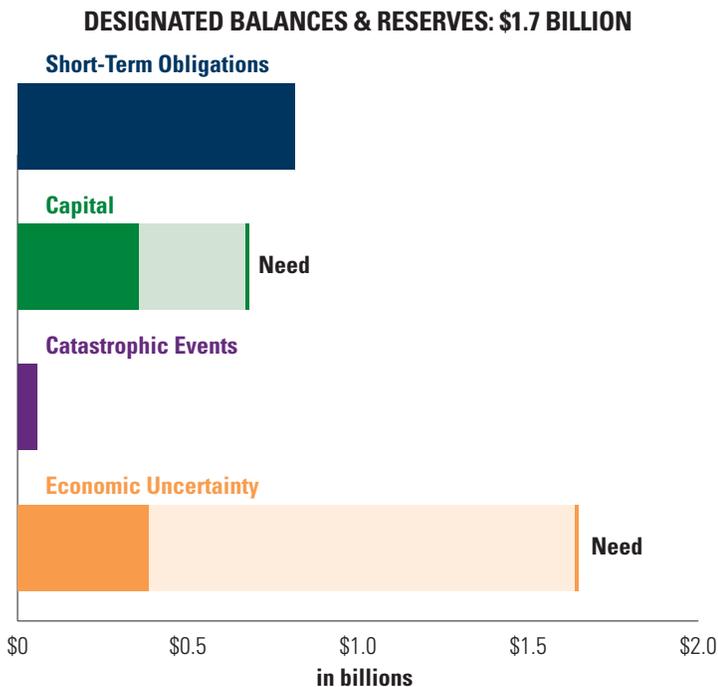
Balances designated for capital are for new capital projects and repair of current buildings, as well as planning costs and equipment acquisition associated with those buildings. Capital reserves fall well short of the expected need, which is at least 10 percent of the cost of academic projects approved in the most recent five-year capital plan. Over \$751 million is required for academic projects approved in the 2019-20 through 2023-24 five-year capital program.

Designated for Catastrophic Events: \$40 million

Balances are held to be used in the event of a natural disaster or other catastrophic event. Typically, these balances are used to pay for costs that are not covered by insurance. Balances designated for catastrophic events are sufficient to cover expected needs.

Reserve for Economic Uncertainty: \$468 million

Reserves for economic uncertainty are held for costs that may occur due to short-term recessionary cycles or state budget fluctuations. Reserves are part of the university's prudent fiscal strategy and are intended to be used in the future as a one-time supplement to help manage the rapid decline in state resources. This allows time to adjust operating budgets appropriately to balance reductions and to minimize disruptions to our students' education as much as possible. Reserves for economic uncertainty total less than one month of operating fund expenses, well below the need to maintain three to six months of operating expenses.



On June 30, 2019, one-time designated balances and reserves in the operating fund totaled \$1.7 billion, accumulated primarily from tuition, fees, and other revenues in excess of annual expenses. Operating fund balances for short-term obligations, capital projects and catastrophic events as well as reserves for economic uncertainty are displayed in the chart in solid bars. The need is shown as a vertical line.



Sac State

Sac State

Sac State

HELLO
[Name]

2020-21 OPERATING BUDGET PLAN



The CSU proposes a \$7.8 billion operating budget for 2020-21, with \$4.6 billion from the state general fund and \$3.2 billion from tuition and fee revenue. As shown in Table 1 on page 1, this budget plan is an increase of \$648.3 million over the 2019-20 operating budget. This budget plan includes significant investments so that the CSU can continue to serve as the key to California's prosperous economy, now ranked as the fifth largest in the world.

Table 3 outlines the sources and uses of funds that make up the \$648.3 million increase.

TABLE 3: SOURCES AND USES OF FUNDS

SOURCES OF FUNDS

| | | |
|---|-------------|----------------------|
| General Fund Increase | | \$563,782,000 |
| Operating Budget | 488,782,000 | |
| Academic Facilities and Infrastructure | 75,000,000 | |
| Tuition from 5 Percent Enrollment Growth | | 84,556,000 |
| TOTAL NEW SOURCES | | \$648,338,000 |

USES OF FUNDS

| | | |
|--|-------------|----------------------|
| Graduation Initiative 2025 | | \$105,000,000 |
| Year 4 of 6 | 75,000,000 | |
| Remaining Year 3 of 6 | 30,000,000 | |
| Basic Needs Partnerships | | 15,000,000 |
| 5 Percent Increase in Resident Enrollment | | 248,616,000 |
| Salary and Benefits | | 177,402,000 |
| Compensation Pool | 139,830,000 | |
| Health Benefits | 25,981,000 | |
| Retirement | 11,591,000 | |
| Academic Facilities and Infrastructure | | 75,000,000 |
| Mandatory Cost Increases | | 27,320,000 |
| Maintenance of New Facilities | 3,870,000 | |
| Minimum Wage Increase | 5,006,000 | |
| Senate Bill 84 Loan Repayment | 18,444,000 | |
| TOTAL NEW USES | | \$648,338,000 |

USES OF FUNDS



- Graduation Initiative 2025 **16.2%**
- Basic Needs Partnerships **2.3%**
- 5 Percent Increase in Enrollment **38.3%**
- Salary and Benefits **27.4%**
- Academic Facilities and Infrastructure **11.6%**
- Mandatory Cost Increases **4.2%**

GRADUATION INITIATIVE 2025: \$105 MILLION

As Graduation Initiative 2025 enters its fourth year, the CSU expects to invest \$105 million of the 2020-21 operating budget request to meet the ambitious goals adopted by each campus. Launched in 2016, this initiative aims to increase graduation rates for first-time and transfer students and eliminate equity gaps for historically-underserved students of color and Pell Grant recipients. Reducing time to degree means that graduates enter the workforce or graduate school sooner, positively impacting their future and producing additional graduates to power California.

Graduation Rates Are at All-Time Highs

Based on preliminary 2019 data, four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students continue to increase and have reached all-time highs. These remarkable improvements represent the dedication of CSU faculty and staff, intentional action by campus leaders and a systemwide focus on student success.

- Each year, a greater number of students graduate from the CSU. Since 2015, more than 20,000 additional students have earned a baccalaureate degree.
- The systemwide four-year graduation rate increased two percentage points from the previous year and eight percentage points since 2015.
- Dominguez Hills, Long Beach, Maritime, Pomona, Sacramento, San Diego, San José and Sonoma all have improved their four-year graduation rate by double digits.
- The systemwide six-year graduation rate increased to 62 percent, above the national average for public universities.
- The CSU is on track to meet its systemwide graduation rate goals by 2025.

Continued Focus on Eliminating Equity Gaps

Closing equity gaps in higher education is the challenge of our time. CSU campuses are rising to that challenge, continuing university-wide efforts to eliminate equity gaps. While graduation rates continue to rise for students from all backgrounds, the persistence of the equity gaps underscores the need for an explicit focus at every level of the university.

- Since 2015, Fresno, San Diego, San Francisco, Sonoma and Stanislaus all have decreased their equity gap for historically underserved students of color by at least 50 percent.
- The new systemwide academic preparation policies (Executive Order 1110) are having a tremendous impact on student success, particularly for students of color. Last year, 7,000 more students successfully completed a lower-division mathematics course than in the previous year, earning credit, saving money and keeping them on track to earn their degree in a timely manner.

Continuous state funding for Graduation Initiative 2025 is critical to maintain momentum. Campuses will continue to use these funds to offer more courses, hire additional tenure-track faculty and to advance innovative student success practices, with a focus on these six areas:

- Academic Preparation
- Enrollment Management
- Student Engagement and Well-Being
- Financial Support
- Data-Informed Decision Making
- Administrative Barriers

These efforts ensure that all students have the opportunity to earn a degree, empowering current and future generations of Californians. More information about specific systemwide and campus priorities can be found at calstate.edu/graduationinitiative

TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE 2025 PROGRESS

| | | 2016 | 2017 | 2018 | 2019 | 2025 Goal |
|--------------------------------------|--------|-------|-------|-------|-------|-----------|
| GRADUATION RATES | | | | | | |
| First-Time Students | 4-Year | 21% | 23% | 25% | 27% | 40% |
| | 6-Year | 59% | 59% | 61% | 62% | 70% |
| Transfer | 2-Year | 33% | 35% | 38% | 40% | 45% |
| | 4-Year | 74% | 75% | 77% | 77% | 85% |
| EQUITY GAPS | | | | | | |
| Underserved Students of Color | | 12.0% | 12.2% | 10.5% | 11.1% | 0.0% |
| Pell Grant Recipients | | 10.0% | 10.6% | 9.5% | 10.2% | 0.0% |



BASIC NEEDS PARTNERSHIPS: \$15 MILLION

The CSU requests \$15 million in state funds for Basic Needs Partnerships. The CSU began a systemwide initiative in 2015 to provide a framework for the CSU's 23 campuses to take a more coordinated approach to developing programs and strategies that support students experiencing food and housing insecurity and overall health and safety challenges. CSU leaders across the system have committed to enhancing and developing resources for students experiencing challenges to address a portion of their basic needs so that students can remain on track to achieving their college degree.

These strategies include increasing CalFresh outreach and application assistance, on-campus food distribution programs, emergency housing options, and crisis loans and grant awards, as well as new and renewed partnerships with nonprofit and governmental entities that provide direct services to students. Every student who attends CSU should be afforded the opportunity to focus on their studies and not find themselves excessively preoccupied with hunger or homelessness.

From all sources, campuses are investing over \$91 million on these student supports and services. Since 2017-18, the state has provided \$22 million in one-time funding to help address mental health needs and housing and food insecurity, and \$6.5 million in recurring funding for rapid rehousing programs. As in prior years, awards will be distributed by the Chancellor's Office to campuses to expand existing efforts to diminish student hunger, raise awareness of services currently offered on campus, and develop practices and procedures to provide additional assistance to students in need. A key feature of these efforts will be to build and sustain partnerships with community and governmental partners.

The CSU continues to work to destigmatize students' use of basic needs goods and services so that struggling students can comfortably turn to campuswide supports for help. Through ongoing training and engagement, faculty and staff will be better positioned to support on-campus efforts and refer students to appropriate resources on- and off-campus. The CSU will continue to identify sustainable solutions for students and pilot a variety of emergency housing programs systemwide. There is also a need to increase prevention and health promotion programs, services for early identification and intervention and outreach campaigns to destigmatize utilization of basic needs and mental health services.



5 PERCENT ENROLLMENT GROWTH: \$249 MILLION

The CSU aims for bold increases in enrollment to meet student demand for a CSU education and the needs of California’s future workforce. The CSU plans to increase resident enrollment by 18,707 full-time equivalent students (FTES). Using the marginal cost rate, which is the cost of education per new FTES, the funding required to support 18,707 new FTES in 2020-21 is \$248.6 million.

| | |
|--|----------------------|
| 2019-20 Resident FTES Base | 374,131 |
| Proposed Growth (5%) | 18,707 |
| 2020-21 Total Resident FTES | 392,838 |
| Marginal Cost Rate per FTES | \$13,290 |
| Total Cost of Enrollment Growth | \$248,616,000 |
| State’s Share of Marginal Cost Rate | \$8,770 |

Increased funding for enrollment means increased capacity to educate students without sacrificing quality. Through Graduation Initiative 2025, we have hired hundreds more faculty, offered thousands more course sections, increased the average unit load per student and awarded more bachelor’s degrees annually. Accommodating increased enrollment happens through face-to-face instruction and a growing number of sections offered in fully online and hybrid courses. The CSU continues to serve students in a variety of online courses and programs as part of the overall enrollment growth strategy.

The CSU has implemented a redirection policy that began in the fall 2019 application cycle to admit all first-time and transfer applicants who meet minimum CSU eligibility requirements to at least one CSU campus. The redirection policy provides CSU-eligible undergraduate applicants who are waitlisted or denied admission because of campus or program impaction, an opportunity to be redirected to and admitted by a nonimpacted campus. This aligns with the admissions guarantee in place for transfer applicants who have an Associate Degree for Transfer (ADT). This policy change, coupled with additional enrollment funding, could result in significantly more first-time and transfer students enrolled at the CSU in the 2020-21 academic year. While the 1965 Master Plan recommended that the CSU accept the top 33 percent of high school graduates, the number of CSU-eligible high school students is 41 percent, according to a study commissioned by the Governor’s Office of Planning and Research.

The Public Policy Institute of California (PPIC) projects that the state will continue to need greater numbers of highly educated workers. Over the next 10 years, if current trends persist, 38 percent of jobs will require at least a bachelor’s degree but population and education trends suggest that only 33 percent of working-age adults in California will have a bachelor’s degree by 2030. This leaves a gap of 1.1 million college graduates. The CSU will be able to partially meet workforce demand by increasing access and completion outcomes through Graduation Initiative 2025. A funded enrollment increase of 3 percent to 5 percent per year over the next decade is necessary to meet increasing student demand for a CSU education and to meet California’s future workforce needs.

SALARY AND BENEFITS: \$177 MILLION

The CSU Board of Trustees recognizes salary and benefits for faculty, staff and management as a key element to the university's success. Continued investment in competitive salary and benefits is critical for the CSU to fulfill its primary mission of access to an affordable and high-quality education. A competitive compensation package is essential to the CSU's ability to recruit and retain the best faculty, staff and management employees.

| | |
|---------------------|----------------------|
| Compensation Pool | \$139,830,000 |
| Health Benefits | 25,981,000 |
| Retirement Benefits | 11,591,000 |
| TOTAL | \$177,402,000 |

Compensation Pool

This budget plan calls for approximately \$139.8 million to fund 2020-21 compensation increases, subject to collective bargaining, for all employee groups. The 2020-21 cost of the compensation increases is based on 2019-20 final budget salaries and salary-related benefits (OASDI, Medicare and retirement).

Health Benefits

Permanent base budget costs associated with January 2020 employer-paid health care premium increases are over \$25.9 million. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU is governed by California Government Code section 22871 that defines the employer-paid contribution rates.

Retirement Benefits (above state-funded)

Beginning with the 2014-15 fiscal year, a limit was placed on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. The state's obligation to adjust retirement funding continues (Government Code section 20814), but the salary base applied to the incremental rate change is set to the CSU 2013-14 pensionable payroll level as reported by the State Controller's Office. The \$11.6 million included here represents the projected 2020-21 unfunded retirement cost for annual CalPERS employer-paid rate adjustments that must be funded by the CSU.





ACADEMIC FACILITIES AND INFRASTRUCTURE: \$75 MILLION

The CSU is requesting \$75 million to fund academic facilities and infrastructure projects. Campuses' need for facility renovation and improvement continues to grow each year. In support of the request for permanent base funding, the CSU Five-Year Capital Plan identifies the priority needs of each of the 23 campuses and their off-campus centers. The plan identifies renewal and replacement needs of existing buildings and new facilities to accommodate growth and improve student access. The Board of Trustees annually approves categories and criteria for capital outlay priority setting. The board's priorities are consistent with the state's priorities of critical infrastructure, life safety projects, renovation and modernization of existing facilities and new facilities to increase capacity to serve the existing and projected enrollment. The Five-Year Plan identifies a systemwide need that exceeds \$2.8 billion in 2020-21 alone. The \$75 million in the 2020-21 budget request will help fund or finance approximately \$1.1 billion of the \$2.8 billion in first-year priority projects identified by the campuses. For more information on specific projects and priorities, see the CSU Five-Year Capital Plan.

CSU academic facility and infrastructure improvement programs address a variety of important facility needs. Seismic projects retrofit and improve buildings that have been identified by the CSU seismic review board. Other projects address general deficiencies in building systems and building structures. Many of the infrastructure improvement projects address system upgrades, facility improvements, as well as maintenance needs that are well past due. While the CSU continues to make strides in addressing systemwide needs, current funding levels limit the university's ability to keep pace with the demand for improvements and new academic space.



MANDATORY COSTS INCREASES: \$27 MILLION

Mandatory costs are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase independent of growing, flat or declining state support. The costs identified here go beyond the increases for employee health and retirement benefit rate increases, included in the Salary and Benefits section. The 2020-21 operating budget request includes \$27.3 million for increases in mandatory cost obligations for state minimum wage increases, the operations and maintenance of newly constructed facilities as well as the CSU share of a state-initiated loan repayment.

| | |
|-------------------------------|---------------------|
| Maintenance of New Facilities | \$3,870,000 |
| Minimum Wage Increase | 5,006,000 |
| Senate Bill 84 Loan Repayment | 18,444,000 |
| TOTAL | \$27,320,000 |

Maintenance of New Facilities

The CSU is scheduled to open 198,880 square feet of new facilities in 2020-21. The cost to fund regular maintenance of these facilities is \$19.49 per square foot, for a total of \$3.9 million in 2020-21. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape and administrative support.

Minimum Wage Increase

In January 2020, the California minimum wage will increase from \$12 per hour to \$13 per hour. The estimated annualized cost of the increase on CSU campuses is over \$5 million. Further, the California minimum wage will increase each subsequent year until January 2022, when it reaches \$15 per hour.

Senate Bill (SB) 84 Loan Repayment

Senate Bill (SB) 84 (Chapter 50 of 2017) authorized the state to borrow \$6 billion from a state cash account and make a one-time supplemental pension payment to CalPERS in 2017-18 to reduce unfunded pension liabilities. The law required the state General Fund and other state funds that would benefit from lower-than-projected pension cost increases to repay the loan over several years. The law tasked the state Department of Finance to determine each department’s share of the repayments. The Department of Finance concluded that the CSU operating fund portion of the repayment was \$19.0 million in 2018-19 and approximately \$18.4 million each year from 2019-20 through 2023-24, with a final payment of \$15.6 million in 2024-25.



ONE-TIME REQUEST

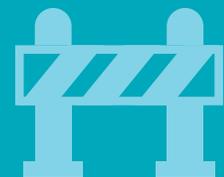


DEFERRED MAINTENANCE BACKLOG: \$500 MILLION

The CSU seeks \$500 million of one-time funding to continue to address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. More than half of the academic buildings are over 40 years old, and many of these buildings are overdue for major renovation. As buildings and their associated systems age, the cost to operate, maintain and renovate the facilities increases. Antiquated systems are generally more expensive to operate than more efficient modern systems, and replacement parts can be difficult to obtain. Although CSU facilities staff do an admirable job keeping these aging facilities operational, they do so with limited resources, and increased funding is necessary to adequately address the needs of our aging facilities moving forward. In 2019-20 the state provided \$239 million in one-time funding for deferred maintenance, which will be used to address a small portion of our significant backlog and improve facilities for early childhood development. The CSU regularly assesses and updates the deferred maintenance inventory through a methodical approach using a third party with this expertise. Through these assessments, the CSU is able to develop a total, systemwide funding need. The assessment tool allows for the automatic addition of systems to backlog inventory as they age out past their useful life.



The one-time funding request will allow the university to address additional systemwide deficiencies, improve the reliability of systems and prevent costly and disruptive outages caused by system failures. In line with the overarching mission, system improvements will provide safer and healthier environments that support teaching and learning across all 23 campuses. These funds will also go toward projects that will improve the efficiency and effectiveness of systems, saving energy, producing fewer greenhouse gas emissions and improving occupant comfort and utilization. Major building systems that have exceeded the expected service life will be modernized to enable campuses to operate utilities more effectively, improve heating and air conditioning systems efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions and extend the useful life of existing facilities.



The one-time funding will be spent on projects on a pay-as-you-go basis.

THE CSU SEEKS AN ADDITIONAL \$500 MILLION OF ONE-TIME FUNDING TO CONTINUE TO ADDRESS THE GROWING MAINTENANCE BACKLOG OF BUILDING AND UTILITY INFRASTRUCTURE SYSTEMS THAT HAVE PASSED THEIR USEFUL LIFE.



CSU FINANCIAL AID



59% of CSU undergraduates pay no tuition

The CSU strives to keep costs to a minimum by offering institutional aid programs in addition to federal and state grant and loan programs. Financial aid allows students attending the CSU to better focus on their academics and to ease the pressure of educational and personal costs.



\$701M in state university grants awarded to 135,000 students



Average student loan debt for CSU graduates is \$11,000 less than the national average

CSU systemwide tuition is one of the lowest in the nation, at \$5,742 per year for a resident undergraduate student. Numerous CSU, state and federal financial aid programs help mitigate the cost of attendance for the lowest income students and keep student debt well below the national average. In fact, CSU bachelor's degree recipients have lower average debt (\$17,367) than other students in California (average \$22,785) and the nation (average \$28,650).

With 84 percent of all CSU students receiving financial aid and 73 percent of undergraduate financial aid recipients receiving grants and scholarships to cover the full cost of tuition, the CSU understands the impact that need-based aid has on social mobility—a student's ability to attend college, earn a baccalaureate degree and enter the California workforce in a position to attain greater lifetime earnings.

The CSU currently provides nearly \$950 million of institutional aid, which includes \$701 million for the State University Grant program. An additional \$733 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program helps CSU undergraduate students cover tuition and fees and some portion of other expenses and keeps average loan debt levels well below the national average.

Even with these levels of institutional, state and federal support for financial aid programs, some students struggle to cover the costs of attendance beyond tuition and fees—food, housing, transportation, instructional materials and technology. The CSU believes that this is a significant problem that needs a solution. That is why the CSU has been, and continues as, an active participant in statewide efforts that include all segments of higher education, the California Student Aid Commission, legislative staff and the governor's administration to transform the state's Cal Grant programs to better address the financial needs of today's students. With housing costs, and the overall cost of living in California at record highs, the CSU is strongly committed to working with students, segmental partners and state leaders to identify and implement financial aid solutions that optimally support CSU students.



STATE UNIVERSITY GRANT PROGRAM

To further the CSU’s mission to provide an affordable, high-quality education to all students, the CSU created the State University Grant (SUG) program in 1982-83 to assist students who have the greatest financial need. Each year, the CSU awards need-based grants to eligible California residents and DREAM Act applicants who enroll at CSU campuses in undergraduate, post-baccalaureate, teaching credential and graduate programs. Financial need is determined by the Expected Family Contribution (EFC) based on the Free Application for Federal Student Aid (FAFSA) application. Financial need is determined for Dream Act students through the California Dream Act Application.

The SUG program has grown considerably since its inception, from \$4 million in 1982-83 to \$700.9 million in 2019-20. Over 135,000 students received a SUG award in 2017-18.

As tuition and enrollment increased and state investment in the CSU fluctuated, the CSU expanded the SUG program to help keep student costs to a minimum. Currently, about 11 percent of the total CSU operating budget is dedicated to financial aid for students with the greatest need. The SUG program remains one of the largest commitments in the CSU operating budget.

TUITION WAIVERS

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

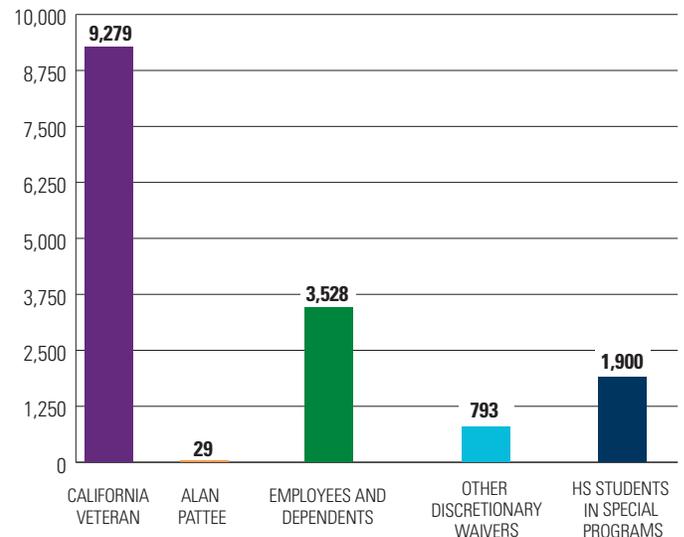
- California Veterans Waiver for children of disabled or deceased veterans (Education Code section 66025.3)
- Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code section 68120)
- Current or former foster youth (Education Code section 66025.3)
- California residents who were dependents of victims killed in the September 11, 2001, terrorist attacks (Education Code section 68121)
- Exonerated persons (Education Code section 69000)
- Student trustees (Education Code section 66602)

The CSU also offers systemwide tuition waivers for employees and their dependents pursuant to collective bargaining agreements and CSU policy.

Other discretionary tuition and fee waiver and exchange programs have been established by the CSU Board of Trustees and California statute for programs such as high school students participating in special programs, California residents age 60 or older or certain study abroad students.

In 2018-19, 15,529 tuition waivers were granted to CSU students, totaling approximately \$76.8 million in waived tuition. The state has not provided any General Fund support for any CSU tuition waiver program since 1992-93.

2018-19 SYSTEMWIDE TUITION WAIVERS





BOARD OF TRUSTEES

Approval of the 2020-2021 Operating Budget Request (RFIN 11-19-06)

RESOLVED, that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their consistent, multi-year investment in the CSU since the end of the Great Recession; and be it further

RESOLVED, that the Board of Trustees understands there are numerous competing interests for budgetary support given policy priorities and possible fiscal constraints under which California operates; and be it further

RESOLVED, that the future of California rests on CSU's ability to provide a high-quality, affordable, and accessible education to nearly 500,000 students each year; and be it further

RESOLVED, by the Board of Trustees that the proposed CSU 2020-2021 Operating Budget Request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that any changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, that copies of this resolution and the 2020-2021 Operating Budget Request as reflected in this agenda item be transmitted to the governor, to the director of the Department of Finance, and to the legislature.



CSU The California State University

401 Golden Shore, Long Beach, CA 90802
www.calstate.edu

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

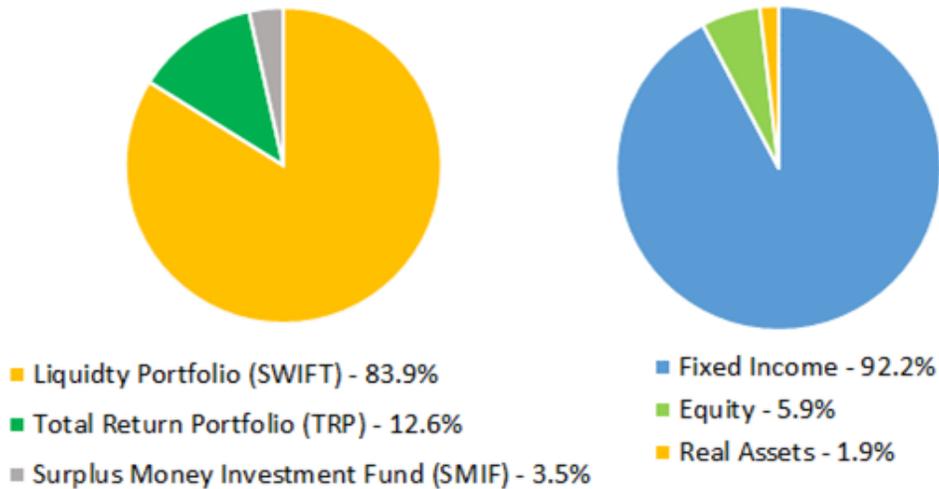
This item provides the annual investment report to the California State University Board of Trustees for the fiscal year ended June 30, 2019. The information in Attachment A will serve as the basis for an annual report to the California State Legislature and Department of Finance regarding CSU investments as required by California Education Code § 89726.

Background

Pursuant to the California State University Master Investment Policy (included as Attachment B), CSU investments as of June 30, 2019 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$675 million 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
 June 30, 2019**

| | Balance | % of CSU Investments | Twelve Month Returns |
|--------------------------------------|-----------------------|-----------------------------|-----------------------------|
| Liquidity Portfolio (SWIFT) | \$3.72 billion | 83.9% | 3.12% |
| Total Return Portfolio (TRP) | \$559.2 million | 12.6% | 7.03% |
| Surplus Money Investment Fund (SMIF) | \$155.6 million | 3.5% | 1.97% |
| CSU Investments | \$4.43 billion | 100% | |



CSU Investment Portfolios

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

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

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

CSU Total Return Portfolio (TRP)

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

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

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings, and is to be phased in at no more than \$600 million as of June 2019 and thirty percent of eligible investments thereafter. 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 (ESG) Framework |
| Risk Tolerance | Risk Management |
| Expected Return | Monitoring & Control Procedures |
| Asset Allocation | |
| Benchmarks | |

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

From the TRP inception date of April 1, 2018 through June 30, 2019, TRP investment earnings were approximately \$34.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 5.30 percent annualized (net of fees) or \$21.1 million cumulative during the time period.

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

Surplus Money Investment Fund (SMIF)

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

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. Investment information in Attachment A will serve as the basis for the annual report to be sent to the California State Legislature and Department of Finance.

Next Steps

Following the November 2019 meeting of the Board of Trustees, staff will submit the annual report on CSU investments to the State Legislature and the Department of Finance. Staff will continue implementing the TRP investment schedule with oversight from the IAC. Staff is also working on developing the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, with the goal of implementing this portfolio in 2020. The next investment report to the board is scheduled for the March 2020 meeting and will provide information on the fiscal quarter ending September 30, 2019.

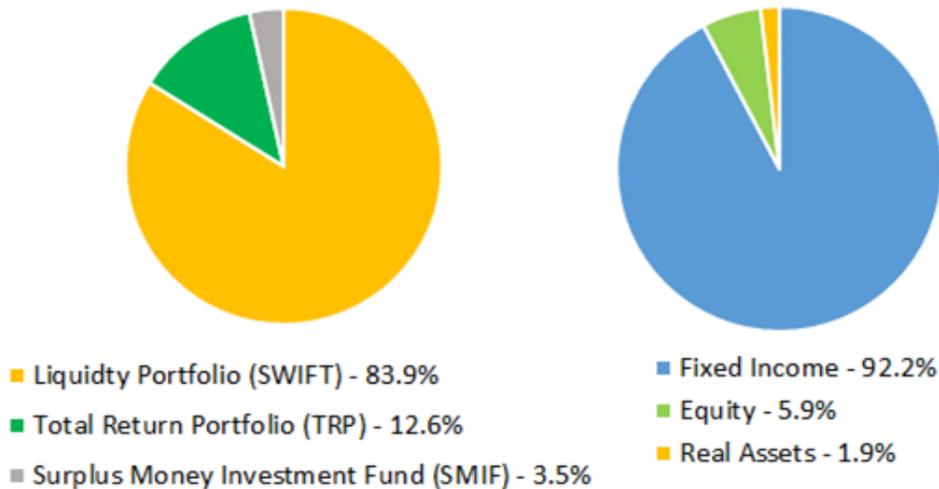
CSU Annual Investment Report

For the Fiscal Year Ended June 30, 2019

CSU investments as of June 30, 2019 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$675 million 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 June 30, 2019

| | Balance | % of CSU Investments |
|--------------------------------------|-----------------------|-----------------------------|
| Liquidity Portfolio (SWIFT) | \$3.72 billion | 83.9% |
| Total Return Portfolio (TRP) | \$559.2 million | 12.6% |
| Surplus Money Investment Fund (SMIF) | \$155.6 million | 3.5% |
| CSU Investments | \$4.43 billion | 100% |



For the year ended June 30, 2019, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.2 million, or about 0.051 percent (5.1 basis points) on CSU investments total balance as of June 30, 2019.

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 3.

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

| | <u>CSU Liquidity Portfolio</u> | <u>Benchmark²</u> |
|--|--------------------------------|------------------------------|
| 1 Year Annualized Return ³ | 3.12% | 3.53% |
| 3 Year Annualized Return | 1.50% | 1.36% |
| 5 Year Annualized Return | 1.28% | 1.15% |
| 10 Year Annualized Return | 0.96% | 1.03% |
| Annualized Since Inception Return ⁴ | 1.39% | 1.66% |
| Yield | 2.11% | 1.90% |
| Duration (Years) | 0.89 | 1.44 |
| Average Credit Rating | AA- | Aaa/AA+ |

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

| | |
|---------------------------|--------|
| Treasuries | 32.82% |
| U.S. Government Agencies | 28.86% |
| U.S. Corporate Bonds | 27.64% |
| CD's and Cash Equivalents | 5.13% |
| Asset-Backed Securities | 4.18% |
| Municipal Obligations | 1.37% |

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

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

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

CSU Total Return Portfolio (TRP)

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

| | CSU Total Return Portfolio | Strategic Benchmark⁵ | Policy Benchmark⁶ |
|--|---------------------------------------|--|---|
| 3 Months Return | 3.35% | 1.62% | 3.02% |
| 1 Year Return | 7.03% | 6.71% | 6.73% |
| Annualized Since Inception Return ⁷ | 8.12% | 6.63% | 6.20% |

Since the TRP Inception Date through June 30, 2019, the TRP investment earnings were approximately \$34.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 5.30 percent annualized (net of fees) or \$21.1 million cumulative during the time period.

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

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

| | | | |
|---------------------------|-------|-------------------------------|------------------|
| Equity Mutual Funds | 46.6% | Passive Index Mutual Funds | 74% |
| Fixed Income Mutual Funds | 38.5% | Actively Managed Mutual Funds | 26% ⁸ |
| Real Asset Mutual Funds | 14.9% | | |

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

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

⁷ TRP Inception Date was April 1, 2018.

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

Values, Holdings & Fees (CSU Total Return Portfolio)

| Asset Class | Strategy Name | Ticker | Value (millions) | % of Total Return Portfolio | TRP Fund Expense Ratio (Fee) | Universe Median Expense Ratio (Fee) |
|---------------------|---|--------|------------------|-----------------------------|------------------------------|-------------------------------------|
| Fixed Income | | | | | | |
| | Vanguard Total Bond Market Index Fund | VBMPX | 121.2 | 22% | 0.030% | 0.450% |
| | Vanguard Inflation-Protected Securities Fund | VIPIX | 27.8 | 5% | 0.070% | 0.450% |
| | Lord Abbett High Yield Fund | LHYOX | 33.4 | 6% | 0.600% | 0.730% |
| | Pacific Funds Floating Rate Income Fund | PLFRX | 16.5 | 3% | 0.720% | 0.755% |
| | Payden Emerging Markets Bond Fund | PYEIX | 8.4 | 1.5% | 0.690% | 0.850% |
| | T. Rowe Emerging Markets Bond Fund | TREBX | 8.4 | 1.5% | 0.700% | 0.850% |
| Equity | | | | | | |
| | Vanguard Total Stock Market Index Fund | VSMPX | 134.7 | 24% | 0.020% | 0.780% |
| | Vanguard Developed Markets Index Fund | VTMNX | 68.7 | 12% | 0.050% | 0.900% |
| | Driehaus Emerging Markets Growth Fund | DIEMX | 34.3 | 6% | 1.180% | 1.150% |
| | DFA Emerging Markets Value Fund | DFEVX | 17.1 | 3% | 0.540% | 1.150% |
| | RWC Global Emerging Equity Fund | RWCEX | 5.7 | 1% | 1.250% | 1.150% |
| Real Assets | | | | | | |
| | Vanguard Real Estate Index Fund | VGSNX | 37.8 | 7% | 0.100% | 0.905% |
| | Vanguard Energy Index Fund | VENAX | 11.6 | 2% | 0.100% | 0.990% |
| | Vanguard Materials Index Fund | VMIAX | 11.6 | 2% | 0.100% | 0.950% |
| | First State Global Listed Infrastructure Fund | FLIIX | 22.0 | 4% | 0.950% | 0.990% |
| Cash | | | 0.0 | 0% | NA | NA |
| Total | | | 559.2 | 100% | | |

Surplus Money Investment Fund (SMIF)

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

| <u>Apportionment Annual Yield⁹</u> | |
|---|-------|
| FYE 06/30/19 | 1.97% |
| Average (FYE 06/30/07 – FYE 06/30/19) | 1.11% |

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



Master Investment Policy For The California State University

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

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I. Scope and Purpose

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

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

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

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

II. Compliance with Law and Adherence to Policy

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

III. Background and Investment Objectives

The investment objectives for the investment of CSU funds have been established in conjunction with a comprehensive review of current and projected financial requirements. The Board desires to provide the Chancellor, the Chancellor’s Staff, and the IAC (as defined in Section V) with the greatest possible flexibility to maximize investment opportunities. However, as agents of the Board, the Chancellor, the Chancellor’s Staff, and the IAC must recognize the fiduciary responsibility of the Board to conserve and protect the assets of the CSU investment program, and, by prudent management, prevent exposure to undue and unnecessary risk.

The following objectives shall govern the investment of CSU funds:

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

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

IV. Investment Portfolios

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

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

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

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

Intermediate Duration Portfolio (IDP)

The purpose of this Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this Portfolio shall be safety of principal, liquidity and return. The Intermediate Duration Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

Total Return Portfolio (TRP)

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this

Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

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

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

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

V. Roles and Responsibilities

Board of Trustees

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

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

1. Maintain and approve the MIP.

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

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

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

Chancellor and Chancellor's Staff

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

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

1. Overseeing and implementing general administrative and investment operations for the Portfolios.
2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.
3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.
4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.
5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.

6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.
7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.
8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.
9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.
10. All other duties designated or delegated by the Board or the IAC.

Investment Advisory Committee

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

The IAC shall be an advisory body and shall make recommendations, as appropriate, to the Board for approval or to the Chancellor and the Chancellor's Staff for implementation. The IAC shall be responsible for overseeing all aspects of the TRP and is hereby authorized to recommend policies and procedures for the creation and implementation of the TRP, including, but not limited to, the following activities:

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

7. Monitoring and supervising all service vendors and fees for the TRP.
8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

Prudence, Ethics and Conflict of Interest

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

Furthermore, all participants in the investment process shall use the same care, skill, prudence, and due diligence under the circumstances then prevailing that a prudent person acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of like activities for like portfolios with like aims and in accordance and compliance and all other applicable laws, rules and regulations.

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

Document Acceptance of the Investment Policy Statement

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

VI. Environmental, Social and Governance Framework

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

Approved:

The California State University Board of Trustees
November 8, 2017