AGENDA
COMMITTEE ON FINANCE

Meeting: 2:00 p.m., Tuesday, November 17, 2020
Virtually via Teleconference

Jack McGrory, Chair
Peter J. Taylor, Vice Chair
Larry L. Adamson
Jane W. Carney
Wenda Fong
Maryana Khames
Krystal Raynes
Lateefah Simon

Consent
1. Approval of Minutes of the Meeting of September 22, 2020, Action
2. 2021-2022 Lottery Budget and Report, Action
4. California State University Annual Investment Report, Information
5. Annual Systemwide Report on Hate Incidents on Campus, Information

Discussion
6. Approval of the 2021-2022 Operating Budget Request, Action
7. California State University, Fresno – Update on a Public-Private Partnership for the Central Utility Plant Replacement Project, Information
MINUTES OF THE MEETING OF THE COMMITTEE ON FINANCE

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

September 22, 2020

Members Present

Jack McGrory, Chair
Peter J. Taylor, Vice Chair
Larry L. Adamson
Jane W. Carney
Rebecca D. Eisen
Wenda Fong
Maryana Khames
Hugo N. Morales
Krystal Raynes
Lateefah Simon

Lillian Kimbell, Chair of the Board
Timothy P. White, Chancellor

Trustee Jack McGrory called the meeting to order.

Public Comment

Due to the virtual format of the September 22, 2020 meeting, all public comment took place at the beginning of the meeting’s open session prior to all committees.

Consent Agenda

The minutes of the July 21, 2020 meeting of the Committee on Finance were approved as submitted.

*PLEASE NOTE: Due to the Governor’s proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor’s Executive Orders N-25-20 and N-29-20 issued on March 12, 2020 and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor’s Office staff, the September 20-23, 2020 meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.
California State University Quarterly Investment Report

Agenda item two, California State University Quarterly Investment Report, was removed from the consent agenda for discussion. Trustee Hugo Morales asked for information about the CSU investment portfolio, its relationship to reserves, and earnings available for use. Executive Vice Chancellor Relyea provided some background on the creation of the Total Return Portfolio (TRP) and how TRP earnings may be used. Assistant Vice Chancellor Robert Eaton then explained CSU investments and their relationship to reserves, including information on how campuses access reserves. He also explained the purpose of funds held in the Surplus Money Investment Fund at the state and provided updated earnings information since March. Information about employee lay-off notices was also requested and shared by Human Resources, Senior Director of Collective Bargaining, Joseph Jelincic.

Planning for the 2021-2022 Operating Budget

Preliminary plans for the 2021-2022 CSU Operating Budget Request were shared for trustee feedback. Information presented included funding priorities, designated balances and reserves, revenues, and expenses. Information about the state’s fiscal outlook and budget timelines was also reviewed.

Following the presentation, the trustees inquired about the use of designated balances and reserves, capital funding priorities, and federal CARES Act reimbursements. Individual trustees provided feedback on the proposed budget plan including increasing the recurring amounts proposed for academic facilities and infrastructure and restoration of state funding reductions. Also, individual trustees shared one-time funding suggestions.

Trustee Raynes shared that student basic needs assistance for food pantries, emergency housing, and technology have been helpful to students and that support for student mental health services is critical.

Trustee McGrory adjourned the meeting of the Committee on Finance.
COMMITTEE ON FINANCE

2021-2022 Lottery Budget and Report

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item requests that the California State University Board of Trustees approve the 2021-2022 lottery budget. In accordance with CSU lottery guidelines, this item also contains a report of actual lottery fund expenditures in 2019-2020.

Background

The Lottery Act allows for the expenditure of lottery receipts for public education. The Lottery Act requires that funds are “exclusively for the education of pupils and students” and the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research are not permissible uses of lottery funds.

To date, the CSU has received $1.43 billion in lottery funds from the state. Over the past five years, annual CSU Lottery Fund receipts have averaged $62.9 million. Approximately 90 percent of lottery resources are allocated directly to the campuses for instructionally-related programs and activities, and remaining funds are allocated to systemwide programs. The Chancellor’s Office uses approximately 1.1 percent of lottery resources to centrally manage lottery fund operations and meet reporting requirements.

Each year, the Board of Trustees adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates of CSU lottery receipts for the budget year and the program areas for allocation of those anticipated receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements.

The Board of Trustees has delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds.
2021-2022 Lottery Budget Proposal

The System Budget Office at the Chancellor’s Office conservatively estimates total lottery receipts available to the CSU in 2021-2022 will be $58.9 million. After setting aside $5 million as a reserve to assist with cashflow variations in quarterly lottery receipts and other economic uncertainties, the $53.9 million 2021-2022 lottery budget proposal remains principally designated for campus-based programs and five systemwide programs that have traditionally received annual lottery funding support. The proposed budget adds $21,000 for administration and reporting responsibilities of the Lottery Fund and systemwide programs.

Systemwide Programs

Under the proposed budget, approximately $13.2 million would be allocated to the five systemwide programs and administration costs:

- DREAM Loan Program ($2.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor’s Doctoral Incentive Program ($2.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program ($1.0 million) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program ($1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Electronic Core Collection ($6.0 million) provides all students access to electronic publications.
- Administration of Lottery Fund and system programs ($711,000) provides Lottery Fund and program administration functions.

Campus-Based Programs

The remaining $40.6 million of anticipated 2021-2022 lottery receipts would be used to fund campus-based programs and the Early Start Program. $35.6 million would be allocated directly to campuses, allowing presidents flexibility to meet unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of library materials and instructional equipment, curriculum development, and scholarships.

The proposed lottery budget would provide $5 million to the Early Start Program for campus-based financial aid. An eligible student may receive a need-based fee waiver to ensure that financial hardship is not a barrier to enrollment in the Early Start Program. Through the program, first-time freshmen students who need additional preparation in math or English enroll in college courses with support during the summer term prior to matriculation at any CSU campus.
As stated, the proposed budget sets aside $5 million as a reserve to assist with cashflow and economic uncertainties. If quarterly lottery receipts remain strong, the Chancellor’s Office will work with campuses during 2021-2022 to allocate the $5 million reserve for innovative campus-based programs that support Graduation Initiative 2025 efforts.

The CSU Lottery Budget proposed for 2021-2022 is as follows:

### 2020-2021 Adopted and 2021-2022 Proposed Lottery Budget

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>2020-2021 Adopted Budget</th>
<th>2021-2022 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Reserve</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Receipts</td>
<td>53,872,000</td>
<td>53,893,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$58,872,000</strong></td>
<td><strong>$58,893,000</strong></td>
</tr>
<tr>
<td>Less Systemwide Reserve</td>
<td>(5,000,000)</td>
<td>(5,000,000)</td>
</tr>
<tr>
<td><strong>Total Available for Allocation</strong></td>
<td><strong>$53,872,000</strong></td>
<td><strong>$53,893,000</strong></td>
</tr>
</tbody>
</table>

### Uses of Funds

**System Programs**
- Chancellor's Doctoral Incentive Program: $2,000,000, $2,000,000
- California Pre-Doctoral Program: 1,038,000, 1,038,000
- CSU Summer Arts Program: 1,500,000, 1,500,000
- DREAM Loan: 2,000,000, 2,000,000
- Electronic Core Collection: 6,000,000, 6,000,000

Total: $12,538,000, $12,538,000

**Campus-Based Programs**
- Campus Programs: $35,644,000, $35,644,000
- Campus Early Start Financial Aid: 5,000,000, 5,000,000

Total: $40,644,000, $40,644,000

**Lottery Fund & System Programs Administration**
- $690,000, $711,000

**Total Uses of Funds**
- $53,872,000, $53,893,000
2019-2020 Lottery Fund Expenditures

In accordance with the CSU lottery guidelines, the CSU annually reports past year actual lottery expenditures to the Board of Trustees. This section of the agenda item satisfies that requirement.

In 2019-2020, similar to years prior, the majority of lottery funds were spent on instruction and instruction-related programs and services that supplement the CSU operating budget. The following table summarizes how available lottery revenues were spent in 2019-2020:

<table>
<thead>
<tr>
<th>Program Support Area</th>
<th>Expenditures</th>
<th>Percentage of Total Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctoral Incentive Program ¹</td>
<td>$0</td>
<td>0.0%</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
<td>743,401</td>
<td>1.2%</td>
</tr>
<tr>
<td>DREAM Loan Program</td>
<td>1,756,329</td>
<td>2.9%</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
<td>1,385,670</td>
<td>2.3%</td>
</tr>
<tr>
<td>Campus Programs</td>
<td>52,957,163</td>
<td>87.7%</td>
</tr>
<tr>
<td>Campus Early Start Financial Aid</td>
<td>2,848,327</td>
<td>4.7%</td>
</tr>
<tr>
<td>Lottery Fund &amp; System Programs Administration</td>
<td>738,177</td>
<td>1.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$60,429,067</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

¹ The Doctoral Incentive Program is a revolving educational loan program. The budget included $2 million for any net increase in program participation, but funds were unnecessary as existing loan repayments supported the issuance of new loans to new participants.

Carryforward balances from prior years were also used in 2019-2020 to fund several systemwide and campus programs, such as library services, early assessment program support, and technology initiatives.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2021-2022 lottery budget totaling $58.9 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2021-2022 lottery budget approved by the Board of Trustees to the extent that receipts are greater or less than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2021-2022 lottery budget receipts and expenditures be made to the Board of Trustees.
COMMITTEE ON FINANCE

San Diego State University – Conceptual Approval of Public-Private Partnerships for the Development of SDSU Mission Valley

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Adela de la Torre
President
San Diego State University

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

Summary

This agenda item requests conceptual approval from the California State University Board of Trustees to pursue public-private partnership projects on up to thirty-four parcels of the recently-acquired property in the Mission Valley neighborhood of San Diego, on behalf of San Diego State University (“SDSU”).

Background and Summary of Prior Board of Trustee Actions

In July 2018, the CSU Board of Trustees endorsed Measure G, a City of San Diego ballot initiative which directed the City of San Diego to sell the existing San Diego County Credit Union Stadium site and real property totaling 135 acres in the Mission Valley neighborhood of San Diego (the “Mission Valley Site”) to CSU/SDSU. The measure was passed on November 6, 2018 and subsequently codified into law as San Diego Municipal Code section 22.0908 (“SDMC 22.0908”). As a condition of the sale, SDMC 22.0908 requires that certain projects be constructed on the Mission Valley Site, including a river park for the City of San Diego; a multi-purpose stadium; facilities for educational, research, entrepreneurial, and technology programs; and mixed-use and multi-family housing projects.

In November 2019, the CSU Board of Trustees was provided with updates on the Master Plan, Draft Environmental Impact Report, and key terms of an October 28, 2019, purchase offer submitted by SDSU to the City of San Diego regarding the Mission Valley Site.
In January 2020, the CSU Board of Trustees approved a number of actions related to the Mission Valley Site, specifically: the SDSU Mission Valley Campus Master Plan, certification of the Final Environmental Impact Report for the Master Plan, an amendment to the Capital Outlay Program, financing for the property acquisition and site development, and delegation to the chancellor to execute a Purchase and Sale Agreement (on terms consistent with the October 28, 2019 purchase offer) to acquire the Mission Valley Site from the City of San Diego.

In March of 2020, the CSU Board of Trustees approved an amendment to the Capital Outlay Program, schematic design, and financing for the construction of the new stadium project at the Mission Valley Site.

On June 12, 2020, Chancellor Timothy P. White signed a final Purchase and Sale Agreement on terms consistent with the CSU Board of Trustees’ January 2020 approval, and on June 30, 2020, the San Diego City Council approved that final Purchase and Sale Agreement. Following a waiting period required by the City of San Diego charter and municipal code, the Mayor of the City of San Diego signed the final Purchase and Sale Agreement on August 6, 2020. On August 13, 2020, the sale of the Mission Valley Site closed, and ownership transferred to CSU.

In mid-September 2020, the CSU issued long-term Systemwide Revenue Bonds for the acquisition, development, and stadium construction projects at the Mission Valley Site.

**Description and Conceptual Approval Elements**

The Mission Valley Site is situated south of Friars Road, west of Interstate 15, and north of Interstate 8. It is approximately 5 miles from downtown San Diego and 2.5 miles west of the main SDSU campus. The existing San Diego Metropolitan Transit System (MTS) Trolley Green Line and Stadium Trolley Station are situated adjacent to the southern border of the site. The Green Line connects SDSU’s main campus directly to the Mission Valley Site. The San Diego River is located directly south of the Mission Valley Site.

The projects at the Mission Valley Site include the following components which have been previously approved by the CSU Board of Trustees:

- Approximately 80 acres of park and open space, including a 34-acre river park that, in accordance with SDMC 22.0908, will be owned by the City of San Diego. The river park is being designed as envisioned by past community planning efforts, including active and passive recreation areas. The park and open space projects were approved by the CSU Board of Trustees in January 2020.

- A multi-purpose stadium to accommodate 35,000 attendees and support collegiate football and bowl games, professional and collegiate soccer, concerts, and other university and community events. This multi-purpose stadium project was approved by the CSU Board of Trustees in March 2020.
The physical plan for the public-private partnership projects at the Mission Valley Site remains consistent with prior presentations to the Board of Trustees, notably the January 2020 SDSU Mission Valley Campus Master Plan. Conceptual approval is requested to pursue public-private partnerships for the following projects at the Mission Valley Site:

- A 1.6 million gross square foot research and innovation district, consisting of up to 15 projects, containing commercial, technology, and office space. These buildings will allow for new partnerships between SDSU, public entities, and private companies utilizing the newly-developed facilities, and will provide opportunities for student internships, create an incubator for new and innovative business and academic uses, and enhance regional economic development. It is estimated that thirteen of these projects will be located south of the new multi-purpose stadium and two of these projects will be located to the east of the new multi-purpose stadium. Up to 5,000 garage parking spaces will be provided beneath the buildings south of the stadium.

- Up to 4,600 residential units, consisting of up to 18 projects, located on the east side of the Mission Valley Site. In accordance with the Purchase and Sale Agreement, 10 percent of the units (or up to 460 units) will be income-qualified affordable housing leased to individuals or families at 60 percent average median income. The residential projects at the Mission Valley Site will provide much-needed market rate and affordable housing for the larger San Diego community, including students, faculty and staff. According to the San Diego Association of Governments, San Diego currently has a regional shortage of approximately 59,000 housing units. The region has also struggled to accommodate the tremendous shortage of affordable housing units. SDSU’s current plan is to phase up to 4,600 housing units, including up to 460 affordable units, over the next 10 to 15 years, with current market projections showing a demand of over 500 additional housing units per year at the Mission Valley Site. This corresponds to delivering two residential pads per year and represents sufficient demand to complete all residential developments at the Mission Valley Site in less than 10 years. The residential projects will be constructed pursuant to long term ground leases with private developers at fair market value.

- Up to a 400-room hotel project with approximately 40,000 square feet of conference space, up to 70 residential units above the hotel, and approximately 425 parking stalls, will be constructed pursuant to a long-term ground lease with a private developer at fair market value.

- Up to 95,000 square feet of retail space located within the planned residential, academic, and research projects. These retail uses will serve stadium events, the daily needs of employees, students, and residents, in addition to the greater Mission Valley community, through various buildings, facilities, and services.
Educational, Economic, and Regional Development Benefits

The projects at the Mission Valley Site have several educational, economic, and regional development benefits.

First, the main SDSU campus, situated on 288 acres, has little opportunity for expansion due primarily to the surrounding residential development and geographic constraints. The Mission Valley Site provides a key location and opportunity for SDSU to grow, prosper, and meet continuing higher education needs. The innovation district, for example, will enable the creation of undergraduate, graduate, teaching, and research facilities to directly reduce space demands on the main campus and will allow existing space at the main campus to be used for critically-needed seat capacity for more traditional academic learning spaces (i.e. classrooms and laboratories).

Second, undergraduate students benefit by participating in faculty research, receiving fundamental hands-on experience, and graduate students have the opportunity to work with recognized faculty experts. One of the goals of the public-private development projects at the Mission Valley Site is to create an incubator-like feel for new and innovative business and academic uses, to attract businesses that can provide opportunities for student internships, and to facilitate increased cooperation between SDSU’s faculty and graduate researchers and San Diego’s greater business and innovation community.

Third, the various projects at the Mission Valley site will have positive economic impacts on the Mission Valley community and San Diego region as a whole. These benefits include increasing employment opportunities, possessory interest and sales tax revenue, and other applicable tax revenues from future real property developments through public-private partnerships. Future ground lease revenue from public-private partnership agreements will provide CSU/SDSU with a long-term source of revenue to support SDSU campus operations after meeting debt service obligations.

Fourth, the various housing projects at the Mission Valley Site will serve the San Diego region’s broader goal of alleviating a shortage of approximately 59,000 housing units, and a lack of affordable housing units. Over the next 10 to 15 years, up to 4,600 housing units are planned for the Mission Valley Site, including up to 460 affordable units. These housing units will be available to the general public.
Future Approval of Plans for Mission Valley Site Projects

In accordance with the Board of Trustees’ policy, as each public-private partnership project at the Mission Valley Site moves forward, all related Master Plan revisions, amendments of the Capital Outlay Program, proposed schematic plans, financial plans, proposed key business points for each finalized project development plan, and any required environmental documents, will be presented at future meetings for final approval by the Board of Trustees prior to execution of any commitments for development and use of any projects at the Mission Valley Site.

Recommendation

The following resolutions are presented for approval:

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

1. Approve the concept of public-private partnerships for projects at the Mission Valley Site, and the release of the Request for Information, Qualifications and Proposals for each project;

2. Authorize the Chancellor and the Campus to enter into due diligence access and option agreements that provide selected developer(s) with a limited-term option, along with the responsibility for the development of final plans and schematic drawings during the option period(s) for each project;

3. Authorize the Chancellor and the Campus to enter into negotiations for agreements, as necessary, to develop final plans for the public-private partnership projects;

4. Consider the following additional action items prior to any consideration of final plans for each project:
   a. Approval of development and financial plans negotiated by the Campus and the developer(s) with the advice of the Chancellor;
   b. Approval of schematic plans, as appropriate;
   c. Approval of amendments to the Non-State Capital Outlay Program for any building(s) to be constructed by the Campus or a private partner.
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, 2020. 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 Education Code § 89726.

Background

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of June 30, 2020 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately $1.29 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.
CSU Investments – Balances, Allocations, and Returns
June 30, 2020

<table>
<thead>
<tr>
<th></th>
<th>Balance</th>
<th>% of CSU Investments</th>
<th>Twelve Month Returns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquidity Portfolio (SWIFT)</td>
<td>$3.489 billion</td>
<td>73.8%</td>
<td>3.28%</td>
</tr>
<tr>
<td>Total Return Portfolio (TRP)</td>
<td>$1.110 billion</td>
<td>23.5%</td>
<td>1.79%</td>
</tr>
<tr>
<td>Surplus Money Investment Fund (SMIF)</td>
<td>$129.2 million</td>
<td>2.7%</td>
<td>1.70%</td>
</tr>
<tr>
<td><strong>CSU Investments</strong></td>
<td><strong>$4.73 billion</strong></td>
<td><strong>100%</strong></td>
<td></td>
</tr>
</tbody>
</table>

CSU Investment Portfolios

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

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

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

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

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

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

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

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

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

The IAC has adopted an investment schedule for the TRP that utilizes a dollar-cost averaging approach and provides regular monthly contributions to the TRP. An initial investment of $33.5 million into the TRP was made on April 1, 2018, and additional investments allowed the TRP to reach the fiscal year 2018-2019 statutory limit of $600 million in the first half of 2019. After June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal of funding the TRP to as much as thirty percent of CSU investments by mid-2020. However, in April of 2020, the IAC approved a reduced investment schedule in the amount of $20 million total between April and July of 2020, and in August of 2020, the IAC suspended further contributions to the TRP for the time being. Both of these actions were taken in order to preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.
Since the TRP inception date\(^1\) through June 30, 2020, the TRP investment earnings were approximately $45.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 2.26 percent annualized (net of fees) or a cumulative $3.8 million.

In October 2020, the IAC approved the second annual TRP distribution to the system of approximately $35 million, bringing total TRP distributions to the system since inception to $57.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

**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 2020 meeting of the CSU Board of Trustees, staff will submit the annual report on CSU investments to the State Legislature and the Department of Finance. With oversight from the IAC, staff will continue monitoring market conditions to determine if any changes in the TRP investment schedule are warranted. Staff has also resumed development of the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, following a delay in the implementation timeline due to developments related to COVID-19. The next investment report to the Board of Trustees is scheduled for the March 2021 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending September 30, 2020.

\(^1\) The TRP inception date was April 1, 2018.
CSU Annual Investment Report
For the Fiscal Year Ended June 30, 2020

CSU investments as of June 30, 2020 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately $1.29 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

Balances and Allocations as of June 30, 2020

<table>
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<tr>
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<td>100%</td>
</tr>
</tbody>
</table>

For the twelve months ended June 30, 2020, direct investment management fees\(^1\), advisory, and custodial fees totaled just under $2.2 million, or about 0.046 percent (4.6 basis points) on CSU investments total balance as of June 30, 2020.

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\(^1\) 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 5.
CSU Consolidated Investment Portfolio

The performance returns below are for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT) and the Total Return Portfolio (TRP).²

<table>
<thead>
<tr>
<th></th>
<th>CSU Consolidated Investment Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year Annualized Return³</td>
<td>3.26%</td>
</tr>
<tr>
<td>3 Year Annualized Return</td>
<td>2.41%</td>
</tr>
<tr>
<td>5 Year Annualized Return</td>
<td>1.88%</td>
</tr>
<tr>
<td>10 Year Annualized Return</td>
<td>1.26%</td>
</tr>
</tbody>
</table>

Investment Earnings from CSU Investments Supports Campus Operations and Student Experience

² CSU Consolidated Investment Portfolio returns will also include the Intermediate Duration Portfolio (IDP) once this portfolio is incepted. CSU Consolidated Investment Portfolio returns exclude SMIF.
³ CSU Consolidated Investment Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
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.

<table>
<thead>
<tr>
<th></th>
<th>CSU Liquidity Portfolio</th>
<th>Benchmark$^4$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Year Annualized Return$^5$</td>
<td>3.28%</td>
<td>3.48%</td>
</tr>
<tr>
<td>3 Year Annualized Return</td>
<td>2.41%</td>
<td>2.48%</td>
</tr>
<tr>
<td>5 Year Annualized Return</td>
<td>1.79%</td>
<td>1.71%</td>
</tr>
<tr>
<td>10 Year Annualized Return</td>
<td>1.22%</td>
<td>1.18%</td>
</tr>
<tr>
<td>Annualized Since Inception Return$^6$</td>
<td>1.53%</td>
<td>1.79%</td>
</tr>
<tr>
<td>Yield</td>
<td>0.31%</td>
<td>0.18%</td>
</tr>
<tr>
<td>Duration (Years)</td>
<td>1.14</td>
<td>1.46</td>
</tr>
<tr>
<td>Average Credit Rating</td>
<td>AA-</td>
<td>Aaa/AA+</td>
</tr>
</tbody>
</table>

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

- Treasuries: 44.72%
- U.S. Corporate Bonds: 25.08%
- U.S. Government Agencies: 19.93%
- CD’s and Cash Equivalents: 9.79%
- Asset-Backed Securities: 0.41%
- Municipal Obligations: 0.07%

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.

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$^4$ Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

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

$^6$ Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.
Since the TRP inception date through June 30, 2020, the TRP investment earnings were approximately $45.2 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 2.26 percent annualized (net of fees), or a cumulative $3.8 million.

In October 2020, the CSU Investment Advisory Committee approved the second annual TRP distribution to the system of approximately $35 million, bringing total TRP distributions to the system since inception to $57.4 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code Section 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

---

7 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.
8 The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.
9 TRP inception date was April 1, 2018.
Holdings by Asset Type (% of CSU Total Return Portfolio):

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Strategy Name</th>
<th>Ticker</th>
<th>Value (millions)</th>
<th>% of Total Return Portfolio</th>
<th>TRP Fund Expense Ratio (Fee)</th>
<th>Universe Median Expense Ratio (Fee)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Income</strong></td>
<td>Vanguard Total Bond Market Index Fund</td>
<td>VBMPX</td>
<td>246.0</td>
<td>22.16%</td>
<td>0.030%</td>
<td>0.450%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Inflation-Protected Securities Fund</td>
<td>VIPX</td>
<td>55.8</td>
<td>5.03%</td>
<td>0.070%</td>
<td>0.425%</td>
</tr>
<tr>
<td></td>
<td>Lord Abbett High Yield Fund</td>
<td>LHYOX</td>
<td>62.5</td>
<td>5.63%</td>
<td>0.620%</td>
<td>0.720%</td>
</tr>
<tr>
<td></td>
<td>Pacific Funds Floating Rate Income Fund</td>
<td>PLFRX</td>
<td>31.2</td>
<td>2.81%</td>
<td>0.720%</td>
<td>0.765%</td>
</tr>
<tr>
<td></td>
<td>Payden Emerging Markets Bond Fund</td>
<td>PYEIX</td>
<td>16.4</td>
<td>1.48%</td>
<td>0.690%</td>
<td>0.850%</td>
</tr>
<tr>
<td></td>
<td>T. Rowe Emerging Markets Bond Fund</td>
<td>TREBX</td>
<td>16.1</td>
<td>1.45%</td>
<td>0.700%</td>
<td>0.850%</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td>Vanguard Total Stock Market Index Fund</td>
<td>VSMPX</td>
<td>278.3</td>
<td>25.07%</td>
<td>0.020%</td>
<td>0.750%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Developed Markets Index Fund</td>
<td>VDIPX</td>
<td>131.8</td>
<td>11.87%</td>
<td>0.040%</td>
<td>0.890%</td>
</tr>
<tr>
<td></td>
<td>Dreyfus Emerging Markets Growth Fund</td>
<td>DIEMX</td>
<td>67.2</td>
<td>6.05%</td>
<td>1.220%</td>
<td>1.110%</td>
</tr>
<tr>
<td></td>
<td>DFA Emerging Markets Value Fund</td>
<td>DFEVX</td>
<td>32.0</td>
<td>2.88%</td>
<td>0.510%</td>
<td>1.110%</td>
</tr>
<tr>
<td></td>
<td>RWC Global Emerging Equity Fund</td>
<td>RWCEX</td>
<td>11.4</td>
<td>1.02%</td>
<td>1.250%</td>
<td>1.110%</td>
</tr>
<tr>
<td><strong>Real Assets</strong></td>
<td>Vanguard Real Estate Index Fund</td>
<td>VGSNX</td>
<td>75.0</td>
<td>6.76%</td>
<td>0.100%</td>
<td>0.890%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Energy Index Fund</td>
<td>VENAX</td>
<td>21.2</td>
<td>1.91%</td>
<td>0.100%</td>
<td>0.960%</td>
</tr>
<tr>
<td></td>
<td>Vanguard Materials Index Fund</td>
<td>VMIAK</td>
<td>23.6</td>
<td>2.13%</td>
<td>0.100%</td>
<td>0.930%</td>
</tr>
<tr>
<td></td>
<td>First State Global Listed Infrastructure Fund</td>
<td>FLIX</td>
<td>41.7</td>
<td>3.75%</td>
<td>0.950%</td>
<td>0.970%</td>
</tr>
<tr>
<td><strong>Cash</strong></td>
<td></td>
<td></td>
<td>0.0</td>
<td>0.00%</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>1,110.2</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10 The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds is likely to decrease consistent with the TRP implementation plan.
TRP Annual Spending Dividends Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total Spending Dividends, and total investment earnings since inception on June 30, 2020. Total TRP Investment Earnings equal total TRP Spending Dividends plus total TRP retained investment earnings.

Surplus Money Investment Fund (SMIF)

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

<table>
<thead>
<tr>
<th>Apportionment Annual Yield(^{11})</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trailing 12 month as of 06/30/20</td>
<td>1.70%</td>
</tr>
<tr>
<td>Average (FYE 06/30/07 – FYE 06/30/20)</td>
<td>1.15%</td>
</tr>
</tbody>
</table>

\(^{11}\) 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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VII. Adoption of the Investment Policy Statement......................................................................................... 9
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:

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

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

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

V. Roles and Responsibilities

Board of Trustees

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

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

1. Maintain and approve the MIP.

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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
COMMITTEE ON FINANCE

Annual Systemwide Report on Hate Incidents on Campus

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

Luoluo Hong
Associate Vice Chancellor Student Affairs & Enrollment Management

Summary

This item provides the annual report on hate violence incidents reported on California State University campuses during the 2019 calendar year, pursuant to California Education Code § 67380(a) (5). 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 2019 calendar year there were a total of five reported incidents of hate violence and four reported instances of non-criminal acts of hate violence on six campuses. Numerous campus departments are involved in efforts to prevent hate violence and respond with care and compassion to allegations of hate violence when they are reported.

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.”

Efforts to reduce the incidence and prevalence of hate crimes are implemented by multiple divisions and departments on each of the 23 CSU campuses. As the offices responsible for ensuring compliance with anti-discrimination policies and Title IX regulations (which prohibit sex and gender-based discrimination, harassment, retaliation and violence) many Discrimination, Harassment and Retaliation Administrators and Title IX Coordinators and their respective staff teams provide training and outreach to promote equity and inclusion. Student affairs professionals, via multicultural and identity-based student centers, as well as offices of student life and of civic engagement, strive to promote campus communities free of hate violence incidents. Residential life and housing operations also provide educational programming designed to combat discrimination, harassment and retaliation, and promote welcoming communities. Many of these areas also incorporate bystander education to help prevent hate violence incidents and crimes.

While not every alleged incident of hate crime is ultimately classified as such for the purposes of systemwide reporting, CSU campuses are aware that even the perception that a hate crime has taken place can have a significant detrimental impact on the campus community. As such, campuses are always responsible to respond with care, compassion and concern. This is especially important given the current national context as we grapple with the devastating impacts of both the COVID-19 pandemic, recurring incidents of anti-black violence and other forms of overt racism against Asian Americans/Pacific Islanders and Latinx individuals, and persistent unfair targeting of individuals who are immigrants and/or undocumented. As such, Counseling and Psychological Services staff, Chief Diversity Officers, Dean of Students Office representatives, and members of campus-based critical incident response teams may all be among the personnel who initially assist in responding to any reported hate violence incidents, as well as play important roles in promoting the healing, sense-making and reconciliation needed after a reported incident has taken place and while the investigation is taking place.

CSU campuses are also actively working to address and implement the 21st Century Policing Task Force's recommendations and are looking for ways to incorporate these concepts into the management and operations of university police departments, who are often the first responders when an alleged hate crime is reported. University police officers are committed to maintaining a safe and hate crime-free campus environment by being student and community focused.
Conclusion

For the year ending December 31, 2019, nine reported incidents of hate violence (five hate crimes and four incidents 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). The CSU will continue to sustain and, as appropriate, expand efforts by numerous campus departments to prevent hate violence and respond with care and compassion to allegations of hate violence when they are reported.
COMMITTEE ON FINANCE

Approval of the 2021-2022 Operating Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item requests approval by the California State University Board of Trustees of the 2021-2022 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2021-2022 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 2021-2022 CSU Operating Budget Request at the November CSU Board of Trustees meeting.

At its September 2020 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 2021-2022 CSU Operating Budget Request.

The budget outlined in Attachment A is the official presentation of the 2021-2022 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.
Proposed 2021-2022 CSU Operating Budget Request

The 2020-2021 state budget reduced recurring CSU funding by $299 million or 7.4 percent, which was the first reduction since 2011-2012. The prospect of the state providing new investments in the 2021-2022 budget cycle is not promising because the state forecast from July 2020 suggests state budget deficits through 2023-2024.

State revenues fluctuate and are heavily dependent on personal income tax. It is very early in the 2021-2022 budget cycle and it is not clear which direction the economy will ultimately take or how significant those changes will be in the short-term. It should be noted that there have been some positive economic indicators since July 2020 including actual state tax revenue receipts ahead of forecasts and declining California unemployment rates.

If the state budget were to improve, the university should be positioned for a potential investment. We must prepare—and be prepared—for when the finances and priorities of the state align with the priorities of the university.

Consequently, the proposed operating budget request prioritizes certain areas of recurring expenditures to continue the CSU’s commitment to Graduation Initiative 2025, attend to the highest priority academic facilities and infrastructure projects, fund mandatory cost obligations, and restore recurring state funding eliminated in 2020-2021 from the CSU’s operating budget.

As shown in the below table and in Attachment A, the 2021-2022 Operating Budget Request proposes a base, recurring increase of $556.0 million. With such an investment, the state and the CSU will be in a better position to meet the overall economic and future workforce needs of California.

<table>
<thead>
<tr>
<th>Incremental Expenditures</th>
<th>in million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduation Initiative 2025</td>
<td>$150.0</td>
</tr>
<tr>
<td>Campus Highest Priorities</td>
<td>$135.0</td>
</tr>
<tr>
<td>Basic Needs Initiative</td>
<td>15.0</td>
</tr>
<tr>
<td>Mandatory Costs</td>
<td>57.0</td>
</tr>
<tr>
<td>AB 1460-Ethnic Studies Requirement</td>
<td>16.5</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>23.8</td>
</tr>
<tr>
<td>Operations &amp; Maintenance of New Facilities</td>
<td>11.3</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>5.4</td>
</tr>
<tr>
<td>Academic Facilities &amp; Infrastructure Needs</td>
<td>50.0</td>
</tr>
<tr>
<td>General Fund Restoration</td>
<td>299.0</td>
</tr>
<tr>
<td><strong>Total Incremental Expenditures</strong></td>
<td><strong>$556.0</strong></td>
</tr>
</tbody>
</table>
Anticipated Revenues

<table>
<thead>
<tr>
<th>Board of Trustees General Fund Increase Request</th>
<th>$556.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Incremental Revenues</td>
<td>$556.0</td>
</tr>
</tbody>
</table>

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 increased funding that supports our 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 2021. At this stage, before the governor’s budget proposal is released in January 2021, 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 funding options must remain open. As a regular and routine business matter, the CSU will follow state statutory intent and prepare for and discuss with California State Student Association leadership a written tuition proposal. At this point, the CSU does not expect to raise tuition rates for 2021-2022 but will keep the possibility open in case the state budget worsens. 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, 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. Faced with budget reductions, 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.

Conclusion

The state’s 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 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 funding by the state of the Board of Trustees’ operating budget request.
This is an action item presenting final recommendations for the CSU 2021-2022 Operating Budget Request to the governor and legislature. It is the CSU’s goal that the state support the budget plan so that the CSU can focus on the transformational goals of Graduation Initiative 2025 while continuing to invest in other important needs.

**Recommendation**

The following resolution is presented for approval:

**RESOLVED,** that the future of California rests on the California State University’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 of the California State University that the 2021-2022 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 2021-2022 CSU Operating Budget Request included as Attachment A to this agenda item be transmitted to the governor, to the director of the Department of Finance, and to the legislature.
CSU Tuition and Fees are less than comparison institutions [Based on average resident undergrad]

- CSU Tuition and Fees: $7,360
- Comparison Institution Average: $11,839

CSU continues to serve primarily California residents

- CSU serves a diverse student population
  - Hispanic
  - White
  - Asian American
  - Nonresident
  - Unknown
  - Two or More Races
  - African American
  - Pacific Islander
  - American Indian

Majority of CSU workforce teaches students

- Faculty: 26,858
- Professional/Technical: 14,583
- Office/Administrative Support: 4,797
- Service Occupations: 2,469
- Construction/Maintenance/Transportation: 1,717
- Management: 1,739

2021-22 Proposed Operating Budget

- Proposed Increase: $556M
- Total Budget: $7.5B
- Graduation Initiative 2025: 27%
- Restoration of 2020-21 General Fund Reductions: 54%
- Academic Facilities and Infrastructure: 9%
- Mandatory Costs: 10%
- Tuition and Fees: $3.2B
- General Fund: $3.7B
- 2021-22 Proposed Increase: $556M
**CSU IS ON TRACK TO MEET ITS SYSTEMWIDE GRADUATION RATE GOALS BY 2025**

**FIRST-TIME STUDENTS**

- **6-Year Goal:** 70%
- **4-Year Goal:** 40%
- **2015:** 19%
- **2020:** 31%
- **2025 Goal:** 70%

**TRANSFER STUDENTS**

- **4-Year Goal:** 85%
- **2-Year Goal:** 45%
- **2015:** 73%
- **2020:** 44%
- **2025 Goal:** 85%

---

**50%** of CSU undergraduates received a federal Pell grant.

**95%** of all enrolled students are from California.

**32%** of undergraduates are the first in their families to attend college.

**49%** of undergraduates are from traditionally underrepresented minorities.

**94%** of new undergraduate transfers are from California community colleges.

---

**80,000** courses were transitioned to virtual modalities.

**250,000** hours of faculty and staff professional development to provide a robust teaching, learning and discovery experience for students.

**10s OF 1000s** of new laptops and Wi-Fi hotspots were provided to students to mitigate the “digital divide”.

**85.5%** of 2019 first-year students returning to campus for Fall 2020.
6 CHANCELLOR’S MESSAGE

8 THE CSU TODAY

DESIGNATED BALANCES & RESERVES

12 2021-22 OPERATING BUDGET PLAN

GRADUATION INITIATIVE 2025

Highest Campus Priorities

Basic Needs Initiative

SALARY AND BENEFITS

Compensation Pool

Retirement Benefits

ACADEMIC FACILITIES AND INFRASTRUCTURE

RESTORATION OF 2020-21 GENERAL FUND REDUCTIONS

MANDATORY COSTS

Assembly Bill 1460 Ethnic Studies Requirement

Health Benefits

Maintenance of New Facilities

Minimum Wage

20 CSU FINANCIAL AID

STATE UNIVERSITY GRANT PROGRAM

TUITION WAIVERS

23 RESOLUTION
CHANCELLOR’S MESSAGE
The COVID-19 pandemic and the resulting economic impact continue to challenge our nation, our state and our great institutions like the California State University as never before.

I could not be more proud of the way that the CSU has risen to meet this moment.

Guided by twin North Stars – safeguarding the health and well-being of our students, faculty, staff and the communities we serve, and ensuring that as many students as possible stay on track to earning the proven, lifelong benefits of a CSU degree – the university made the massive pivot to primarily online instruction and virtual support.

More than 80,000 classes were transitioned to virtual modalities, as was the CSU’s full range of academic and holistic support services. Great care was taken to continue to provide for our students who are housing or food insecure. Tens of thousands of new laptops and WiFi hotspots were distributed to students to mitigate the “digital divide” that can disproportionately impede students from historically underserved populations. Faculty and staff engaged in more than 250,000 hours of professional development to ensure a robust teaching, learning and discovery experience.

Thanks to the resolve, ingenuity and adaptability of the CSU’s faculty, staff and students, the university has not only sustained its instruction and core operations, it has thrived. Record numbers of degrees were awarded in spring 2020. Completion rates – for students from all walks of life – are at all-time highs. And in the fall, the university enrolled its largest-ever student body.

This is a testament not only to the value of and demand for a CSU degree, but also to the trust Californians have in our mission and our ability to transform their lives. And it was made possible due to public funding – new state investment spanning from the end of the last recession until the beginning of the current global public health crisis.

But now, the CSU is at a critical financial crossroads. State funding was cut by $299 million for 2020-21 – a 7.4 percent decrease. The university faces increased costs associated with the pandemic and shift to virtual instruction. Self-funded enterprise programs – such as student housing, parking, and professional and continuing education – are suffering extreme financial hardship.

To keep core instructional and student-support functions afloat, and to mitigate negative impacts to faculty and staff to every extent possible, the CSU has implemented a hiring chill, halted travel and is carefully spending down a portion of reserves prudenty saved for economic uncertainty.

However, moving forward, the state must make the CSU a priority in its budgetary decisions. If the state were to choose to cut the CSU’s budget again in 2021-22 and beyond, the university’s financial situation will quickly become untenable, threatening both our progress and our mission.

The trustees’ budget plan was developed with careful consideration of the CSU’s, and the state’s fiscal reality. And it represents a vital, prudent and effective path forward – for the university and for our students – through this extraordinarily challenging moment in time.

Indeed, the CSU’s work has never been more critical or more urgent. But we have demonstrated that we are up to the task and stand ready – with your commitment to provide the necessary financial support – to remain a beacon of resilience and recovery for our great state, and to continue to propel Californians from all backgrounds toward their brightest future.

Timothy P. White  
Chancellor  
The California State University
In the 2020-21 final budget, the state reduced permanent base funding to the CSU by $299 million, and the state removed $315 million in one-time funding. The state-funded retirement adjustment of $42.7 million to be reduced in a subsequent General Fund appropriation is also included in the tables below. The 2020-21 current year total CSU operating budget of $6.9 billion is comprised of $3.7 billion in state General Fund and $3.2 billion in tuition and fees. New resources to fulfill the CSU’s budget request for 2021-22 are $556 million, as shown in Table 1.

### TABLE 1: OPERATING BUDGET & INFRASTRUCTURE

<table>
<thead>
<tr>
<th></th>
<th>2019-20 Past Year</th>
<th>2020-21 Current Year</th>
<th>2021-22 Budget Year</th>
<th>2021-22 Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund, Operations</td>
<td>$4,000,479,000</td>
<td>$3,339,530,000</td>
<td>$3,845,550,000</td>
<td>$506,020,000</td>
</tr>
<tr>
<td>General Fund, Academic Facilities and Infrastructure</td>
<td>340,560,000</td>
<td>340,560,000</td>
<td>390,560,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Tuition and Other Fee Revenue</td>
<td>3,269,805,000</td>
<td>3,239,004,000</td>
<td>3,239,004,000</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL OPERATING BUDGET AND INFRASTRUCTURE</strong></td>
<td><strong>$7,610,844,000</strong></td>
<td><strong>$6,919,094,000</strong></td>
<td><strong>$7,475,114,000</strong></td>
<td><strong>$556,020,000</strong></td>
</tr>
</tbody>
</table>

### TABLE 2: EXPENDITURES BY PROGRAM AREA

<table>
<thead>
<tr>
<th></th>
<th>2019-20 Past Year</th>
<th>2020-21 Current Year</th>
<th>2021-22 Budget Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>$2,922,576,000</td>
<td>$2,823,899,000</td>
<td>$2,823,899,000</td>
</tr>
<tr>
<td>Research</td>
<td>33,958,000</td>
<td>22,826,000</td>
<td>22,826,000</td>
</tr>
<tr>
<td>Public Service</td>
<td>26,695,000</td>
<td>16,009,000</td>
<td>16,009,000</td>
</tr>
<tr>
<td>Academic Support</td>
<td>762,665,000</td>
<td>705,517,000</td>
<td>705,517,000</td>
</tr>
<tr>
<td>Student Services</td>
<td>832,475,000</td>
<td>743,069,000</td>
<td>743,069,000</td>
</tr>
<tr>
<td>Institutional Support</td>
<td>1,009,953,000</td>
<td>891,642,000</td>
<td>891,642,000</td>
</tr>
<tr>
<td>Operation and Maintenance of Plant</td>
<td>1,267,664,000</td>
<td>972,088,000</td>
<td>972,088,000</td>
</tr>
<tr>
<td>Student Grants and Scholarships</td>
<td>754,858,000</td>
<td>744,044,000</td>
<td>744,044,000</td>
</tr>
<tr>
<td>New Expenditures</td>
<td>0</td>
<td>0</td>
<td>556,020,000</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td><strong>$7,610,844,000</strong></td>
<td><strong>$6,919,094,000</strong></td>
<td><strong>$7,475,114,000</strong></td>
</tr>
</tbody>
</table>

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 73 percent, $5 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. In fact, several CSU campuses are often listed in Forbes magazine’s annual ranking of the nation’s top schools with the highest quality and best financial outcomes.

- Enrolled 485,549 students in Fall 2020;
- Graduated 128,925 students in 2019-20, 1,525 more than 2018-19;
- Awarded 109,450 baccalaureate, 18,883 master’s and 592 doctorate degrees in 2019-20;
- Served 2,226 doctoral students in Fall 2019 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 35 percent since 2015; and
- 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.

As a result of COVID-19, CSU successfully transitioned from in-person to online instruction and virtual student support.

- Bought 25,200 laptops and tablets and 12,000 Wi-Fi hotspots for staff, faculty, and students who needed them to continue their work or studies from their homes;
- More than 80,000 classes were transitioned to virtual modalities; and
- More than 250,000 hours of professional development engaged by faculty and staff to ensure a robust teaching, learning and discovery experience.

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.
- Achieved $162.6 million in cost avoidance and revenue generation in 2018-19 in a variety of areas including administrative services, information technology, construction, instructional and student services, energy, facilities operations, and strategic partnerships.
The CSU has prudently grown designated balances and reserves to meet certain strategic goals, one of which has been to prepare for possible economic uncertainty. The CSU has already drawn upon these reserves on a one-time basis to maintain operations in programs impacted by COVID-19. Campuses began 2020-21 with plans to use $180.4 million of these balances and reserves during the fiscal year. It is anticipated that a measured use of reserves over the next several years will be necessary until the economy and state budget rebound.

On June 30, 2020, 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.

**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 catastrophic events and economic and budgetary uncertainty. CSU’s reserve policy encourages 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.

2021-22 OPERATING BUDGET     11

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>IN MILLIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Services</td>
<td>$45.0</td>
</tr>
<tr>
<td>Information Technology</td>
<td>35.1</td>
</tr>
<tr>
<td>Construction</td>
<td>30.5</td>
</tr>
<tr>
<td>Instructional and Student Services</td>
<td>20.6</td>
</tr>
<tr>
<td>Energy</td>
<td>15.7</td>
</tr>
<tr>
<td>Facilities Operations</td>
<td>14.6</td>
</tr>
<tr>
<td>Strategic Partnerships</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$162.6</strong></td>
</tr>
</tbody>
</table>

2018-19 CSU COST AVOIDANCE AND REVENUE

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>IN MILLIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Services</td>
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<td>Facilities Operations</td>
<td>14.6</td>
</tr>
<tr>
<td>Strategic Partnerships</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$162.6</strong></td>
</tr>
</tbody>
</table>

Reserves for Economic Uncertainty: $400 million

Catastrophic Events-Designated Balances: $23 million

Capital-Designated Balances: $318 million

Short-Term Obligations-Designated Balances: $949 million

$0 $200 $400 $600 $800 $1,000

IN MILLIONS

Reserves for Economic Uncertainty:

- $400 million

Catastrophic Events-Designated Balances:

- $23 million

Capital-Designated Balances:

- $318 million

Short-Term Obligations-Designated Balances:

- $949 million

The CSU has prudently grown designated balances and reserves to meet certain strategic goals, one of which has been to prepare for possible economic uncertainty. The CSU has already drawn upon these reserves on a one-time basis to maintain operations in programs impacted by COVID-19. Campuses began 2020-21 with plans to use $180.4 million of these balances and reserves during the fiscal year. It is anticipated that a measured use of reserves over the next several years will be necessary until the economy and state budget rebound.

On June 30, 2020, 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.

**Designated for Short-Term Obligations**

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 totaled $949 million at the end of last year, which are sufficient to cover expected needs and are typically used in the following fiscal year.

**Designated for Capital**

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 $805 million is required for academic projects approved in the 2020-21 through 2024-25 five-year capital program. Balances designated for capital totaled $318 million.

**Designated for Catastrophic Events**

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, which totaled $23 million.

**Reserves for Economic Uncertainty**

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 a rapid decline in state resources. This allows time to adjust operating budgets appropriately to balance reductions and to minimize disruptions to students’ education as much as possible. Reserves for economic uncertainty totaled $400 million and are less than one month of operating fund expenses, well below the need to maintain three to six months of operating expenses.
2021-22 OPERATING BUDGET PLAN
The CSU proposes a $7.5 billion operating budget for 2021-22, with $4.2 billion from the state General Fund and $3.3 billion from tuition and fee revenue. As shown in Table 1, this budget plan is an increase of $556 million over the 2020-21 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 $556 million increase.

### TABLE 3: SOURCES AND USES OF FUNDS

#### SOURCES OF FUNDS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Increase</td>
<td>$556,020,000</td>
</tr>
<tr>
<td>Operating Budget</td>
<td>506,020,000</td>
</tr>
<tr>
<td>Academic Facilities and Infrastructure</td>
<td>50,000,000</td>
</tr>
<tr>
<td><strong>TOTAL NEW SOURCES</strong></td>
<td><strong>$556,020,000</strong></td>
</tr>
</tbody>
</table>

#### USES OF FUNDS

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduation Initiative 2025</td>
<td>$150,000,000</td>
</tr>
<tr>
<td>Highest Campus Priorities</td>
<td>135,000,000</td>
</tr>
<tr>
<td>Basic Needs Initiative</td>
<td>15,000,000</td>
</tr>
<tr>
<td><strong>Restoration of 2020-21 General Fund Reductions</strong></td>
<td><strong>299,043,000</strong></td>
</tr>
<tr>
<td>Academic Facilities and Infrastructure</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Mandatory Costs</td>
<td>56,977,000</td>
</tr>
<tr>
<td>Assembly Bill 1460 Ethnic Studies Requirement</td>
<td>16,500,000</td>
</tr>
<tr>
<td>Health Benefits</td>
<td>23,782,000</td>
</tr>
<tr>
<td>Maintenance of New Facilities</td>
<td>11,336,000</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>5,359,000</td>
</tr>
<tr>
<td><strong>TOTAL NEW USES</strong></td>
<td><strong>$556,020,000</strong></td>
</tr>
<tr>
<td>------------------</td>
<td>------</td>
</tr>
<tr>
<td>First-Time Students</td>
<td>4-Year</td>
</tr>
<tr>
<td>6-Year</td>
<td>59%</td>
</tr>
<tr>
<td>Transfer Students</td>
<td>2-Year</td>
</tr>
<tr>
<td>4-Year</td>
<td>74%</td>
</tr>
<tr>
<td>EQUITY GAPS (in percentage points)</td>
<td></td>
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<tr>
<td>Underserved Students of Color</td>
<td>12.0</td>
</tr>
<tr>
<td>Pell Grant Recipients</td>
<td>10.0</td>
</tr>
</tbody>
</table>
GRADUATION INITIATIVE 2025: $150 MILLION

HIGHEST CAMPUS PRIORITIES: $135 MILLION

As Graduation Initiative 2025 enters its fifth year, the CSU expects to invest $135 million of the 2021-22 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, eliminate equity gaps for historically-underserved students of color and Pell Grant recipients and meet California's workforce needs. Reducing time to degree means that graduates enter the workforce or graduate sooner, positively impacting their future and producing additional graduates to power California.

Graduation Rates Are at All-Time Highs

Based on preliminary 2020 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, the number of additional students who annually earn a baccalaureate degree has increased by more than 20,000.
- The systemwide four-year graduation rate increased four percentage points from the previous year and twelve percentage points since 2015.
- The systemwide six-year graduation rate continued at 62 percent, which is 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, Channel Islands, Fresno, Fullerton, Los Angeles, Monterey Bay, San Diego, San Marcos and Sonoma all have decreased their equity gap for historically underserved students of color by at least 50 percent.

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

One critical academic and student support strategy that cuts across all six areas is advising. CSU campuses have been national leaders in the adoption of technology platforms that provide students with accessible, real-time academic planning and navigation tools.

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.

BASIC NEEDS INITIATIVE: $15 MILLION

The CSU requests $15 million to sustain and expand its Basic Needs initiatives in support of Graduation Initiative 2025. Following a landmark research project into the prevalence of food and housing insecurity among CSU students, the Chancellor’s Office launched a systemwide initiative in 2015 to provide a framework for the CSU's 23 campuses that guides a more coordinated approach to developing basic needs programs and services. These strategies are intended to support students experiencing food and housing insecurity, unanticipated financial distress, mental health concerns and overall health and safety challenges that have the potential to disrupt their timely pathways to degree.

While the CSU’s primary mission is educational in nature, the CSU recognizes that students cannot be fully engaged in, or out of, the classroom if they are primarily preoccupied with hunger, housing insecurity, personal safety or mental health concerns. As such, leaders across all 23 campuses have committed to enhancing and developing resources consistent with the CSU academic mission to reduce the negative impact of these basic needs gaps on student retention and graduation. From a Fall 2019 survey, campuses are investing $92 million from all funding sources on basic needs support and services to students.
Strategies to ameliorate students’ basic needs challenges include, but are not limited to:

- Providing accessible housing options for low-income students and students experiencing financial distress in response to California’s affordable housing crisis;
- Increasing CalFresh outreach and application assistance;
- Implementing on-campus food distribution programs;
- Instituting emergency housing options;
- Awarding emergency loans, micro-grants and crisis fund assistance; and,
- Creating or renewing partnerships with nonprofit and governmental entities that provide direct services to students.

In the current context of COVID-19, many CSU campuses have expanded their basic needs initiatives to also include programs that address the digital divide. Examples include laptop/tablet and mobile Wi-Fi hot spot distribution or lending programs, as well as access to low-cost home installation of high-speed internet service.

There is also a need to increase prevention efforts, health promotion programs and services for early identification and intervention. The CSU continues to work to destigmatize students’ use of mental health and basic needs programs and services so that struggling students can comfortably utilize both campus and community-based supports for help in a timely manner. Further, through ongoing training and capacity-building, faculty and staff will be better positioned to amplify campus efforts and refer students to appropriate resources both on and off campus. The CSU will continue to identify sustainable solutions for students for a variety of emergency housing programs at each of the 23 campuses.

As in prior years, awards will be distributed by the Chancellor’s Office to campuses to expand, for example, existing efforts to provide affordable housing, minimize student hunger, raise awareness of services currently offered on campus and develop practices to provide additional emergency financial assistance to students in need. A key feature of these efforts will be to build and sustain partnerships with community-based organizations, private foundations and governmental entities. Efforts will be made to focus investments in a strategic manner, such that campuses will be encouraged to apply for “seed” funding to establish and grow new programs and assess the impact of these efforts.
**SALARY AND BENEFITS:**

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**

After careful consideration of the state’s and CSU’s fiscal circumstances, this budget plan does not include a request for funding increases for the 2021-22 compensation pool. As a point of reference, a one percent increase in salary and salary-related benefits (OASDI, Medicare and retirement) for all employee groups would cost $44,952,000.

The COVID-19 economic impacts have forced California employers to furlough or layoff hundreds of thousands of public and private sector employees across the state. Unfortunately, hundreds of hourly employees who worked in bookstores, dining, student recreation centers and other ventures operated by CSU auxiliary organizations could not be retained because the usual volume of foot traffic by students, faculty and staff largely disappeared in March 2020.

The CSU has been proactive in mitigating the impact to faculty and staff in light of the health crisis and the $299 million state budget reduction faced. The CSU quickly implemented several cost-control measures, including implementing a hiring chill and essentially stopping travel, saving millions of dollars for the system. In July 2020, the Chancellor conveyed that the CSU would prudently use reserves this year so that there would be no systemwide furloughs or layoffs, allowing campuses to plan for permanent base reductions. Campuses report that they plan to use about 45 percent (or $180.4 million) of their reserves for economic uncertainty in 2020-21. This roughly equates to what would have been a 4.2 percent furlough for the system. Additionally, CSU employees have benefitted from multiple programs provided by the CSU during this health crisis. Examples include leave available to employees that need to attend to COVID-related reasons (e.g., childcare, illness, isolation, care of a family member, unable to work remotely, etc.) and employees unable to telecommute due to the nature of their profession and classification.

With the health and fiscal impacts of COVID-19 expected to persist for some time, the CSU cannot guarantee that the mitigation efforts will indefinitely continue. Furloughs and layoffs may be necessary in the future. But clearly, as demonstrated immediately above, the CSU has and will continue to make every attempt to minimize negative impacts on employees.

**Retirement Benefits (above state-funded)**

Beginning with the 2013-14 fiscal year, the annual state budget placed a limit on the state’s obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. While the state’s statutory obligation to adjust retirement funding based on annual rates set by CalPERS continues (Government Code section 20814), the salary base applied to the incremental rate change is annually set to the CSU 2013-14 pensionable payroll level in the state budget. Final 2019-20 pensionable payroll for the CSU was 32 percent above the 2013-14 frozen pensionable payroll level. The retirement increase amount above the frozen payroll level is an unfunded cost for the CSU, and it continues to increase each year when pensionable payroll or retirement contribution rates increase.

CalPERS retirement contribution rates decreased for 2020-21 for the first time in several years, due in part to advanced paydown of unfunded retirement obligations, so there is no request for additional retirement funding in 2021-22. However, use of this budgeting practice by the state is problematic and should be discontinued. Throughout the years that this budget practice has been in effect, the state or students ultimately covered the unfunded liability above frozen pensionable payroll because retirement costs are mandatory and unavoidable. While the rationale of this practice was to help reduce state funding increases and to examine more closely the cost of annual general salary increases and hiring of new employees, the CSU must balance the need to serve students with the level of funding available to the university, particularly as tuition rates have remained relatively constant since 2011-12 with only a $270 per year increase in 2017-18. The CSU cannot hire additional employees or provide continued investment to ensure competitive salary and benefits salary without the proper level of state funding.
ACADEMIC FACILITIES AND INFRASTRUCTURE: $50 MILLION

The CSU proposes using $50 million of the $556 million request to fund academic facilities and infrastructure projects. Campus need for facility renovation and improvement continues to grow. 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 seismic review board as needing seismic strengthening. Other projects address general building deficiencies in building systems and building structure. Many of the infrastructure improvement projects address critical infrastructure needs, system upgrades, facility improvements, as well as maintenance needs that are well past due. While the CSU continues to make strides in addressing its systemwide needs, current funding levels prohibit the CSU from undertaking projects in order to adequately address the needs in the built environment. Had Proposition 13 been approved by the voters in March 2020, the CSU would have received $2 billion to fund academic facilities and infrastructure projects.

In support of the request for additional, 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 primarily identifies renewal/replacement needs of existing buildings with some new facilities to accommodate growth and improve student access. The Board of Trustees annually approves categories and criteria for capital outlay priority setting. The priorities are consistent with the state’s priorities of critical infrastructure, life safety projects, renovation/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 in 2021-22 alone that exceeds $2.7 billion needed to address academic infrastructure and facility needs. The $50 million in the 2021-22 budget request will help finance approximately $900 million of the $2.7 billion in the priority projects identified by the campuses. For more information on specific projects and priorities, see the CSU multi-year capital plan.
RESTORATION OF 2020-21 GENERAL FUND REDUCTIONS: $299 MILLION

The state reduced the CSU recurring appropriation by $299 million, a 7.4 percent reduction in state funding, which forced the CSU to utilize a number of one-time sources to temporarily support that funding drop for 2020-21, including the use of designated balances and reserves, the federal CARES Act funding, a slowdown in hiring and a halt on travel. Those one-time solutions, however, cannot be sustained into 2021-22 and beyond because the $299 million recurring reduction would require permanent, ongoing cost reductions that would: 1) jeopardize future Graduation Initiative 2025 success; 2) prevent the funding of mandatory costs in 2020-21 and 2021-22; and 3) challenge continued support of current enrollment levels. As a result, the state should look to restore or invest in the university in 2021-22. The budget plan includes a $299 million recurring general fund restoration, which represents a 100 percent restoration of the budget cut the university is experiencing right now.

MANDATORY COSTS: $57 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 2021-22 operating budget request includes $57 million for increases due to the new ethnic studies requirement, health benefits, maintenance of new facilities and minimum wage rate.

<table>
<thead>
<tr>
<th>Mandatory Cost Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Assembly Bill 1460 Ethnic Studies Requirement</td>
<td>$16,500,000</td>
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<tr>
<td>Health Benefits</td>
<td>$23,782,000</td>
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<tr>
<td>Maintenance of New Facilities</td>
<td>$11,336,000</td>
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<td>Minimum Wage Increase</td>
<td>$5,359,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$56,977,000</strong></td>
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Assembly Bill 1460 Ethnic Studies Requirement
AB 1460 requires every CSU campus to offer ethnic studies courses and every CSU student to complete a three-unit course in ethnic studies to graduate. Campuses that have no ethnic studies courses in these areas must develop them and campuses that have ethnic studies departments or courses must expand them to ensure that every student has access to an ethnic studies course. The cost to CSU to provide an ethnic studies course to all students is a $16.5 million ongoing cost across the system and an additional $1.5 million in one-time cost. This cost is comprised of instructional, administrative and one-time Associate Degree for Transfer (ADT) review activities.

Health Benefits
Permanent base budget costs associated with January 2021 employer-paid health care premium increases are nearly $23.8 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.

Maintenance of New Facilities
The CSU is scheduled to open 558,969 square feet of new facilities in 2021-22. The cost to fund regular maintenance of these facilities is $20.28 per square foot, for a total of $11.3 million in 2021-22. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape and administrative support.

Minimum Wage Increase
In January 2021, the California minimum wage will increase from $13 per hour to $14 per hour. The estimated annualized cost of the increase on CSU campuses is over $5.3 million. Further, the California minimum wage will increase again in January 2022, when it reaches $15 per hour.
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.

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 baccalaureate degree recipients have lower average debt ($17,978) than other students in California ($22,585) and the nation ($29,200).

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 $747 million from the state Cal Grant program and over $1 billion from the federal Pell Grant program helps CSU undergraduate students cover tuition, fees and some portion of other personal expenses. The result is average loan debt levels that are well below the national average.

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 $701 million in 2020-21. Over 140,000 students received a SUG award in 2018-19.

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, over 10 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 2019-20, 15,327 tuition waivers were granted to CSU students, totaling approximately $77.1 million in waived tuition. The state has not provided any General Fund support for any CSU tuition waiver program since 1992-93.

2019-20 SYSTEMWIDE TUITION WAIVERS
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 2021-2022 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 2021-2022 Operating Budget Request agenda item be transmitted to the governor, to the director of the Department of Finance, and to the legislature.
COMMITTEE ON FINANCE

California State University, Fresno – Update on a Public-Private Partnership for the Central Utility Plant Replacement Project

Presentation By

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Executive Vice Chancellor and Chief Financial Officer

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President
California State University, Fresno

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

Summary

This information item provides the California State University Board of Trustees with an update on the progress toward a public-private partnership for the Central Utility Plant Replacement Project at California State University, Fresno.

Background

In May 2019, the Board of Trustees approved the concept of a public-private partnership for the Central Utility Plant Replacement Project and authorized the chancellor and the campus to enter into negotiations for agreements as necessary to develop a final plan for the public-private partnership. The campus plant, built in 1954, has had limited improvements over the past 65 years and its equipment and ancillary infrastructure have exceeded their use life. The central utility plant provides heating and cooling to over 3.1 million square feet in 80 campus buildings. The condition of the plant has resulted in significant increases in operating and deferred maintenance expenses over the past ten years, and the risk of catastrophic failure is always present.

Update on the Public-Private Partnership Competitive Selection Process

On December 6, 2019, the campus initiated the Request for Proposal (RFP) process to solicit competitive proposals from the following four pre-qualified development teams that were shortlisted from a Request for Qualifications issued October 8, 2018: (1) Plenary, Webcore, Syska Hennessy, Johnson Controls; (2) Engie Holdings, Ulico Infrastructure Management Co, HDR
(Architect), FVB, Black & Veach, Mesa Energy Systems, and Harris Construction; (3) Meridiam, Noresco, GLHN Architects & Engineers; (4) Fengate, Veolia Energy, W.M. Lyles, Kennedy Jenks Consulting, Taylor Engineering.

The campus has retained the following firms to consult in this selection process: Illuminati Infrastructure Advisors; Kutak Rock LLP (legal counsel in coordination with the CSU Office of General Counsel); P2S Engineering; and Barclays Capital.

The RFP process has been iterative to allow opportunities for innovation. It included numerous confidential one-on-one meetings; multiple rounds of clarifications and addendums; team site visits; and interim technical and financial terms submittals. Considerable consultation and guidance has been provided from CSU staff, including the Office of General Counsel; Capital Planning Design & Construction; and Financing and Treasury. This extensive and comprehensive RFP process produced a development plan that includes a non-negotiable Project Agreement ready for execution.

While the final selection and award process is still underway, the campus has entered into discussions with the consortium of Meridiam as the Equity Member; NORESCO as Lead Contractor and Lead Maintenance Provider; and GLHN Architects and Engineers as the Lead Engineer. This integrated team brings extensive experience as industry leaders successfully delivering similar public-private partnerships for various market segments, including higher education clients, central utility plants, and the energy sector. Recent projects of equal complexity that have been developed successfully by the this developer team are the Long Beach Courthouse and La Guardia Airport, which are clear indications of the team’s financing capacity and understanding of non-recourse financing.

**Final Development Agreement and Summary of Key Deal Terms**

The developer will be responsible to design, build, finance and maintain (DBFM) designated components of the project over the life of the agreement. The developer will be responsible for the routine and life-cycle maintenance of the designated project elements, and will perform such maintenance for a service period of 30 years. The campus will retain responsibility for day-to-day operations, and the project will not reduce existing campus staffing levels.

The developer will be compensated for their capital investment and life-cycle maintenance costs through quarterly payments made by the campus over a 30-year term. All proposed financing structures provided by the developer will be without recourse to the CSU.

The agreement allows for the campus to make pre-payments which would reduce the overall term of the agreement (this could be accomplished with future project funding allocations from the CSU’s multi-year major capital outlay program).
**Project Scope**

The project is comprised of four major elements, including: the installation of new equipment in the current plant location (chillers and boilers); replacement of hot and cold-water distribution systems; an energy management and control system with energy conservation and efficiency measures throughout the campus; and ancillary works that will include the installation of ground mounted photovoltaic systems.

The Central Utility Plant Replacement will be a hybrid plant with gas condensing boilers, electric chillers, a water side economizer and a base load heat recovery chiller. This solution balances energy consumption and operating costs. The new plant equipment and distribution systems will operate at a higher efficiency, resulting in additional heating and cooling capacity, energy savings, decreased operating costs, and improved reliability. The heating hot water (HHW) and chilled water distribution lines will be replaced.

A new energy management system (EMS) will be installed and commissioned with new controls. Various set points at a central plant level will allow the system status to be visible in real time. The HHW leak detection system will also be integrated into the new EMS.

The RFP includes a $25 million allowance for energy conservation and efficiency measures (ECMs) in various campus buildings, including the installation of photovoltaic (PV) generation systems. The project includes a total of 4.8 megawatts of carport mounted PVs located in two campus parking lots.

Once the project is constructed, the developer will be responsible to train campus staff in the operation and troubleshooting of equipment and systems modified or installed. Training will also be provided on the use of energy management software and monitoring systems.

**Project Funding**

The approximately $170 million total project cost will be funded primarily through financing provided by the developer. Additional fund sources may include up to $25 million (the final amount is yet to be finalized) previously allocated from the CSU’s 2016-17 Capital Outlay Program. These funds would be utilized to provide a lump sum prepayment amount that would decrease the capital charge component of the quarterly payments (see below) and decrease the financing cost over the term of the agreement.

**Project Delivery**

The developer will be responsible to design, build, finance, and maintain the project. The developer is required to provide committed financing with no recourse to the CSU. Turnkey delivery is set to be three years after execution of the agreement. California prevailing wage requirements shall apply to the development.
Payment Mechanism and Developer Compensation

Over the term of the agreement, the campus will make quarterly payments to the developer that include both a capital charge and a services charge. The payments shall be subject to deductions for performance failures. The quarterly payments will not include the cost of the commodity (e.g. electricity, natural gas). The quarterly payments are expected to be approximately $12 million per year.

In addition, the CSU system will provide $20 million to the campus over a four-year term to support the annual Availability Payments. The campus will be responsible for 100% of the Availability Payments after year four as part of its annual operating budget.

Educational Benefits

The project stands as the highest priority capital project for the campus. Growth of the campus is currently constrained, in part due to inadequate utility infrastructure to support existing buildings and future construction of buildings, severely limiting the ability to serve additional student enrollment. Upgrades to critical infrastructure will enable future campus growth and supports the overall campus master plan, programmatic goals, and education mission. Moreover, the project will place the campus on the right path toward achieving lower-carbon heating and cooling operations and complying with the Board of Trustees’ policy on sustainability and the carbon reduction goal of 80 percent below 1990 levels by 2040.

This project will establish greater predictability, and budget certainty, around cost and schedule, as a result of involving at-risk private capital. The project also includes academic apprenticeship and paid internship opportunities to advance the campus’s academic mission.

Next Steps

Following the November 2020 Board of Trustees meeting, the campus plans to conclude all CEQA environmental review and documents.

The campus will continue discussions with the Meridiam/NORESCO/GLHN consortium with the goal of finalizing its selection, completing the structure of the agreement documents, and returning to the Board of Trustees in January 2021 for final project approval of the proposed key business terms and financial plan, as well as approval of other related actions including any related master plan revisions, environmental review documents, amendments of the capital outlay program, or proposed schematic plans.