

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:40 p.m., Tuesday, September 14, 2021
Virtually via Teleconference

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

- Consent** 1. Approval of Minutes of the Meeting of July 13, 2021, *Action*
2. California State University Quarterly Investment Report, *Information*
- Discussion** 3. Annual Systemwide Report on Hate Incidents on Campus, *Information*
4. Planning for the 2022-2023 Operating Budget, *Information*

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

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

July 13, 2021

Members Present

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

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

Trustee Jack McGrory called the meeting to order.

Public Comment

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

Approval of the Consent Agenda

The minutes of the May 18, 2021, meeting of the Committee on Finance were approved as submitted.

Item number two, Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority, was an information item.

***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 July 13-14, 2021, meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

2021-2022 Final Budget

Information about the 2021-2022 CSU final budget was shared. The CSU will receive a \$550 million increase in base funding from the state for restoration of prior budget reductions, Graduation Initiative 2025, mandatory costs, and various systemwide and campus specific items. The CSU will also receive \$976 million in one-time funds from the state for facility and infrastructure needs and several systemwide and campus specific items.

The trustees were informed that discussions on a multi-year funding agreement for the CSU continue with the governor's office and the Department of Finance. Also, the state is proposing \$2 billion for capacity expansion for additional enrollment growth and student affordable housing at CSU, University of California, and California Community Colleges. Details of this program, including the percentage that CSU will receive, are anticipated to be developed by the legislature and governor over the coming months.

Trustee McGrory adjourned the meeting of the Committee on Finance.

COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

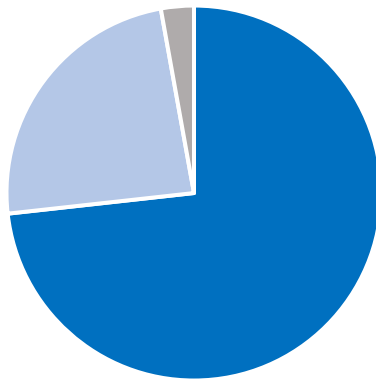
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended March 31, 2021. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

Background

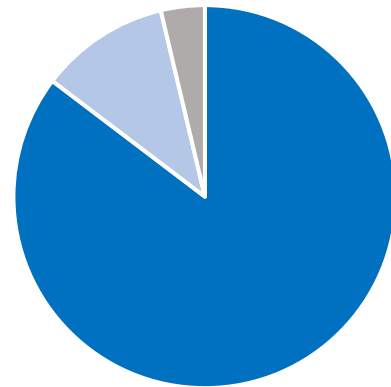
Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of March 31, 2021 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money 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 \$1.46 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
 March 31, 2021**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (SWIFT)	\$3.947 billion	73.24%	1.06%
Total Return Portfolio (TRP)	\$1.289 billion	23.92%	35.50%
Surplus Money Investment Fund (SMIF)	\$152.9 million	2.84%	0.70%
CSU Investments	\$5.39 billion	100%	



- Liquidity Portfolio (SWIFT) - 73.24%
- Total Return Portfolio (TRP) - 23.92%
- Surplus Money Investment Fund (SMIF) - 2.84%



- Fixed Income - 85.3%
- Equity - 11.0%
- Real Assets - 3.7%

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.

As of March 31, 2021, the Liquidity Portfolio was managed through contracts with two investment management firms, US Bancorp Asset Management and Wells Capital Management, each of whom provided investment management services for the program. (See below under Subsequent

Developments/Next Steps regarding changes to the Liquidity Portfolio investment managers as of July 1, 2021.) 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 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)

Effective January 1, 2017, legislation 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 and Responsibilities
Time and Investment Horizon	Environmental, Social, and Governance Framework
Risk Tolerance	Risk Management
Expected Return	Monitoring and Control Procedures
Asset Allocation	
Benchmarks	

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 up to the statutory limit of 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 date¹ through March 31, 2021, the TRP investment earnings were approximately \$253.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 7.84 percent annualized (net of fees) or a cumulative \$210.1 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 investment report to the State Legislature and the Department of Finance.

Subsequent Developments/Next Steps

With oversight from the IAC, staff will continue to monitor market conditions to determine if any changes in the TRP investment schedule are warranted, including the resumption of contributions. Staff also completed the Request for Proposal for investment managers for both the Liquidity Portfolio and the new Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy. On July 1, 2021, two new investment managers for the Liquidity Portfolio, BlackRock and Payden & Rygel, replaced Wells Capital Management and US Bancorp Asset Management, respectfully. The Intermediate Duration Portfolio (IDP) is expected to launch on October 1, 2021,

¹ The TRP Inception Date was April 1, 2018.

managed by three new investment managers, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management. The next investment report to the Board of Trustees is scheduled for the November 2021 meeting and will provide information on the CSU Annual Investment Report for the fiscal year ending June 30, 2021.

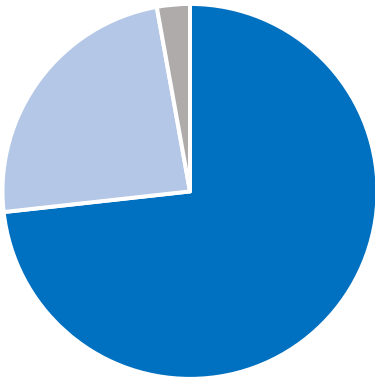
CSU Quarterly Investment Report

For the Fiscal Quarter Ended March 31, 2021

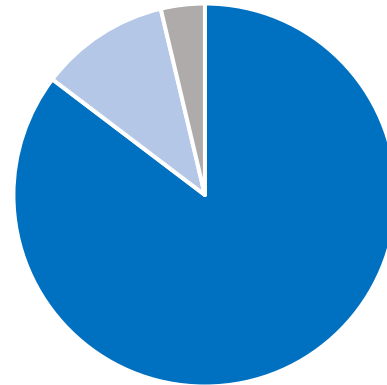
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Balances and Allocations as of March 31, 2021

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.947 billion	73.24%
Total Return Portfolio (TRP)	\$1.289 billion	23.92%
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- Fixed Income - 85.3%
- Equity - 11.0%
- Real Assets - 3.7%

For the nine months ending March 31, 2021, direct investment management fees¹, advisory, and custodial fees totaled just under \$1.6 million, or about 0.033 percent (3.3 basis points) on CSU investments average balance for the nine months ending March 31, 2021.

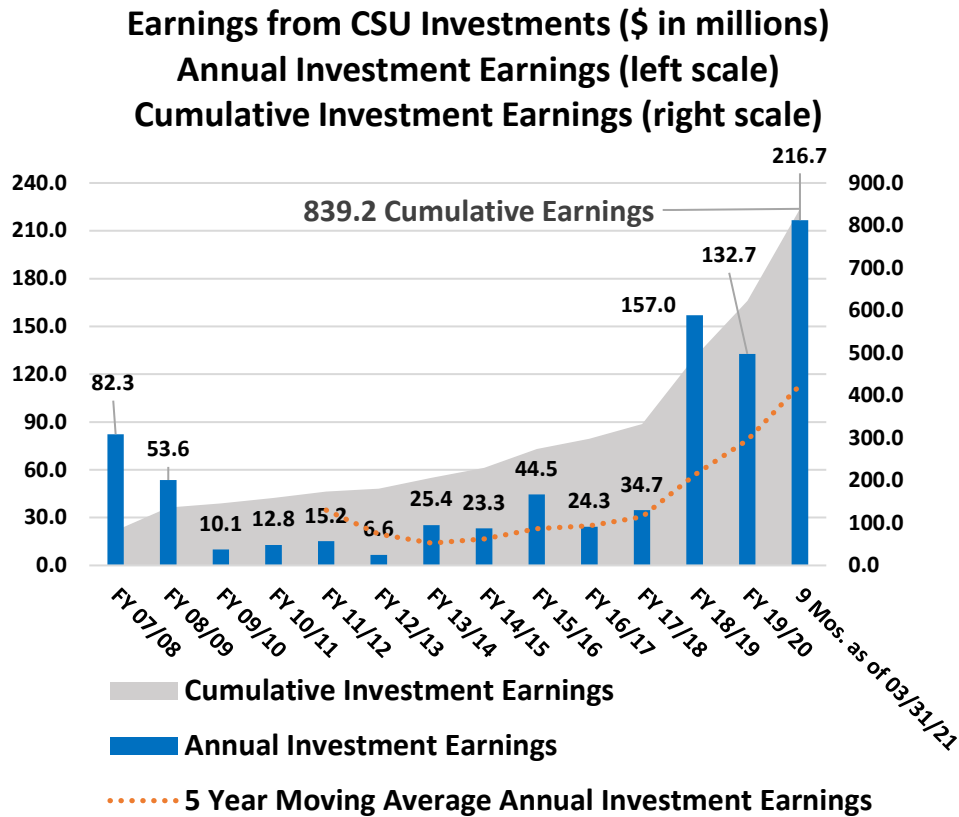
¹ Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 5.

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

	CSU Consolidated Investment Portfolio
1 Year Return	8.49%
3 Year Annualized Return	4.02%
5 Year Annualized Return	2.67%
10 Year Annualized Return	1.72%
Since Inception Return ³	1.82%

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 inception. CSU Consolidated Investment Portfolio returns exclude SMIF.

³ Inception Date for the CSU Consolidated Investment Portfolio was July 1, 2007. 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.

	CSU Liquidity Portfolio	Benchmark³
1 Year Return ⁴	1.06%	0.21%
3 Year Annualized Return	2.35%	2.47%
5 Year Annualized Return	1.68%	1.61%
10 Year Annualized Return	1.22%	1.14%
Annualized Since Inception Return ⁵	1.47%	1.70%
Yield	0.27%	0.15%
Duration (Years)	1.32	1.47
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	37.4%	Cash Equivalents	9.7%
U.S. Corporate Bonds	26.5%	Certificates of Deposit	3.1%
U.S. Government Agencies	22.9%	Municipal Obligations	0.4%

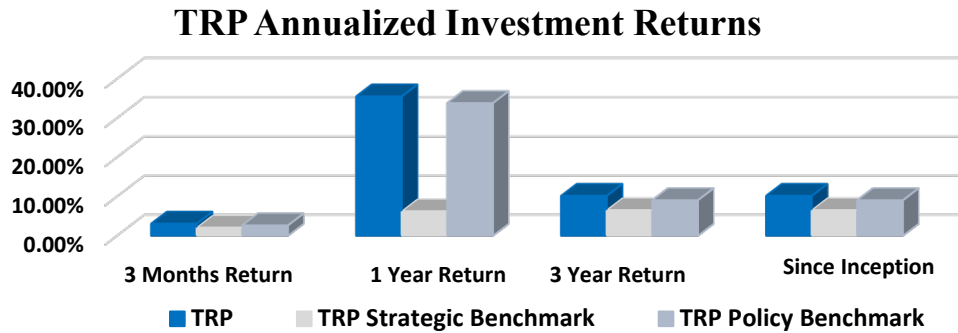
CSU Total Return Portfolio (TRP)

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.

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

⁴ CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

⁵ Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.



	CSU Total Return Portfolio	Strategic Benchmark⁶	Policy Benchmark⁷
3 Months Return	3.05%	2.04%	2.60%
1 Year Return	35.50%	6.21%	33.79%
3 Year Annualized Return	10.15%	6.50%	9.02%
Annualized Since Inception Return ⁸	10.15%	6.50%	9.02%

Since the TRP Inception date through March 31, 2021, the TRP investment earnings were approximately \$253.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 7.84% annualized (net of fees) or a cumulative \$210.1 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.

⁶ 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.

⁷ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

⁸ TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	45.8%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.7%	Actively Managed Mutual Funds	26% ⁹
Real Asset Mutual Funds	15.5%		

Values, Holdings & Fees (CSU Total Return Portfolio)

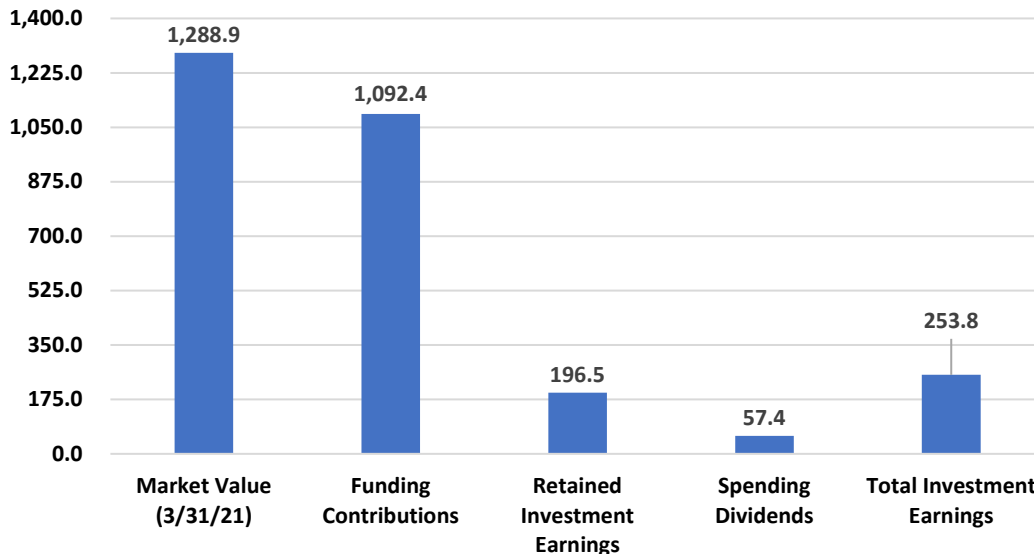
Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	279.9	21.72%	0.030%	0.435%
	Vanguard Inflation-Protected Securities Fund	VIPIX	64.2	4.98%	0.070%	0.380%
	Lord Abbett High Yield Fund	LHYOX	77.2	5.99%	0.610%	0.710%
	Pacific Funds Floating Rate Income Fund	PLFRX	38.8	3.01%	0.730%	0.770%
	Payden Emerging Markets Bond Fund	PYEIX	18.9	1.47%	0.690%	0.845%
	T. Rowe Emerging Markets Bond Fund	TREBX	19.0	1.48%	0.700%	0.845%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	314.6	24.41%	0.020%	0.755%
	Vanguard Developed Markets Index Fund	VDIPX	154.5	11.99%	0.040%	0.890%
	Driehaus Emerging Markets Growth Fund	DIEMX	71.1	5.51%	1.220%	1.090%
	DFA Emerging Markets Value Fund	DFEVX	38.8	3.01%	0.460%	1.090%
	RWC Global Emerging Equity Fund	RWCEX	12.0	0.93%	1.250%	1.090%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	92.4	7.17%	0.100%	0.890%
	Vanguard Energy Index Fund	VENAX	26.6	2.07%	0.100%	0.925%
	Vanguard Materials Index Fund	VMIAX	27.2	2.11%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	53.6	4.16%	0.950%	0.980%
Cash			0.0	0.00%	NA	NA
Total			1,288.9	100%		

⁹ The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan.

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 March 31, 2021. Total TRP Investment Earnings equal total TRP Spending Dividends plus total TRP retained investment earnings.

TRP Market Value, Funding Contributions, Retained Investment Earnings, and Spending Dividends Since Inception to March 31, 2021 (\$ in Millions)



Surplus Money Investment Fund (SMIF)

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

Apportionment Annual Yield¹⁰

Trailing 12 month as of 03/31/21	0.70%
Average (FYE 06/30/07 – FYE 03/31/21)	1.12%

¹⁰ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.



Master Investment Policy For The California State University

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

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I. Scope and Purpose

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

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

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

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

II. Compliance with Law and Adherence to Policy

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

III. Background and Investment Objectives

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

The following objectives shall govern the investment of CSU funds:

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

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

IV. Investment Portfolios

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

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

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

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

Intermediate Duration Portfolio (IDP)

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

Total Return Portfolio (TRP)

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

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

The acceptable allocations for the Portfolios are as follows:

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

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

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

V. Roles and Responsibilities

Board of Trustees

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

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

1. Maintain and approve the MIP.

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

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

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

Chancellor and Chancellor's Staff

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

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

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

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

Investment Advisory Committee

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

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

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

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

Prudence, Ethics and Conflict of Interest

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

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

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

Document Acceptance of the Investment Policy Statement

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

VI. Environmental, Social and Governance Framework

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

Approved:

The California State University Board of Trustees
November 8, 2017

COMMITTEE ON FINANCE

Annual Systemwide Report on Hate Incidents on Campus

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Melinda Latas
Director of Systemwide Clery and Campus Safety Compliance

Summary

This item provides the calendar year 2020 annual report on hate violence incidents reported on California State University campuses pursuant to California Education Code § 67380(a)(5). The statute requires the California State University to report annually the number of arrests for, and reported incidents of, hate violence. Each campus must make the annual report available to the public and published on the campus website.

During the 2020 calendar year there were no reported hate crimes and there was one reported non-criminal act of hate violence on one campus.

Background

The CSU supports a safe educational and working environment that includes compliance with safety laws and regulations including the 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 that 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.*).

California Penal Code §422.55 defines a hate crime as “*a criminal act committed, in whole or in part, because of one or more of the following actual or perceived characteristics of the victim:*

- (1) Disability.*
- (2) Gender.*
- (3) Nationality.*
- (4) Race or ethnicity.*
- (5) Religion.*
- (6) Sexual orientation.*

(7) Association with a person or group with one or more of these actual or perceived characteristics.

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.”*

Multiple divisions and departments on each of the 23 CSU campuses work to reduce the incidence and prevalence of hate crimes and violence. Discrimination, Harassment and Retaliation Administrators and Title IX Coordinators and their respective staff teams provide training and outreach to promote equity and inclusion and ensure compliance with anti-discrimination policies and Title IX regulations that prohibit sex and gender-based discrimination, harassment, retaliation, and violence. Student affairs professionals strive to promote campus communities free of hate violence incidents through multicultural and identity-based student centers, as well as offices of student life and of civic engagement. 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. University police departments are often the first responders when an alleged hate crime is reported, and university police officers are committed to ensuring a safe and hate crime-free campus environment in keeping with the 21st Century Policing Task Force's recommendations to incorporate student focused and community-based policies, practices, and approaches.

CSU employees are keenly aware that even the perception that a hate crime has taken place can have a significant detrimental impact on the campus community and are trained to respond with care, compassion, and concern whenever an incident is reported. 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. Counseling and Psychological Services staff, Chief Diversity Officers, Dean of Students Office representatives, and members of campus-based critical incident response teams coordinate responses to reported hate violence incidents and promote healing, sense-making, and reconciliation after a reported incident has occurred and during throughout investigation.

Conclusion

For the year ending December 31, 2020, no reported hate crimes and one reported non-criminal act of hate violence on one campus will be published on the California State University and 23 campus web pages as required by California Education Code §67380(a)(5). The CSU will continue to sustain and expand efforts to prevent hate crimes and hate violence and respond with care and compassion to when incidents occur.

COMMITTEE ON FINANCE

Planning for the 2022-2023 Operating Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. To meet consequent deadlines of the Department of Finance, it is necessary to commence planning for the 2022-2023 California State University Operating Budget Request. The CSU Board of Trustees will be provided preliminary assumptions for the purposes of preparing the 2022-2023 budget request to the governor. The final budget request will be presented to the Board of Trustees for review and approval in November 2021.

State Budget Overview

Extreme fiscal lows and highs have gripped the state over the past two state budget cycles. As the state finalized its 2020-2021 budget plan in the depths of the pandemic, the forecast was dire—an immediate \$54 billion budget deficit and a bleak outlook into the future. But a year later and under an unexpected, far better economic situation, the state's 2021-2022 budget plan estimated an immediate \$75 billion budget surplus and a positive tax revenue forecast into the future.

As the 2021-2022 budget year begins, and the CSU looks ahead to the 2022-2023 fiscal year, the Department of Finance and the Legislative Analyst's Office project continuous state tax revenue growth through 2024-2025. The Legislative Analyst's forecast of about three percent growth per year is a touch more optimistic than the Department of Finance's forecast of about two percent growth. Together, the state's significant 2021-2022 surplus and these positive longer-term forecasts suggest that the state will be able to invest more in its many programs and functions including the CSU.

The past interests of the governor and the legislature could again be their interests in the future. As the Board of Trustees considers the components of its 2022-2023 operating budget plan, it

could choose to include those components of the budget that are both priorities of the trustees and state leaders.

Most recently, the governor has expressed interest in the CSU closing the equity gaps, better aligning student learning objectives with workforce needs, offering more online courses when compared to pre-pandemic levels, and reducing the overall cost of attendance for students—such as affordable student housing.

The legislature has emphasized enrollment growth and new academic facilities to support more of those California students. Student basic needs, mental health, financial aid, and faculty diversity are other legislative interests.

While many of these gubernatorial and legislative priorities are and could be funded through the operating fund—in other words, the core functions of the university, such as classroom instruction, student services, campus operations, and state university grants—several of those priorities are outside the scope of the operating fund. For example, student housing is a university enterprise activity funded by fees or financial aid sources.

With the potential for a more stable and optimistic state revenue picture for 2022-2023, it is reasonable to assume the governor and legislature will choose to support some proportion of the CSU's operating budget request with recurring new revenues in the next fiscal year.

Recent Funding of the CSU

Governor Newsom's third budget, in partnership with the legislature, showed their commitment to unwinding a significant 2020-2021 budget reduction and additional investments to the university when they provided \$550.2 million in new recurring funds. The CSU also received \$976.3 million in one-time funding mostly for the repair, renewal, and new construction of CSU academic facilities and infrastructure. The operating fund budget totals \$7.4 billion for 2021-2022. Recent CSU operating fund data is detailed in the following chart.

Fiscal Year	State General Fund	% Change	Gross Tuition & Fees	% Change	Total Operating Fund Budget	% Change
2017-2018	\$3,474,230,000	-	\$3,275,294,000	-	\$6,749,524,000	-
2018-2019	3,772,707,000	8.6%	3,277,627,000	0.1%	7,050,334,000	4.5%
2019-2020	4,021,849,000	6.6%	3,269,805,000	-0.2%	7,291,654,000	3.4%
2020-2021	3,722,806,000	-7.4%	3,277,002,000	0.2%	6,999,808,000	-4.0%
2021-2022	4,228,282,000	13.6%	3,167,899,000	-3.3%	7,396,181,000	5.7%

New Investment from the State

Over the last several weeks, Chancellor’s Office staff have met with many stakeholder groups to solicit feedback on the potential contents of the 2022-2023 Operating Budget Request. Based on that feedback, the preliminary 2022-2023 budget plan would allow the CSU to again improve compensation for all employee groups, again consider enrollment growth, provide the final round of investment in Graduation Initiative 2025 (with particular emphasis on eliminating equity gaps and student basic needs), cover mandatory cost obligations, and launch or continue initiatives that take lessons learned from the pandemic and move the university in more dynamic directions. Additionally, progress could be made on facility, infrastructure, and deferred maintenance needs. These align with the Board of Trustees’ standing and emerging priorities and the preliminary expenditure plan below reflects those priorities.

The 2022-2023 budget request will assume that the state continues to see positive state revenue growth for at least another 12 to 18 months and continues to invest in the CSU.

The state’s fortunes can rapidly change and the CSU must also be prepared with contingencies. If a recessionary event were to affect the state budget picture sooner than forecasted, the CSU would explore and implement some combination of the following strategies:

- Use reserves designated for economic uncertainty on a one-time basis;
- Limit investment in new budget priorities;
- Redirect existing campus resources toward significant priorities;
- Explore new revenue sources; and
- Discuss a possible increase in tuition.

If a recessionary event were to occur, the Chancellor’s Office would continue to engage with students, faculty, staff, campus executives, the state, and other CSU stakeholders to first garner state support then explore alternatives for balancing budget priorities and necessary resources.

2022-2023 CSU Operating Budget—Preliminary Planning Approach

It is very early in the budget development process and appropriate for the Board of Trustees to begin discussion of CSU priorities for the 2022-2023 Operating Budget Request. The planning approach presented below represents a range of funding levels that can be balanced to communicate the university's key funding needs. At this stage, it is important for the Board of Trustees to provide input on fiscal policy priorities for 2022-2023.

Preliminary Expenditure Plan - \$563 Million to \$754 Million

Graduation Initiative 2025 - \$75 million

As Graduation Initiative 2025 enters its sixth year, the CSU expects to invest \$75 million of the 2022-2023 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 and Pell Grant recipients, and meet California's workforce needs. Reducing time to degree means that students graduate and enter the workforce sooner positively impacting their future and producing additional graduates to power California.

Today, 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. Additionally, the CSU is on track to meet its systemwide graduation rate goals by 2025. These remarkable improvements represent the dedication of CSU faculty and staff, intentional action by campus leaders, and a systemwide focus on student success.

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.

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

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

These efforts ensure that all students have the opportunity to earn a degree, empowering current and future generations of Californians. To properly support the initiative, an incremental recurring investment of \$75 million in 2022-2023 is necessary. This would fund the sixth year of a six-year, \$450 million investment plan in support of Graduation Initiative 2025.

Employee Salary and Benefit Increases – \$199 million to \$245 million

The Unit 3 (California Faculty Association) contract is currently open for negotiation. Most other collective bargaining agreements expire at the end of 2021-2022 and discussions between bargaining units and the Chancellor's Office are underway or will commence in 2022 for successor agreements. Early estimates indicate that salary, health care premium, and pension cost increases for all employee groups will cost between \$199 million and \$245 million. This range includes an estimate of Unit 3 salary-only recurring costs for 2021-2022 and an estimate of all units (including Unit 3) salary and benefit recurring costs for 2022-2023. As CSU hires more faculty and staff in support of Graduation Initiative 2025, enrollment growth and other systemwide and campus initiatives, the cost to provide salary increases and cover benefit cost increases also grows. Chancellor's Office staff will have more precise figures from campuses and complete its analysis by the November 2021 meeting, but for conservative planning purposes, this estimate is a reasonable starting point.

Mandatory Costs – \$50 million

Chancellor's Office staff anticipate that mandatory cost increases for existing university commitments will be approximately \$50 million in 2022-2023.

Inflation impacts all areas of the university and, for the most part, salary and benefit cost increases are addressed through collective bargaining and state budgetary processes. However, over the past decade, the CSU operating budget request and the final state budget have not included funding explicitly dedicated to cost increases on variety of expenses such as technology, instructional

equipment, supplies, contracts, utilities, and any other non-personnel expenditure of the university. This inflationary adjustment should be considered. Other mandatory costs include increases to operations and maintenance of newly-constructed facilities and other compensation-related costs, such as minimum wage law changes.

If operating budget requests do not include these types of mandatory cost increases, campuses must redirect resources from existing programs, services and priorities to meet those cost increases.

*Facilities and Infrastructure Needs - \$50 million - \$135 million (recurring)
\$500 million - \$1 billion (one-time)*

Prior to 2014, the CSU was reliant on the voters and state to issue bonds and pay the debt service on CSU academic facilities and related infrastructure projects. A change in 2014 authorized the CSU to also issue bonds on these types of projects. It also allowed the CSU to restructure some of the existing state debt so the CSU could build new, and refurbish old, projects.

The CSU and the state have made strides in addressing academic facility and infrastructure needs. The CSU restructured some of that debt shortly after 2014, which since allowed the CSU to construct over \$2 billion in new and revitalized facilities. Additionally, the state has provided approximately \$650 million in one-time funding for deferred maintenance projects over the past decade. These funding streams have been important to addressing the most pressing capital needs on CSU campuses.

Even though a sizable portion of facility and infrastructure needs have been addressed recently, the university's facilities and infrastructure needs remain significant. The systemwide academic facility improvement needs, including deferred maintenance, totals approximately \$16.8 billion. Deferred maintenance alone grows annually by approximately \$300 million.

The CSU pursues multiple strategies to address facility and infrastructure needs. These include:

- The CSU regularly requests recurring funding from the state that is used to pay the debt service on CSU-issued bonds.
- The state recently approved \$2 billion in one-time funding to construct new academic facilities and support affordable student housing for public higher education segments. While the state has not finalized the details of this program, it is anticipated that a portion of that funding will support new CSU academic facilities.
- The CSU has been supportive of efforts for voter passage of higher education facility general obligation bonds, though voters last approved bonds in 2006.
- CSU also keeps capital outlay resources dedicated to those purposes. When older bonds mature, the CSU repurposes those debt service payments to support the next round of CSU bonds issued for new projects.

- The CSU continues to use one-time Total Return Portfolio investment earnings for capital improvement projects as required by law.
- The CSU regularly requests one-time funding from the state that supports deferred maintenance projects.

The 2021-2022 budget request of \$50 million recurring for academic facilities and infrastructure was not funded. In fact, the state's annual budget acts and related CSU decisions have resulted in no new recurring funding from the state being dedicated to annual debt service since 2015-2016. The CSU certainly appreciates the significant one-time investment of \$325 million provided by the state to help campuses with their deferred maintenance and infrastructure needs in the coming years.

The addition of \$50 million to \$135 million in recurring funds in 2022-2023 would finance approximately \$750 million to \$2 billion of needed facility and infrastructure projects that increase capacity for student growth and complement the plan to address deficiencies in existing facilities. Requesting between \$50 million to \$135 million recurring to pay the annual debt service on projects is an important fiscal strategy to help address facility and infrastructure needs. A second, complementary strategy would be to include a request between \$500 million and \$1 billion in one-time funds from the state to further address deferred maintenance.

Full-Time Equivalent Student Enrollment Growth – \$129 million

In 2015, the Public Policy Institute of California (PPIC) concluded that the state would fall about 1.1 million college graduates short of economic demand by 2030. The PPIC suggested then that to close the degree gap, there was a need for 480,000 more CSU graduates. Six years later, PPIC today reports that California is currently on track to close the degree gap and attributes that success to: (1) increases in state funding that supported significant enrollment growth at CSU and the University of California and (2) university programs, such as Graduation Initiative 2025, that have successfully improved student persistence and graduation rates. New enrollment and persistent enrollment are key to closing the anticipated degree gap.

Additionally, California has for decades encouraged generations of young Californians to pursue higher education. Despite the pandemic, demand for the CSU remains strong as more students graduate from high school having met the A-G requirements for admission to the CSU and more transfer students complete the Associate Degree for Transfer. To accommodate more students at the CSU, the legislature and governor committed to providing recurring funding to grow enrollment by 9,434 resident, full-time equivalent students beginning in 2022-2023. This would cost approximately \$129 million and would be equivalent to a 2.5 percent increase in funded enrollment growth principally for new two-year transfer and four-year first-time student seats and, to a smaller extent, growth in the average unit load for continuing students in support of graduation rate goals. Funding for this item would come from two sources: additional tuition revenue from

new students and state general fund. For planning purposes, each one percent increase in enrollment would cost approximately \$51 million and would allow for growth of approximately 3,740 FTES.

Bridging the Equity Divide Through Technology – \$50 million to \$100 million

Over the course of the past year, the CSU helped bridge the equity divide by increasing access to critical technology to ensure student success in a virtual learning environment. While the CSU is offering the majority of instruction in person this Fall term, some courses will be offered virtually, due to ongoing risks and challenges posed by the COVID-19 pandemic.

In July 2021, the CSU announced the launch of the first phase of the California State University Connectivity Contributing to Equity and Student Success (CSUCCESS) initiative, a bold effort to enhance student achievement and create more equitable opportunities for the CSU community by providing industry-leading technology. CSUCCESS will help provide students with tools to participate and succeed in a virtual learning environment. Eight campuses are participating in the initial phase this Fall 2021 and offered an iPad Air, Apple Pencil, and Apple Smart Keyboard Folio to all incoming first-year and new transfer students who register to participate in the initiative. Students will have this iPad bundle for the entirety of their undergraduate experience at the CSU. The new CSUCCESS initiative builds on previous efforts to address the issue at scale by partnering with a global technology leader at the university-wide level to provide a high-quality, reliable device for new students.

Next steps in bridging the equity divide through technology could include several approaches. The CSUCCESS initiative could be rolled out to more campuses and more students beginning in Fall 2022. Also, information technology capabilities could be expanded so that the educational experiences, lessons learned, and opportunities identified during the pandemic can be optimized now and in the future for course delivery. Another component of the request could be informational technology infrastructure that increases research opportunities and access to advanced cyberinfrastructure. At this early stage, Chancellor's Office staff estimate between \$50 million and \$100 million in new recurring costs.

Student Basic Needs – \$10 million to \$20 million

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 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 2020 survey, campuses are investing \$92 million from all funding sources on basic needs support and services to students. Another survey this fall is underway to help determine if

additional funding should be included in the operating budget request. As a placeholder, the addition of \$10 million to \$20 million in recurring funds would provide the CSU more opportunities to support students experiencing food and housing insecurities, unanticipated financial distress, mental health concerns and overall health and safety challenges that have the potential to disrupt their timely pathways to degree.

Staff Salary Structure Study Results – PENDING

The Budget Act of 2021 included \$2 million for the Chancellor's Office to evaluate the existing salary structure, issues of salary inversion, and provide any recommendations for alternative salary models for CSU non-faculty staff. The Chancellor's Office, California State University Employees Union, Service Employees International Union, and Teamsters Local 2010 partnered this past spring to advocate for state funding for this purpose. Our organizations have long desired to find a mutually-agreeable solution to address issues of inversion and salary structure. The evaluation will be completed by April 30, 2022. The evaluation's recommendations could include solutions that could require additional funding. The Chancellor's Office, in partnership with these represented staff groups, could advocate for additional funding in the spring and summer of 2022 just prior to final enactment of the 2022-2023 state budget.

This item is time dependent and potential costs will not be known for many months. If the Board of Trustees were to agree with the strategy articulated above, this item could be included as a placeholder in the 2022-2023 Operating Budget Request.

Preliminary Revenue Plan

At this preliminary stage, the planning effort focuses on stating the CSU's budget priorities and needs. Accounting for enrollment growth revenue (approximately \$24 million per one percent increase in enrollment targets), the preliminary plan's range of new investments would require additional new ongoing revenues from the state ranging from \$504 million to \$695 million and would require additional new one-time revenue from the state ranging from \$500 million and \$1 billion for deferred maintenance.

Operating Fund Designated Balances and Reserves

Designated balances and reserves in CSU's operating fund are used in several ways to deal with non-recurring expenses by managing short-term obligations and commitments, providing funding for capital infrastructure repairs and maintenance, and helping to ensure that operating costs can be paid during times of catastrophic events and economic and budgetary uncertainty. Designated balances and reserves are determined and reported annually by the campuses and the system office and are published on CSU's financial transparency portal. Designated balances and reserves are not used to fund recurring expenses such as salary increases. The use of one-time monies to pay

recurring, permanent expenses can lead to structural deficits where recurring resources are insufficient to pay for recurring costs.

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. In the first several months of the pandemic, the CSU drew upon these reserves on a one-time basis to maintain operations in programs impacted by COVID-19. More specifically and early in the pandemic, the Chancellor's Office estimated that 45 percent of all operating fund reserves for economic uncertainties would be used in 2020-2021 to cover COVID-related losses and expenses. The fortunate reality was that over the past 18 months with subsequent rounds of federal legislation, campuses used one-time federal funds in lieu of operating fund reserves for COVID-related losses and expenses. We no longer anticipate a use of reserves for COVID-related purposes over the next several years because the economy and state budget have rebounded sooner than expected.

As of June 30, 2021, designated balances and reserves in the operating fund totaled \$2.0 billion and are held for short-term obligations, capital needs, catastrophic events and economic uncertainties.

Designated Balances for Short Term Obligations

Amounts held for short-term obligations are designated for payments for open contracts and purchase orders, near-term debt service payments, financial aid obligations, and programs that are in development. Balances for short-term obligations totaled \$1.11 billion at the end of last year and cover expected needs, which are typically paid in the following fiscal year.

Designated Balances for Capital

Designated balances for capital are for new projects and to repair current buildings, as well as planning costs and equipment acquisition associated with those buildings. Balances for capital fall well short of the expected need, which is at least ten percent of the cost of academic projects approved in the most recent five-year capital plan. Capital designated balances totaled \$327 million.

Designated Balances for Catastrophic Events

These designated balances are to be used in the event of a natural disaster or other catastrophic event, including annual insurance premiums or self-insured retentions and total \$31 million.

Reserves for Economic Uncertainties

Reserves for economic uncertainties are designated to provide a prudent reserve to sustain operations during periods of economic uncertainty such as short-term recessionary cycles or state budget fluctuations. Operating reserves are intended to be used in the present and the future as one-time supplements to help manage the often-rapid decline in state resources, allowing time to appropriately adjust operating budgets to balance reductions and minimize disruptions to students' education as much as possible. Designated reserves for operations set aside for economic uncertainty total \$531 million and are less than one month of operating expenses, well below the need to maintain three to six months of operating expenses.

Conclusion

This is an information item presenting a preliminary framework for the 2022-2023 CSU Operating Budget Request to the governor and the Department of Finance. Using feedback provided by the Board of Trustees at the September 2021 meeting, Chancellor's Office staff will present an updated and detailed operating budget recommendation for Board of Trustees' approval in November 2021.