



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 3, 2018

CHANNEL ISLANDS

Assemblymember Miguel Santiago
State Capitol

CHICO

P.O. Box 942849
Sacramento, California 94249-0053

DOMINGUEZ HILLS

Dear Assemblymember Santiago:

EAST BAY

Thank you for your continued interest in the financial health of the California State University.

FRESNO

The shifting of authority and responsibility for capital repair, renewal and replacement to the university, in addition to the shifting of education costs from public support to student tuition, indeed added to the financial complexity of a multi-billion-dollar, year-round operation.

FULLERTON

HUMBOLDT

With the inherent complexity in mind, this letter responds to your further inquiry of February 6, 2018, regarding CSU accounts held outside the state treasury. You will find in subsequent pages your questions followed by detailed response by university experts. However, I would like to highlight a few main points.

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

First, you will find in the following pages clarification on CSU banking practices. US Bank serves as the custodian for the Systemwide Investment Fund Trust (SWIFT) account, with US Bank and Wells Fargo serving as asset managers. The *CSU Bank* is not a real entity, but is only used as a reference for CSU assets.

MONTEREY BAY

NORTHRIDGE

Second, you correctly note that there have been some significant variations in account balances for the period from 2008-2017. There are three primary drivers behind those fluctuations. Those drivers are:

POMONA

SACRAMENTO

- *Variation in state appropriations for noncapital university expenditures.*
This variation – particularly a \$1 billion reduction in state appropriations during the early years of the recession, followed by years of partial recovery – temporarily increases or decreases account balances as the university makes necessary long-term financial decisions based on appropriation levels.

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

This variation, particularly sudden cuts, increases university reliance on student tuition fees. While overall CSU cost-per-degree continues to remain among the lowest nationally and historically, the increasing student share of that cost has changed the pattern of CSU cash flow.

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

- *Increase in overall operation costs.*
The CSU has stretched to serve a growing population of college-ready high school graduates and community college transfers, while simultaneously working to achieve ambitious Graduation Initiative 2025 goals.

SONOMA

STANISLAUS

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- *Increase in one-time inflows or outflows.*

One-time funds present a particular challenge, as the nature of university activities require long-term commitments to students and employees. Therefore, account balances may temporarily increase or decrease in response to one-time occurrences. Two significant examples are the receipt of funds from the Federal American Recovery Reinvestment Act and the temporary transfer of funds from the university to the state government to assist with California's budget shortfall.

Third, you will find in these pages a detailed breakdown of funds by statutory use and restriction. Funds may come from a variety of restricted sources for restricted purposes. As examples, these purposes include student housing and health, extended education and financial aid.

Fourth and finally, you will find a detailed description of how SWIFT accounts are used as a tool. In brief, while balances are deposited into the investment account nightly, the sources and earnings are closely tracked and returned back to campuses for their intended purposes.

I hope that the following answers to your questions bring clarity on how SWIFT accounts operate as a vital part of California State University efforts to effectively and efficiently manage funds from the state and students to carry out our public mission.

Please contact me if I can provide any further information.

Sincerely,

Timothy P. White

Chancellor

c: Assemblymember Jose Medina
Assemblymember Kevin McCarty
Assemblymember Phil Ting
Senator Ben Allen
Senator Holly Mitchell
Senator Anthony Portantino
Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer
Mr. Garrett Ashley, Vice Chancellor, University Relations and Development
Ms. Kathleen Chavira, Assistant Vice Chancellor, Advocacy and State Relations
Mr. Ryan Storm, Assistant Vice Chancellor, Budget

Question 1. “In addition to SWIFT, what other outside accounts does the CSU control and how are these revenues used? For instance, the CSU Legal Accounting and Reporting Manual, Chapter 34: Banking and Investments document identifies Wells Fargo Bank, U.S. Bank and the Bank of CSU as outside accounts.”

As described in the letter of August 24, 2017, US Bank is the custodian bank of the SWIFT portfolio, which functions as a single investment “account” held outside the state treasury pursuant to authority provided by the California Education Code §89721.

The CSU Legal Accounting and Reporting Manual, Chapter 34: Banking and Investments document identifies U.S. Bank as an outside account because of the role as the CSU’s custodian for the SWIFT portfolio. For purposes of defining outside accounts, the SWIFT investment portfolio and U.S. Bank are synonymous. There are two asset managers responsible for investments decisions contained for the SWIFT account – US Bancorp Asset Management and Wells Fargo Asset Management – who invest cash balances held within the SWIFT account pursuant to the CSU Board of Trustees investment policy. Neither US Bancorp Asset Management nor Wells Fargo Asset Management hold CSU assets in accounts outside the state treasury. Instead, all SWIFT assets are held by U.S. Bank as the custodian.

The “Bank of CSU” referenced in the CSU Legal Accounting and Reporting Manual is a conceptual internal reference to the oversight and administrative responsibilities carried out by the Department of Financing and Treasury within the Division of Business and Finance in the Office of the Chancellor, which is the department that manages banking and investment activities on behalf of the CSU. The “Bank of CSU” is not a separate entity and does not hold assets outside the state treasury.

Question 2. “Please provide additional detail explaining the changes in the ending account balances that occurred in the SWIFT account from 2008-17, the reasons for the significant 2009-10 ending balance increase, and the amount of revenue and identified expenditures, broken down by year, resulting from the Federal American Recovery and Reinvestment Act (ARRA).”

We have selected excerpts from the Management Discussion & Analysis of our annual audited financial statements to provide additional detail regarding the changes in year-end SWIFT balances reported in the letter of August 24, 2017. These excerpts highlight significant changes in our financial circumstances during the period in question.

From fiscal year 2008/09 to 2007/08, the CSU experienced a significant decrease in the funding from noncapital State appropriations as a result of the severe economic difficulty, which combined with an increase in the operating expenses during that time resulted in a decline in SWIFT balances. The decrease was partially offset with \$269 million from the Federal American Recovery and Reinvestment Act (ARRA) and revenues from higher student fees and enrollment growth.

In the following fiscal year, 2009/10, a combination of an increase in noncapital State appropriations and student tuition and fee rates restored some of the prior year reductions. In addition, the remainder of ARRA funds totaling approximately \$448 million were received and overall operating expenses declined.

The increase in SWIFT in fiscal year 2010/11 compared to 2009/10 is partly due to the gradual restoration of the noncapital State appropriations and additional revenues from the increase in the mandatory student fees, which partially offset revenue lost from a decline in enrollment and increase in institutional financial aid grants to students. Higher operating expenses occurred compared to prior year levels but remained lower than those prior to the severe economic downturn.

SWIFT balances declined in fiscal year 2011/12 compared to 2010/11 again due to the significant reduction in noncapital State appropriations, reflecting the uncertainty of state funding during the past decade. The impact of this reduction was partially mitigated by revenues from increased student mandatory fees and additional revenue from enrollment growth. Enrollment growth also resulted in a slight increase in the operating expenses contributing to the decrease in the SWIFT balance. Lastly, approximately \$700 million was transferred from SWIFT to the State Agency Investment Fund (SAIF) to help the state government meet cash flow requirements, which was repaid to SWIFT in the following fiscal year.

The increase in SWIFT balances in fiscal year 2012/13 was due to additional funding from noncapital State appropriations and additional revenues resulting from enrollment growth. In addition, as mentioned above, approximately \$700 million was transferred back from SAIF to SWIFT, contributing to a higher fiscal year-end balance.

SWIFT balances increased again in fiscal year 2013/14 as a result of additional funding from noncapital State appropriation for operating costs and supplemental revenue to offset a prior-year tuition fee rollback. Additional revenues resulting from enrollment growth, partially offset by the increase in the related operating expenses, also contributed in year-end SWIFT balances.

The increase in SWIFT balances in in fiscal year 2014/15, 2015/16, and 2016/17 again resulted from more funding from noncapital State appropriation and additional revenues due to enrollment growth, partially offset by enrollment related operating expense increases as well as growth in compensation and benefit costs.

Question 3. “Your letter states ‘The SWIFT account is used for investment purposes only and the CSU does not expend funds from the SWIFT account.’ However, you then identify a number of CSU programs funded from the outside accounts, including \$1.877 billion in discretionary monies for ‘CSU operations.’ You also refer to 2011-12 when the state of California was able to ‘borrow cash’ from these accounts. Please explain this discrepancy, and specifically identify how CSU operations funds may be expended. Also explain how these operational monies may be transferred, if applicable, and for what purposes.”

The SWIFT portfolio is for investment purposes only. No expenditures are made from the SWIFT portfolio. Instead, when cash is required, cash is transferred from the SWIFT portfolio back to the Wells Fargo checking master account to make the payment. The payment is attributed to the fund authorized by statute to incur the cost. For example, when a payment is required from CSU operations, an amount is transferred from the SWIFT portfolio to the master checking account, the payment is issued from the campus sub-account, and the expense is associated with CSU fund 485, which is the operating fund, and the purpose of CSU fund 485 is described by EDC §89721 and §89700, among others. Other statutory limitations by category of fund invested in SWIFT are listed in Table 1.

Question 4. “Education Code §89721 states in part that ‘the chief fiscal officer of each [CSU] campus shall deposit into and maintain in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7, inclusive, of the Government Code, or in the [CSU] Trust Fund moneys received...’ Is there an agreed upon minimum or maximum amount that campuses must deposit in local trust accounts? How is this amount determined? How is it determined which trust account(s) are used? Once deposited, can the funds be expended for specified purposes as outlined in Education Code §89721? Are local trust fund balances in addition to the fund balances in CSU’s outside accounts?”

All local trust accounts are held within the SWIFT portfolio and are included in the figures in Table 1 below under “Miscellaneous local trust funds.” As described in the letter of August 24, 2017, the CSU SWIFT portfolio is used to invest all funds held by the CSU outside the state treasury, including miscellaneous local trust funds. The amount campuses deposit into the SWIFT portfolio is determined by the net cash balance available in the checking account at the close of business each day. All available balances are automatically transferred into the SWIFT portfolio nightly.

Monies credited to miscellaneous local trust accounts are authorized for the purposes specified in EDC §89721, §89230, §89301, §89700 and include funds for Associated Student, International Programs, and Instructional Related Activities, among others applicable to each individual local trust account.

Question 5. “As of December 31, 2017, what was the ending total balance in the CSU’s outside accounts and what was the total revenue in campus trust fund balances? Of these amounts, how much of these funds are discretionary?”

Balances invested in the SWIFT account are held in a single investment portfolio, but are accounted for by fund according to the underlying statutory use restrictions.

Table 1 below lists the statutory authorization for each fund and the amount of the SWIFT balance attributable to that fund as of December 31, 2017, similar to the summary provided in the letter of August 24, 2017. All cash balances are designated for purposes authorized by statute. For example, CSU operating funds designated by EDUC §89700 authorizes the trustees to “require all persons to pay fees, rents, deposits, and charges for services, facilities or materials provided by the trustees to such persons.” Cash balances held in the SWIFT investment portfolio for CSU operations are designated for use for services, facilities, or materials provided by the trustees to persons who pay fees, rents, deposits, and charges. Balances held in miscellaneous local trust accounts totaled \$218 million as shown in Table 1.

The increase in balances as of December 31, 2017, associated with CSU operations from the amount shown in the letter of August 24, 2017, as of June 30, 2017, is due to the collection of student fee revenue prior to the beginning of the spring semester and the reduction in CSU operations balance that typically occurs at the end of the fiscal year once the general fund appropriation has been fully expended, typically leaving the remaining two months of expenses to be paid from operating balances transferred from the SWIFT portfolio to the master checking account. All figures reported in the letter of August 24, 2017, were as of the end of each fiscal year. The figures below are as of December 31, 2017, mid-way through the current fiscal year.

Table 1
SWIFT Cash Balance as of December 31, 2017, by Fund Group and Designation

CSU Operations (EDC §89721, §89700)	\$2,002,976,912
Student housing (EDC §89721, §89703)	422,646,705
Student body center programs (EDC §89721, §89304)	307,400,076
Extended education (EDC §89721, §89304)	256,495,256
Miscellaneous local trust funds (EDC §89721, §89230, §89301, §89700)	218,150,485
Parking (EDC §89721 §89701, §89701.5)	187,965,156
Capital and special projects (EDC §89721, §89725)	184,864,194
Financial aid (EDC §89721, §89722.9)	82,584,828
Health facilities (EDC §89721, §89702)	56,630,805
Lottery programs (EDC §89721, §89722.5, GOV §8880.1, §8880.5)	54,365,235
Total SWIFT Cash Balance	\$3,774,079,651

Question 6. “Your letter refers to \$306.4 million in earnings that accrued over the ten-year period from 2007-17. Are these interest earnings from the outside accounts? Are there any restrictions on how interest earnings may be spent? How much in interest earnings have resulted from local trust accounts during this period?”

The earnings referenced in the letter of August 24, 2017, totaling \$306.4 million accrued over the ten-year period from fiscal year 2006/07 to 2016/17, are derived from the entire SWIFT portfolio and were credited to the funds listed in Table 1 based on the investment returns attributable to the balances in these funds. These earnings are attributed to the fund groups and are restricted or designated in accord with the education code and government code sections listed in Table 1 associated with the specific fund group. Over the ten-year period from July 1, 2007, to June 30, 2017, SWIFT earnings attributable to miscellaneous local trust fund balances totaled approximately \$37.7 million of the \$306.4 million total SWIFT earnings.