AGENDA

COMMITTEE ON FINANCE

Meeting: **10:30 a.m., Tuesday, September 9, 2014**
Glenn S. Dumke Auditorium

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe C. Garcia

Consent Items

Approval of Minutes of Meeting of July 22, 2014

Discussion Items

1. Planning for the 2015-2016 Support Budget, *Information*
2. Student Success Fees Working Group, *Information*
3. 2015-2016 Lottery Revenue Budget, *Information*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Northridge, San Diego State University, and Sonoma State University, *Action*
5. California State University Investment Report, *Information*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

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

July 22, 2014

Members Present

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Timothy P. White, Chancellor
Lou Monville, Chair of the Board

Trustee Achtenberg called the meeting to order.

Approval of Minutes

The minutes of May 20, 2014 were approved by consent as submitted.

Report on the 2014-2015 Support Budget, *Information Item*

Mr. Steve Relyea, Executive Vice Chancellor for Budget and Chief Financial Officer provided an overview of the topics for discussion including the trustees' November 2013 support budget decisions, the revised 2014-15 CSU support budget and how new state funding will be prioritized. He then introduced Mr. Ryan Storm, Interim Assistant Vice Chancellor for Budget to provide more details.

Mr. Storm presented an update on the 2014-2015 support budget. He stated the total request was for $238 million dollars. The state budget provided $142.6 million dollars with the expectation of no tuition fee increases for 2014-2015. He then proceeded to discuss the CSU's funding priorities.

Mr. Storm stated that, although the trustees' request for student success and completion initiatives was for $50 million, the CSU will continue to invest in student success and completion by directing $22 million dollars toward this important endeavor. Approximately half of the plan's funding will be covered by one-time carry forward funds and the state appropriation while the other half will be covered by tuition fee revenue. It is envisioned that campuses will respond to a request for proposals to be issued by the Chancellor's Office. Those campus responses will explain how campuses intend to bolster student success and completion.

Mr. Storm added that the trustee's support budget established a goal of increasing funded enrollment for current and prospective students by five percent or $164 million dollars. Instead, the plan will now commit $61 million additional dollars towards enrollment. This funding will help current CSU students' progress to degree completion by improving class availability and removing other bottlenecks. It is worth noting that the CSU will deny access to approximately 10,100 CSU-eligible students.

As for employee compensation, the trustees' request of $92 million will be fully funded. This amounts to approximately a three percent increase in the total CSU compensation. Compensation for faculty, staff, and management is a key element of the university's success. The ability to offer a competitive compensation package is essential to the CSU's ability to recruit and retain employees who contribute to the CSU's mission of excellence and its ability to provide quality programs and services to students. By investing in this way, the CSU will be able to provide the first significant compensation improvement since 2007.

The last component of the trustees' request was to commit $15 million in each of the next three years to address CSU's many maintenance and infrastructure needs. At this time, $10 million dollars will be set aside to make debt payments related to financed projects. This planned investment will provide approximately $130 million dollars-worth of the most pressing facilities needs on CSU campuses.

Mr. Storm further discussed the notable Budget Act changes affecting the CSU stating that the new state law places a moratorium on new student success fees until January 2016. In addition, the Chancellor is required to review the CSU fee policy as it relates to student success fees and recommend any changes to the board by February 2015. Mr. Storm reported that the CSU is required to prepare a multi-year fiscal and policy plan that would establish annual performance goals and outline how the goals would be achieved. The plan is due to the state in November 2014.

The state budget also includes a one-time $50 million program called the Awards for Innovation in Higher Education. The purpose of the program is to identify and reward public colleges and universities that will use creative techniques to increase the number of degrees awarded, improve four-year graduation rates, and ease transfer through the public higher education system. Campus applications are due to the state in January 2015.

Trustee Glazer stated that, in November, the Board approves the support budget request that is then sent to the State. This request reflects what the Board believes is a prudent investment in education. He noted the importance of discussing how the decisions the Board makes now may affect the CSU in the future.

Chair Achtenberg noted that, in the past, the CSU had advanced commitments from the state for minimal funding. She further added that there should be future discussions about the enrollment numbers and how the CSU needs to conduct itself in order to meet the educational needs of the state of California.

Trustee Monville commented that the board should remain mindful about enrollments. He stated that with initiatives like SB 1440, demand from transfer students will continue to increase. This may constrain admittance for first time freshmen and cause challenges for CSU presidents. He added that this would be a fundamental shift for the institution and the commitment the CSU made to California.

Chancellor White added the importance of putting forward a needs-based budget and expressed his belief that the State needs to see the CSU's true need in order to serve California's economic and social future. Trustee Glazer agreed with the chancellor and the need to advocate for the CSU and its needs. He added that the board needed to find the right process and balance.

Trustee Glazer inquired about the $10 million allocated under infrastructure needs and whether this was a suggestion to borrow $130 million and become an ongoing obligation or if this was meant to be a Board action. Mr. Storm responded that action would be taken at a later time. He stated that Ms. San Juan's area would bring forth the project priorities. He added there would be discussions about the multiple processes used to select those projects that need to be funded.

Trustee Glazer questioned if the Board would be able to look at this in a comprehensive way. Mr. Storm responded that staff provides the recommendations to the Board and the Board determines how to proceed.

There being no further questions, Trustee Achtenberg adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Planning for the 2015-2016 Support Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Summary

As part of the preparation of the California State University (CSU) support budget request for the 2015-2016 Governor's Budget, the board will be provided preliminary assumptions for purposes of crafting a budget request to the governor that will come back to the board for review and approval in November 2014.

State Budget Overview

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the submittal of budget requests to the Department of Finance, it is necessary to commence planning for the requested 2015-2016 CSU Support Budget.

The significant tax revenues produced by Proposition 30 and the ongoing economic recovery allowed the state to begin anew to invest in public higher education, including a $125.1 million programmatic funding increase for the CSU in the enacted 2013-2014 budget and a $142.2 million increase in the recently enacted 2014-2015 budget, which equates to approximately 2.5 percent increases for each of those years. While the University of California received the same level of funding increases as the CSU, K-12 local educational agencies and community college districts received a combined $5.6 billion increase, equivalent to a ten percent increase. Also, Proposition 30 and the economic recovery allowed the state to set aside $3 billion in reserves and to retire $10 billion of debt in 2014-2015. Under current assumptions, state debt will be completely eliminated by 2017-2018.

The state, however, continues to face significant expenditure obligations and risks. The state is challenged by significant debts, deferrals, and budgetary obligations in excess of $300 billion, according to estimates by the Department of Finance. Examples of these obligations include state employee and teacher pension obligations and deferred maintenance. Also, there is potential for significant natural disasters to arise (e.g. earthquakes, wildfires, etc.) that could require significant sums of state funds. While the national economy is steadily growing, the state economy is growing at a slower pace. Capital gains taxes make up a significant portion of the state budget revenue picture, but this revenue source is highly volatile and can swing dramatically from one year to the next.

If the state's economic recovery continues, state revenues could continue to grow by four to six percent per year through 2017-2018, according to projections by the Department of Finance. The outlook for 2015-2016 ranges from continuing constraint to significant opportunity.

The Governor's Multi-year Funding Plan for the UC and CSU

In January 2013, Governor Brown's budget proposal included a multi-year plan to provide funding stability to the UC and the CSU. This plan calls for state funding increases to the two universities totaling $511 million each over the course of four years, culminating with the 2016-2017 fiscal year. This recognizes the fact that both universities endured state funding reductions in equal dollar amounts during the recent half decade of fiscal crisis. The cumulative increase occurs in annual increments as follows:

- $125.1 million in 2013-2014
- $142.2 million in 2014-2015
- $119.5 million in 2015-2016
- $124.2 million in 2016-2017
- Cumulative increase in annual funding = $511 million

Although the legislature has not adopted this plan, it did approve the first and second year increases of $125.1 million and $142.2 million, respectively.

One tenant of the governor's multi-year funding plan is that the universities not increase tuition fees during this period. CSU's support budget is dependent on two revenue sources: state general fund and tuition fee revenue. Each makes up approximately fifty percent of the support budget. As the governor's multi-year funding plan effectively removes half of the CSU's potential revenue source from the discussion, it places significant pressure on the university to meet its budgetary needs.

The State's Funding Plan Does Not Meet CSU's Needs

The limited resources from the state for 2014-2015 did not provide the CSU the opportunity to serve the tens of thousands of CSU eligible students who have been denied access for fiscal reasons to the university. This not only limited CSU's ability to serve prospective CSU students, but it also did not help serve the state's larger, long-term need to increase its baccalaureate-holding workforce. With the shift of responsibility for capital outlay and infrastructure investment from the state to the CSU, the CSU was able to carve out enough funds to address one year's worth of accruing deferred maintenance, but was unable to begin to address the estimated $1.8 billion backlog of deferred maintenance projects. The governor's multi-year funding plan would provide $119.5 million increase in 2015-2016, which is a smaller increase than provided in 2014-2015 ($142.2 million).

2015-2016 CSU Support Budget—Preliminary Planning Approach

In this agenda item we share with the board a preliminary plan for the crafting of a support budget request for 2015-2016. The planning approach represents a credible statement of the university's key funding needs. At this planning stage, it is important for the board to provide input on its fiscal policy priorities for 2015-2016.

Preliminary Expenditure Plan

The preliminary expenditure plan is summarized below. At this point, these estimated amounts are preliminary and highly approximate.

• Mandatory Costs (health benefits, pensions, & new space maintenance)	$23 million
• 2% Compensation Pool	$63 million
• 3% Enrollment Demand (net of tuition fee revenue)	$73 million
• Student Success and Completion Initiatives	$38 million
• Facilities and Infrastructure Needs	$39 million
Total Ongoing Expenditure Increase	$236 million
• General Fund Revenue from Governor's Multi-Year Plan	$119.5 million
Additional Resource Need	**$116.5 million**

This preliminary expenditure plan would bring annual spending for support of the CSU to nearly $5 billion, including student fee revenues (net of financial aid).

Mandatory Costs

Mandatory costs are costs that have already been determined by state law, CSU policy, and operational needs. At this point in time, there is little to no discretion over these costs.

Compensation Pool

The compensation pool item remains contingent upon the collective bargaining process. Currently, negotiations are underway that could have a multi-year impact for 2014-2015 through 2016-2017. This item would conditionally commit $63 million to the compensation pool, pending final agreements.

The board has significant discretion over the expenditure plan for enrollment of new students, student success and completion, and facilities and infrastructure needs.

Enrollment Demand

There is strong current and future demand for a CSU education. Over 20,000 students each year have been denied access for each fall admission cycle between 2010 and 2013 because the university did not have sufficient financial resources from the state to admit and educate them. In terms of the future, it is anticipated that demand for a CSU education will likely grow due to enrollment funding provided to the California Community Colleges. Specifically, the community colleges received new enrollment funding equivalent to 30,000 additional full-time equivalent students (FTES), or 60,000 headcount, in the 2014-2015 budget. As early as 2015-2016, it is possible that the CSU will begin to see an increase in applicants from this first cohort of community college students seeking to complete their degrees at the CSU. Access to education and the preparation of the state's future workforce depends on the state investing in the CSU.

The proposed expenditure plan to support enrollment demand represents a three percent increase in FTES, or approximately 10,000 FTES. This increase would allow for growth in the number of students admitted and served, as well as accommodate existing demand by current students for additional courses (allowing improved time-to-degree). The costs of accommodating additional enrollment are covered by additional tuition fee revenue and state general fund. For planning purposes, a one percent increase in enrollment demand would cost approximately $35 million and would provide access to approximately 3,500 FTES.

Student Success Completion Initiatives

There are a variety of efforts and strategies to facilitate degree completion and student success at CSU campuses. Some examples are instituting high impact practices, readying students for college, making data-driven decisions, and improving the educational experience for students. The categories of costs are as varied as the initiatives themselves, but at their core, these initiatives require professional staff and faculty with the expertise to operate, repair, maintain, teach, research, advise, implement, program, counsel, coordinate, and analyze the many facets of these initiatives. To simplify for planning purposes, we estimate a salary and benefit cost of $100,000 per faculty and $75,000 per staff. As a result, $38 million would equip each campus with the opportunity to hire between 15 and 20 new faculty and staff to support various student success and completion initiatives, as outlined in the Chancellor White's 2014 State of the CSU address. Systemwide, this item would grow the CSU employee base by less than one percent.

Facilities and Infrastructure Needs

The CSU's backlog of facility maintenance and infrastructure needs is massive and growing. Even with the state statutorily changing the way it handles CSU academic-related infrastructure needs by providing the CSU with the autonomy to self-determine CSU's capital program, the state did not provide sufficient funds in 2014-2015 for the CSU to capitalize on the new program. Consequently, annual support budgets will not be able to retire significant portions of maintenance backlog for many years without additional resources being allocated for this purpose. For example, the 2014-2015 support budget commits $10 million per year to finance approximately $130 million of the university's most pressing renewal projects. Agenda item 1 of the Joint Committee on Finance and Campus Planning Buildings and Grounds includes the proposed list of deferred maintenance and infrastructure projects that would be financed in 2014-2015 using the $10 million in operating funds. That investment will mitigate the growth of the deferred maintenance backlog and keep the balance at approximately $1.8 billion in 2015-2016.

Attachment A is the draft 2015-2016 CSU/State and Non-state Funded Capital Outlay Program for the board's information. The draft priority list of projects to be funded using the new CSU financing authority and potentially traditional state funding is noted on page 1 with the list of non-state (primarily self-support) funded projects on page 2.

In light of the backlog of infrastructure renewal needs, the program continues to focus on needed improvements to our utilities, technology network and building infrastructure, seismic upgrades, followed by major building replacements/renovations and new buildings to accommodate growth. The Systemwide Infrastructure Improvements program is the highest priority for the use of CSU financing as the program provides funds across all campuses and includes campus technology network upgrades and mobility services to meet the expanding access demand. The preliminary expenditure plan identifies that $39 million is needed to fund the facilities and infrastructure needs. These funds could be spent to pay for projects on a pay as you go basis, or be used to finance projects on the Draft CSU/State Funded Capital Outlay Program 2015-2016 Priority List that currently totals $389.2 million.

Preliminary Revenue Plan

The preliminary expenditure plan significantly addresses many of the CSU educational and operational needs. But if required to do so, it would be exceedingly difficult for the CSU to operate within the confines of the governor's multi-year funding plan. Mandatory costs and compensation pool costs alone would consume approximately $90 million of the $119.5 million available from the governor's multi-year funding plan. This would leave approximately $30 million to address enrollment, student success, and facilities. For illustration purposes, if the remaining $30 million were spread evenly among the remaining items, CSU would be able to serve 1,000 new FTES, hire four to five student success and completion-related faculty and staff per campus, and finance approximately $130 million of facility and infrastructure needs. This scenario would do very little to serve prospective and current student needs and would only marginally address the $1.8 billion deferred maintenance backlog.

At this preliminary stage, the planning effort focuses on stating needs and being positioned for opportunity. Accounting for enrollment growth revenue and the governor's funding commitment of $119.5 million, these recommended items would require additional new ongoing revenues from state and/or tuition fee revenue sources of roughly $116.5 million.

Conclusion

This is an information item, presenting a preliminary framework for the 2015-2016 CSU Support Budget request to the Department of Finance and the governor. Estimated amounts for each item on the above lists may be revised, based on updated information, in the course of preparing the budget for the board's review and approval. The board will be presented with an updated and detailed support budget recommendation in November 2014 as an action item.

DRAFT CSU/State Funded Capital Outlay Program 2015/16 Priority List

Cost Estimates are at Engineering News Record California Construction Cost Index 6151 and Equipment Price Index 3202

Rank Order	Cate-gory	Campus	Project Title	FTE	Phase	Total Request	Funds to Complete	Cumulative Amount
1	IA	Statewide	Infrastructure Improvements	*0*	PWC	230,000,000	0	230,000,000
2	IA	Humboldt	Seismic Upgrade, Library	*N/A*	PWC	5,447,000	0	235,447,000
3	IA	Los Angeles	Seismic Upgrade, State Playhouse Theatre	*N/A*	PWC	1,156,000	0	236,603,000
4	IA	Humboldt	Seismic Upgrade, Van Duzer Theatre	*N/A*	PWC	7,604,000	0	244,207,000
5	IB	Los Angeles	Utilities Infrastructure	*N/A*	PWC	20,477,000	0	264,684,000
6	IB	Long Beach	Utilities Infrastructure	*N/A*	PWC	27,683,000	0	292,367,000
7	IB	San Bernardino	Utilities Infrastructure	*N/A*	PWC	34,429,000	0	326,796,000
8	IB	Pomona	Electrical Infrastructure	*N/A*	PWC	22,369,000	0	349,165,000
9	IB	Bakersfield	Faculty Towers Replacement Building (Seismic)	*N/A*	PWC	7,490,000	50,000	356,655,000
10	II	Monterey Bay	Academic Building III	*700*	PW	2,296,000	31,812,000	358,951,000
11	IB	San Francisco	Creative Arts Replacement Building ◊	*1,296*	P	1,704,000	42,652,000	360,655,000
12	IB	Sacramento	Science II Replacement Building, Ph. 2	*-1,583*	PW	4,558,000	82,445,000	365,213,000
13	II	San Diego	Engineering and Science Lab Replacement Building ◊	*68*	P	517,000	29,483,000	365,730,000
14	IB	Dominguez Hills	Science Replacement Building	*5*	P	2,237,000	78,304,000	367,967,000
15	IA	Fullerton	McCarthy Hall Renovation	*0*	PW	296,000	12,421,000	368,263,000
16	IB	Humboldt	Jenkins Hall Renovation	*15*	P	312,000	9,188,000	368,575,000
17	II	Channel Islands	Gateway Hall	*120*	PW	1,525,000	26,812,000	370,100,000
18	IB	East Bay	Library Renovation (Seismic)	*N/A*	PW	2,823,000	50,513,000	372,923,000
19	IB	Chico	Siskiyou II Science Replacement Building	*31*	P	2,690,000	84,144,000	375,613,000
20	II	Sonoma	Professional Schools Building	*513*	P	1,081,000	39,944,000	376,694,000
21	II	Maritime	Learning Commons/Library Addition	*N/A*	P	779,000	24,606,000	377,473,000
22	IB	San José	Nursing Building Renovation	*155*	P	456,000	15,594,000	377,929,000
23	II	San Luis Obispo	Academic Center and Library ◊	*843*	P	2,028,000	101,789,000	379,957,000
24	IB	Stanislaus	Library Renovation/Infrastructure, Ph. 1 (Seismic)	*-15*	PW	3,419,000	45,753,000	383,376,000
25	IB	Northridge	Sierra Hall Renovation	*N/A*	PW	3,998,000	60,091,000	387,374,000
26	II	San Marcos	Applied Sciences/Technology Building	*545*	P	977,000	30,759,000	388,351,000
27	II	Fresno	Central Plant Expansion	*N/A*	P	819,000	29,381,000	389,170,000
			Total	***2,693***		**$ 389,170,000**	**$ 795,741,000**	**$ 389,170,000**

Categories: I Existing Facilities/Infrastructure
- A. Critical Infrastructure Deficiencies
- B. Modernization/Renovation

II New Facilities/Infrastructure

◊ This project is dependent upon state and non-state funding.

P = Preliminary plans W = Working drawings C = Construction E = Equipment

DRAFT Non-State Funded Capital Outlay Program 2015/16 List By Fund Source

Cost Estimates are at Engineering News Record California Construction Cost Index 6151 and Equipment Price Index 3202

This list is subject to change for the final program pending review of financial documents by Finance and Treasury.

Fund Type	Campus	Project Title	Phase	Dollars	Funds to Complete
Student Housing					
	Channel Islands	Student Housing, Ph. 3 (600 Beds)	PWCE	58,399,000	
	Dominguez Hills	Student Housing, Ph. 1 (600 Beds)	PWCE	96,288,000	
	San Bernardino	Student Residences #3 (800 Beds)	PWCE	85,000,000	
		Student Housing Subtotal		**$239,687,000**	**$0**
Associated Students					
	Humboldt	University Center	P	82,000	2,439,000
	Sacramento	Recreation Wellness Center, Ph. 3	PWCE	140,415,000	
		Associated Students Subtotal		**$140,497,000**	**$0**
Donor					
	San Diego	Engineering and Science Lab Replacement Building	PWC	53,029,000	6,759,000
		Donor Subtotal		**$53,029,000**	**$6,759,000**
Other					
	Long Beach	Continuing Education/Alumni Center	PWCE	67,958,000	
		Other Subtotal		**$67,958,000**	**$0**
Auxiliary					
	Channel Islands	Dining Expansion	PWCE	15,152,000	
		Auxiliary Subtotal		**$15,152,000**	**$0**
Parking					
	Bakersfield	Parking Lot M (500 Spaces)	PWC	2,851,000	
	Humboldt	Parking	PWC	750,000	
		Parking Subtotal		**$3,601,000**	**$0**
Grant					
	Long Beach	Buton Creek Bike Path	PWC	778,000	
		Grant Subtotal		**$778,000**	**$0**
		Total		**$520,702,000**	**$6,759,000**

P = Preliminary plans   W = Working drawings   C = Construction   E = Equipment

COMMITTEE ON FINANCE

Student Success Fees Working Group

Presentation By

Timothy P. White
Chancellor

Rodney Rideau
Acting Deputy Assistant Vice Chancellor
Budget

Summary

Chair Lou Monville formed the Student Success Fee Working Group, at the July 2014 California State University (CSU) Board of Trustees meeting, to study the role, process, and enactment of a type of category II campus-based mandatory fee commonly known as student success fees. Category II fees are defined as campus mandatory fees that must be paid to enroll in or attend the university. This item provides background on the formation of the working group. Members of the group will present their initial findings at the September 2014 board meeting.

Background

A student success fee is a type of campus-based, campus-driven, campus-controlled fee designed to enhance the quality of academic programs and the experience of students on a specific campus. Due to local control, no student success fee is identical to any other. Each reflects the priorities of the campus where it is adopted.

This is in contrast to systemwide tuition, which covers the bulk of CSU's operating costs. Tuition fees, augmented by an approximately equal amount of state support, pay to provide basic student access to a CSU education. These fees are set at the system level.

All fees, including category II fees, are governed by policy established by Executive Order 1054. Several components of that policy that relate to category II fees and student success fees will be subsequently referenced.

A student success fee enhances the quality of the campus environment, beyond the basic level of access ensured by state and systemwide tuition fee funding. It may cover mental health programs, peer-to-peer advising, library resources and career programs. Other examples include expanding library hours, expanding services for disabled students and veterans, hiring additional academic counselors, adding and outfitting additional laboratory space, enhancing the technology infrastructure, and funding capital improvements including library expansion projects.

The campus community determines the need for a student success fee and how the fee revenue may be used to improve the quality of academic programs or the experience on campus for students. A campus may use a referendum or alternative consultation process to determine whether to recommend a fee. Both processes give the campus the ability to educate, reach, and glean feedback from a cross section of full-time and part-time students on the fee. The campus fee advisory committee is largely composed of students with representation from faculty and staff and helps to identify the priorities to be funded by the projected fee revenue before making a recommendation to the president. The president then takes the recommendation under advisement and determines whether to submit to the chancellor for consideration. The chancellor is authorized to approve the fee based on the information submitted by the campus.

Once approved, the fees and fee revenue are administered by the president. The president retains the authority to decrease, suspend, or eliminate the fees. In most cases, student success fees are phased in over a period of time to allow students to plan for the additional expenditure. Twelve campuses currently have student success fees that range from $35 to $780 for 2014-2015.

The Omnibus Higher Education Trailer Bill, a complement to the Budget Act of 2014, specifically placed a moratorium on the creation of new student success fees until January 2016. The legislation also requires the chancellor to conduct a review of the fee policy, to consider several viewpoints, and to recommend to the board changes relating to student success fees. The law compels the chancellor to make recommendations to the board and to report those recommendations by February 2015 to the state, but the law only compels the board to consider the chancellor's recommendations (i.e. the board is not required to approve or reject the chancellor's recommendations).

Student Success Fee Working Group

To better inform the board and the chancellor on the history and future of such fees Chair Lou Monville established the Student Success Fee Working Group in July 2014. The group was tasked with studying the role, process, and enactment of these fees. The members of the working group are: Trustee Doug Faigin, Trustee and Student Talar Alexanian, Chancellor Timothy White, Fullerton President Mildred García, and San Luis Obispo President Jeff Armstrong.

The charge to the working group is to study and present findings on the following:

1. The process and history by which category II campus-based mandatory fees are enacted, and the approval process;

2. The notification process by which the board and chancellor are informed of category II fee discussions on campuses;

3. The accountability and outcome reporting process to stakeholders of category II fees, to include the board, students, faculty, staff, and the public at large;

4. The impact of category II fees on student success and affordability;

5. The inequity of category II fees across the 23-campus system, with an additional overlay of racial, socioeconomic, and academic readiness data.

The working group has met, compiled, and reviewed current student success fee information, and is prepared to report its initial findings at the September 2014 meeting.

COMMITTEE ON FINANCE

2015-2016 Lottery Revenue Budget

Presentation By

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Background

On November 6, 1984, California voters approved Proposition 37, known as the California Lottery Act. The Lottery Act is codified in Government Code Sections 8800-8809.5 and allows for expenditure of lottery dollars to supplement the total amount of money allocated for public education. The act further stipulates legislative intent that funds allocated be used for the education of pupils and students, with no funds spent for the acquisition of property, construction of facilities, financing research, or any other non-instructional purpose. To date, the California State University (CSU) has received apportionments from the state on the basis of total full time equivalent students (FTES) cumulatively totaling $1.03 billion, which equals approximately 4.5 percent of all lottery funds distributed for educational purposes. Recently, annual CSU lottery fund receipts have averaged around $45 million per year.

Although the Lottery Act does not specifically define "education of pupil and students", CSU has specified that lottery funds shall be used only for and in support of instruction or instructional-related purposes. In response to the Lottery Act, the CSU adopted further guidelines to ensure that lottery funds are used to improve instructional quality and academic environment.

Each year, the CSU Board of Trustees is asked to adopt a systemwide lottery revenue budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The budget identifies expected Lottery receipts that the CSU will receive in the budget year and the program areas for allocation of those receipts, including an expenditure allowance for the general management of Lottery Fund operations and reporting requirements by Chancellor's Office staff. Approximately 90 percent of anticipated Lottery receipts are allocated directly to campuses for instructionally-related programs and activities. Remaining funds are allocated for CSU programs that assist student education, such as summer arts and doctoral incentive programs. Less than two percent of lottery resources are used by the Chancellor's Office to manage Lottery Fund operations and reporting requirements. CSU allows for the carryforward of 80 percent of lottery allocations to the campuses to address long-range educational programs, instructional equipment purchases, or instructional program development that crosses several years. The CSU chief financial officer reviews campuses' lottery carryforward balances to ensure appropriateness, and approves planned use of campuses' balances in excess of policy guidelines. The board has delegated authority to the chancellor for management of actual Lottery Fund receipts, which are to be used to supplement the total amount of money allocated to CSU for public education in accordance with state statute. The state receives a formal report on actual Lottery expenditures each May and the board receives a report on actual expenditures at its September and November meetings.

Summary

The lottery revenue budget proposal for fiscal year 2015-2016 is presented to the Committee on Finance as an information item. The Committee on Audit will also be presented with a status report on current and follow-up internal audit assignments, including Lottery Funds, during the September 2014 meeting.

The lottery revenue projection for 2015-2016 is $49.1 million. The lottery revenue budget proposal reflects an increase in projected support from the prior year as a result of higher trends in lottery receipts with the recent addition of Powerball to the list of California Lottery offerings. After setting aside $5 million for CSU's systemwide reserve, $44.1 million is available for allocation. The proposed budget also includes a $3.1 million augmentation to fund expansion of the Early Start financial aid and Pre-doctoral programs. The chancellor, as the chief executive officer of the CSU, is delegated authority for development and oversight of the lottery budget and for the deposit, control, investment and expenditure of lottery funds received.

Beginning CSU lottery reserves of $5 million are used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. CSU lottery fund interest earnings are managed by the chancellor in accordance with CSU Revenue Management Program guidelines and procedures.

2015-2016 Lottery Budget Proposal

After setting aside $5 million for beginning reserves, the $44.1 million 2015-2016 lottery budget proposal remains principally designated for campus-based programs and three system-designated programs that have traditionally received annual Lottery funding support. Of the $44.1 million available for expenditure, $4 million will be allocated to the three system-designated programs as follows: the Chancellor's Doctoral Incentive Program ($2 million) which provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program ($814,000) which supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; and, the CSU Summer Arts Program ($1.2 million) which offers academic credit courses in the visual, performing, and literary arts.

The remaining $40.1 million in 2015-2016 lottery funds will continue to be used for campus based programs ($31.5 million), to provide increased financial aid for the trustee-approved Early Start program ($8 million), and to support lottery fund administrative costs($544,000). Campus-based program funding is undesignated and allows presidents considerable flexibility in meeting unique campus needs. Traditionally, projects receiving campus-based funds have included replacement and purchase of new instructional equipment, curriculum development, and scholarships. Early Start program funds will provide campus-based financial aid as need-based fee waivers to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first time freshman students who are deficient in math and English skills through remedial instruction during the summer term prior to matriculation at any of the CSU campuses. Campuses are reimbursed for financial aid tuition waivers based on actual student enrollment following the end of the summer Early Start instructional program. The 2015-2016 budget proposes $544,000, or less than 1.5 percent, of total projected lottery revenues for Chancellor's Office administration of the lottery fund and lottery-funded programs that supplement the CSU systemwide operating budget.

In fiscal year 2013-2014, similar to years prior, the majority of lottery allocations were spent on instructional and instructionally-related programs and services to supplement the CSU operating budget. The following table summarizes how lottery funds allocated for the 2013-2014 fiscal year were expended.

2013-14 Lottery Expenditure Report
(in 000s)

Program Support Area	**Expenditures**	**Percentage of Total Expenditures**
Academic	$ 16,580	45.9%
Library Services	10,455	28.9%
Student Services	1,891	5.2%
Administrative Costs	2,801	7.8%
Financial Aid	4,422	12.2%
Total Expenditures	**$ 36,149**	**100.0%**

Note: The amount included in the table for Administrative Costs in 2013-14 includes both Chancellor's Office and campus administration.

The CSU lottery revenue budget proposed for 2015-2016 is as follows:

2015-16 Proposed Lottery Revenue Budget

	2014-15 Adopted Budget	2015-16 Proposed Budget
Sources of Funds		
Beginning Reserve	$ 5,000,000	$ 5,000,000
Receipts	41,000,000	44,100,000
Total Revenues	$ 46,000,000	$ 49,100,000
Less Systemwide Reserve	*(5,000,000)*	*(5,000,000)*
Total Available for Allocation	**$ 41,000,000**	**$ 44,100,000**
Uses of Funds		
System Programs		
Chancellor's Doctoral Incentive Program	$ 2,000,000	$ 2,000,000
California Pre-Doctoral Program	714,000	814,000
CSU Summer Arts Program	1,200,000	1,200,000
	$ 3,914,000	$ 4,014,000
Campus-Based Programs		
Campus Programs	$ 31,542,000	$ 31,542,000
Campus Early Start Financial Aid	5,000,000	8,000,000
	$ 36,542,000	$ 39,542,000
Lottery Administration & Reporting	$ 544,000	$ 544,000
Total Uses of Funds	**$ 41,000,000**	**$ 44,100,000**

This item is for information only and an action item will be presented at the November 2014 meeting to adopt the 2015-2016 lottery revenue budget.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Northridge, San Diego State University, and Sonoma State University

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for revenue-generating projects of the CSU – student housing, parking, student union, health center, continuing education facilities, and certain auxiliary projects. Revenues from these programs are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has improved credit ratings and reduced the CSU's cost of capital. Prior to issuance of bonds, projects are funded through bond anticipation notes (BANs) issued by the CSU in support of the CSU's commercial paper (CP) program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide financing flexibility and lower short-term borrowing costs. Proceeds from the issuance of bonds are used to retire outstanding CP and provide any additional funding not previously covered by CP.

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed $173,705,000 to provide financing for three campus projects. The board is being asked to approve resolutions related to these financings. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

The financing projects are as follows:

1. California State University, Northridge Extended Learning Building

The California State University, Northridge Extended Learning Building project was approved by the board as an amendment to the Non-State Capital Outlay program and schematic approval in September 2013 by the Committee on Campus Planning, Buildings and Grounds. The project consists of a new office and classroom building for the Tseng College of Extended Learning, under the continuing education program, located on the southwest quadrant of the campus between West University Drive on the east and Darby Street on the west. The facility will be approximately 68,470 gross square feet and will provide office and support space for the college's seven administrative units, in addition to 11 classrooms and seminar space. The instructional spaces will be "smart rooms," designed to maximize the use of technology and provide flexibility to accommodate a variety of pedagogies.

The total project budget of $38,942,000 will be funded from $30 million in existing continuing education reserves and $9 million from continuing education net revenue generated during the construction period. While the campus is confident that the additional $9 million in net revenue will be generated by the continuing education program as needed, financing approval is requested for two reasons. First, all funding sources must be identified at the time of the construction contract signing; financing approval will allow the construction contract to be signed and keep project construction on schedule. Second, in the event that the additional $9 million in net revenue is not generated as expected during construction, financing through the SRB program and/or CP program will allow completion of the project.

The not-to-exceed par value of the proposed bonds is $9,670,000, with additional net financing costs, such as capitalized interest and costs of issuance (estimated at $670,000), to be funded from bond proceeds. The project is scheduled to start construction in September 2014 with completion in June 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$9,670,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$657,644
Projected debt service coverage including the new project: Net revenue – Northridge pledged revenue programs: [1] Net revenue – Projected for the campus continuing education program:	 2.43 5.40

1. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2016-2017 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.68 percent, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects continuing education program net revenue debt service coverage of 5.40 in 2016-2017, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 2.43, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

2. San Diego State University South Campus Plaza

The San Diego State University South Campus Plaza project (previously referred to as the Plaza Linda Verde project) was approved by the board for the amendment of the Non-State Capital Outlay program and schematics in May 2014 by the Committee on Campus Planning, Buildings and Grounds. The project consists of a mixed use facility that will house 659 beds of student housing for first year students, 35,000 gross square feet of retail space, and a 392-car parking structure. The campus housing program will have financial responsibility for the housing and retail components of the project and the campus parking program will have financial responsibility for the parking component. The project will be located at the southern border of the campus along the west side of College Avenue between Hardy Avenue and Montezuma Road in an area that is currently occupied by temporary trailers and vacated apartments. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in March 2014.

The not-to-exceed par value of the proposed bonds is $158,025,000 and is based on a total project budget of $142,700,000 with program reserve contributions of $6,000,000 ($2,000,000 from the housing program and $4,000,000 from the parking program). Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $21,325,000), are to be funded from bond proceeds. The project is scheduled to start construction in October 2014 with completion in August 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$158,025,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$11,081,063
Projected debt service coverage including the new project: Net revenue – San Diego pledged revenue programs: [1] Net revenue – Projected for the campus student housing program: Net revenue – Projected for the campus parking program:	 1.58 1.53 1.33

1. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2017-2018 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.94 percent, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects housing program net revenue debt service coverage of 1.53 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program and 1.33 for the parking program which also exceeds the CSU benchmark. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.58, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

3. Sonoma State University Joan and Sanford I. Weill Commons

The Sonoma State University Joan and Sanford I. Weill Commons project (previously referred to as the MasterCard Pavilion) was approved by the board for the amendment of the Non-State Capital Outlay program in November 2012 and for schematics in March 2013 by the Committee on Campus Planning, Buildings and Grounds. The project scope has been streamlined to reflect a more modest size, more consistent with the original vision for the space. It will be located at the northeast corner of the main campus within the nine-acre commons area bordered by the Joan and Sanford I. Weill Hall on the west, Rohnert Park Expressway on the north, Petaluma Hill Road on the east and Copeland Creek to the south. The project will consist of a build-out of the Weill Commons lawn area, site grading and drainage infrastructure, including perimeter roads and pathway, loading dock road, fire lane adjacent to Weill Hall, landscaping, and electrical and other infrastructure. The campus has a sponsorship agreement with Mastercard International Incorporated to provide funding for the project over a ten year period through 2022. As with other hospitality related campus activities, the campus housing program will be involved with overseeing the venue. Further, the housing program will provide an added source of pledged revenue for the debt service obligation, as has been the case with previous Green Music Center related financing, in order to strengthen financial security.

The not-to-exceed par value of the proposed bonds is $6,010,000 and is based on a total project estimated budget of $5,500,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $510,000), are to be funded from bond proceeds. This project is scheduled to start construction in October 2014 with completion in May 2015.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$6,010,000
Amortization	Approximately level over 20 years
Projected maximum annual debt service	$516,250
Projected debt service coverage including the new project: Net revenue – Sonoma pledged revenue programs: [1] Net revenue – Projected for the campus student housing program:	 1.85 1.41

1. Combines estimated 2013-2014 information for all campus' pledged revenue programs and projected 2016-2017 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.18 percent, reflective of adjusted market conditions at a taxable rate plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. A taxable rate is being used because of the sponsorship agreement with Mastercard. Should an opportunity arise to issue tax-exempt bonds, the interest rate is anticipated to be lower. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects housing program net revenue debt service coverage of 1.41 in 2016-2017, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.85, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed $173, 705,000 and certain actions relating thereto.

2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services;

and the acting deputy assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 4 of the Committee on Finance at the September 9-10, 2014, meeting of the CSU Board of Trustees is recommended for:

California State University, Northridge Extended Learning Building

San Diego State University South Campus Plaza

Sonoma State University Joan and Sanford I. Weill Commons

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Summary

This item provides the annual investment report for fiscal year 2013-2014 for funds managed under the California State University Investment Policy.

Background

The bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash, from the Chancellor's Office and campus-controlled bank depository and disbursement accounts, is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT, and for investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, US Bancorp Asset Management and Wells Capital Management.

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. Pursuant to an agreement with the state, CSU maintained a minimum balance of approximately $310 million in the SMIF during the fiscal year 2013-2014 to assist in the funding of payroll. The Local Agency Investment Fund (LAIF) is used by the State Treasurer to invest local agency funds. For 2013-2014, the CSU did not invest funds in LAIF. The year-end results for these two funds are reported in Attachment A.

The California State University Investment Policy in effect during fiscal year 2013-2014 is included as Attachment B.

Market Summary

For the fiscal year ending June 30, 2014, U.S. Gross Domestic Product grew at a 2.4% rate. Stronger growth helped the unemployment rate fall from 7.5% at the end of June 2013 to 6.1% at the end of June 2014, with non-farm payrolls adding a solid 2.5 million jobs over the past twelve months. Inflation continued to remain well within the Federal Reserve's (Fed) 2% target range with the May 2014 Personal Consumption Expenditure Core Index increasing 1.5% year-over-year. While still comfortably below the 2% target, inflation measures began to trend upward in the latter months of the fiscal year.

In January, Janet Yellen took over as Chair of the Federal Reserve from Ben Bernanke. As Vice-Chair of the Fed under Mr. Bernanke, Ms. Yellen had significant influence on the Fed's monetary policies and the change in leadership did little to alter the path of monetary policy. The Fed maintained the federal funds target rate in the 0.00% to 0.25% range, the same level targeted since December 2008. Also in January, the Fed began to taper its monthly asset purchases of $40 billion in agency mortgage-backed securities and $45 billion in U.S. Treasuries by $5 billion each, a pace that will end the asset purchase program by October 2014. Toward the end of the fiscal year, guidance from members of the Federal Open Market Committee increased the probability and accelerated the timing of potential future rate hikes with 13 of 16 members forecasting a rate increase in 2015.

Credit market conditions were generally favorable in the fiscal year with credit spreads tightening for most of the year. Strong demand from investors seeking additional yield outstripped the supply of net new issuance of debt from high-quality corporations and banks. Fundamental credit quality remained solid and access to the capital markets remained high for investment-grade issuers.

Investment Account Performance

As of June 30, 2014, the asset balance in the SWIFT portfolio totaled $2.83 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the California State University Investment Policy and state law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2014, the SWIFT portfolio's holdings by asset type were as follows:

Asset Breakdown as of
June 30, 2014

Cash	0.27%
US Treasuries	28.20%
US Government Agencies	27.92%
Corporate Securities—Long Term	36.82%
Corporate Securities—Short Term	6.79%
	100.00%

The SWIFT portfolio provided a return of 0.87% during the 12 months ended June 30, 2014. This return was greater than the benchmark for the portfolio, which is a treasury based index.

	SWIFT Portfolio	SWIFT Benchmark[1]	LAIF[2]
1 Month Return	-0.008%	-0.027%	N/A
3 Months Return	0.212%	0.196%	0.057%
12 Months Return	0.866%	0.574%	0.249%
Annualized Return since SWIFT Inception	1.471%	2.022%	1.236%

[1] Bank of America Merrill Lynch 0-3 Year Treasury Index
[2] LAIF investment returns are provided for reference only.

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used and managed by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. Cash in this account is available on a daily basis. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2014, the amount of CSU funds invested in SMIF was approximately $346 million.

SMIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/04 - FYE 06/30/14	
FYE 06/30/14	0.24%	Average	1.96%
FYE 06/30/13	0.30%	High	5.24%
		Low	0.22%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used and managed by the State Treasurer to invest local agency funds. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2014, there were no CSU funds invested in LAIF.

LAIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/04 - FYE 06/30/14	
FYE 06/30/14	0.25%	Average	1.97%
FYE 06/30/13	0.31%	High	5.25%
		Low	0.23%

The California State University Investment Policy

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

Investment Policy Statement

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

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

Investment Authority

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

A. State Treasury investment options include:

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

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

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;

- Bonds or warrants of any county, city, water district, utility district or school district;

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

- Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;

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

- Bankers' acceptances eligible for purchase by the Federal Reserve System;

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

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

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

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

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

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

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

Furthermore, the CSU:

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

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

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

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

(Approved by the CSU Board of Trustees in January 1997; and as amended in September 2011 and November 2013)