

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:45 a.m., Tuesday, January 31, 2017
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of November 15, 2016

1. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Long Beach and California State Polytechnic University, Pomona, *Action*
2. Report on the Implementation of New Investment Authority, *Information*

Discussion Items

3. Report on the 2017-2018 Support Budget, *Information*
4. Tuition Adjustment Proposal for the 2017-2018 Academic Year, *Information*

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

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

November 15, 2016

Members Present

Peter Taylor, Chair
Debra Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Hugo N. Morales
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order.

Public Comments

Jennifer Eagan, California Faculty Association President and Carlos Montes, student at Cal State Los Angeles, spoke for affordable education for students and advocated for funding from the state instead of increasing tuition. Dale Landrum, student and employee of CSU Long Beach, spoke about the challenges faced by students in order to afford higher education.

Approval of Minutes

The minutes of the September 20, 2016 meeting were approved as submitted.

**Approval to Issue Trustees of the California State University Systemwide
Revenue Bonds and Related Debt Instruments for Projects at Monterey Bay,
Sacramento and San José**

Trustee Taylor presented agenda item 1 as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-16-12).

Approval of the 2017-2018 Lottery Budget

Trustee Taylor presented agenda item 1 as a consent action item. The committee recommended approval of the proposed resolution (RFIN 11-16-13).

Procurement and Other Effectiveness Initiatives

Executive Vice Chancellor Steve Relyea and Chief Procurement Officer Arun Casuba presented information on spending and cost avoidance strategies used by the CSU. A few examples shared were regional contracts in construction, systemwide agreements in facilities products, and reverse auctions conducted online. Other initiatives reduce cost burdens on students through reduced or free electronic access to digital libraries. Mr. Relyea shared that two national rankings of most affordable colleges included multiple CSU campuses amongst the top schools.

Trustee Taylor asked about the use of public-private partnership projects to achieve savings or cost avoidance. Mr. Relyea responded that these types of projects are beneficial and brought to the board regularly. He added that a small team of experts and industry partners is currently working on tools to assist with the development of housing projects.

Trustee Adam Day asked if there was any third party review of CSU procurement practices. Mr. Casuba responded that in some cases, such as in the Information Technology, external partners are consulted for industry expertise before selecting vendors.

President Erika Beck shared that at Channel Islands, Lean training, which involves the study and mapping of a specific process to identify efficiencies that reduce time and cost, helped streamline the delegation of authority process and redirect time and resources that resulted in avoidance of hiring an additional position.

Referring to the presentation slides, Trustee Rebecca Eisen asked about the 12 percent of spend designated as “Other” and Mr. Casuba responded that it included lower dollar spending categories in retail and wholesale, public sector payments, recreation, communications and outreach, social care, and animals and farming among others.

Trustee Maggie White expressed appreciation for initiatives such as the systemwide contract for Portfolium that directly help students.

Annual 2016-2017 Student Fee Report

Ryan Storm, Assistant Vice Chancellor for Budget, presented the 2016-2017 campus based mandatory fees report. He provided a summary of programs and activities covered by these fees. Average undergraduate resident tuition and fees for CSU and other comparable institutions were shared and noted that CSU remains affordable. He shared that 80 percent of CSU student receive some form of financial aid and more than 60 percent have tuition fully covered by financial aid.

Trustee Maggie White asked how the 15 comparable institutions were selected, and commented that perhaps these should be updated. Mr. Storm responded that the list was developed by the California Post-Secondary Education Commission and chosen for being similar to the CSU in demographics, size, and other factors.

Trustee Silas Abrego asked if data on family incomes and discretionary fund ratios to tuition expenses were available. Chancellor Timothy P. White responded that most families that earn \$70,000 or less per year qualify for full financial aid.

Approval of the 2017-2018 Support Budget Request

Executive Vice Chancellor Relyea introduced the proposed 2017-2018 support budget and noted if all CSU stakeholders are successful at securing funding from the state the CSU will be able to continue working on high impact practices that facilitate timely degree completion. However should the state decide not to fully fund the CSU's request it would be necessary to consider a tuition increase proposal in January 2017 and take action in March 2017. Conversations about the proposal to increase tuition began in October 2016 with the California State Student Association. The proposal will be presented as an information item in January 2017.

Mr. Storm provided a report on the CSU's total budget including expenses by category, revenue type, expenses per student, and administrative expenses per student. He reviewed the components of the CSU 2017-2018 Support Budget Request which totals \$343.7 million, adding that in order to secure funding from the state, advocacy efforts by all stakeholders will be necessary.

Trustee Lillian Kimbell asked if any projections of increase in benefits related to pension and healthcare have been conducted. Mr. Storm responded that CalPers may have that data, however generally speaking the CSU would need to cover future adjustments to healthcare and the state would cover adjustments to pension.

Trustee Eisen asked if it was typical that the amounts for debt sources and debt uses are equal. Mr. Relyea commented that typically the two are fairly close, although expenditures may occur over a fiscal year. She next asked if it is accurate to say that the state supports only 31 percent of the total CSU budget to which Mr. Storm responded affirmatively. He added that the total budget is made up of the support budget and all other enterprises and auxiliaries such parking and student housing.

Trustee White expressed concern for how the tuition increase could affect students' available cash for financial aid for books and other expenses. Mr. Storm briefly explained how the Cal Grant, SUG, and Pell Grant are awarded and commented that no impact is expected for students that currently have the full cost of tuition covered.

Trustees Jorge Reye Salinas and Maggie White spoke of the need to rally together to advocate for funding from the state.

Trustee Taylor clarified that the total \$8.5 billion budget covers the entire university experience including student life services such as residence halls that are not paid for with tuition. Chancellor White added that the difference between the total budget and the support budget is made up of restricted revenues that are dedicated to specific purposes such as housing and parking and may not be used for other operational expenses.

Trustee Douglas Faigin asked how the tuition increase amount was determined. Mr. Storm shared that many factors were considered such as expenses, revenue, and assumptions of expected state appropriations based on prior experience.

Trustee Faigin asked what type of projects would be financed with the \$10 million listed for infrastructure. Ms. Elvyra San Juan, Assistant Vice Chancellor for Capital Planning, Design and Construction responded that projects would be funded according to the trustees' priorities which are infrastructure, renovation, and new space, and would not include self-support projects. Trustee Faigin inquired what would happen should interest rates increase in the future. Assistant Vice Chancellor for Financing, Treasury, and Risk Management Robert Eaton responded that generally speaking if rates go up, then the amount of proceeds from the bond sale would go down.

Trustee Adam Day commented that fixed costs alone make up more than the anticipated governor's appropriation and emphasized the need to advocate for full funding from the state to cover fixed costs and the Graduation Initiative goals.

The committee recommended approval of resolution (RFIN 11-16-14).

Conceptual Approval of a Public-Private Partnership Project with the Los Angeles Football Club to Develop a Performance Center at California State University, Los Angeles

President William Covino shared information about a public-private partnership project between the CSU Los Angeles campus and the Los Angeles Football Club for a soccer training facility. Mr. Eaton presented specifics about the proposed project site. Revenues from the project land lease will be used to support academic programs and other campus services. The Los Angeles Football club will be responsible for all project costs and maintenance.

The committee recommended approval of resolution (RFIN 11-16-15).

Trustee Taylor adjourned the meeting on Finance Committee.

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, Long Beach and California State Polytechnic University, Pomona

Presentation By

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

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the commercial paper (CP) program in an aggregate amount not-to-exceed \$172,690,000 to provide financing for two campus projects:

1. California State University, Long Beach Continuing and Professional Education Classroom Building; and
2. California State Polytechnic University, Pomona Student Housing Replacement, Phase I

The trustees are being asked to approve resolutions related to these financings.

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for projects of the California State University – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and 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 resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through bond anticipation notes (BANs) issued by the CSU in support of its 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 greater financing flexibility and lower

short-term borrowing costs during project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

1. California State University, Long Beach Continuing and Professional Education Classroom Building

The California State University, Long Beach Continuing and Professional Education Classroom Building project was approved by the trustees as an amendment of the Capital Outlay program and schematics at the November 15-16, 2016, Committee on Campus Planning, Buildings and Grounds meeting. The project will be a three story building, consisting of approximately 38,000 gross square feet that will include classrooms, student interaction space, and a multi-purpose conference room to provide a centralized facility for the College of Continuing and Professional Education (CCPE) program. The project will be funded by CCPE program reserves and revenues.

The not-to-exceed par amount of the proposed bonds is \$16,670,000 and is based on a total budget of \$28,909,000 with a CCPE reserve contribution of \$13.9 million. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$1,661,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in February 2017 with completion expected in August 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$16,670,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$1,097,490
Projected debt service coverage including the new project:	
Net revenue – Long Beach pledged revenue programs: ¹	2.19
Net revenue – Projected for the campus CCPE program:	1.30

1. Based on campus projections of 2019-2020 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 5.30 percent, inclusive of 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 a CCPE program net revenue debt service coverage of 1.30 in 2019-2020, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 2.18, which exceeds the CSU benchmark of 1.35 for a campus.

2. California State Polytechnic University, Pomona Student Housing Replacement, Phase I

The California State Polytechnic University, Pomona Student Housing Replacement, Phase I project is being presented for the amendment of the capital outlay program and schematics approval during the January 31- February 1, 2017, Committee on Campus Planning, Buildings and Grounds. The project will include 980 beds in two eight story buildings with lounges, common living space, a convenience store, and a dining commons with indoor and outdoor seating. The project, consisting of approximately 327,000 gross square feet, will replace existing facilities built in the 1960’s that are cost prohibitive to renovate and upgrade. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in November 2016.

The not-to-exceed par amount of the proposed bonds is \$156,020,000 and is based on a total budget of \$185,000,000 with contributions of \$52 million (\$46 million from the housing program; \$2 million from the parking program; and \$4 million from the Cal Poly Pomona Foundation). Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$23,020,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in September 2017 with completion expected in June 2019.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$156,020,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$10,306,000
Projected debt service coverage including the new project:	
Net revenue – Pomona pledged revenue programs: ¹	1.50
Net revenue – Projected for the campus housing program:	1.33

1. Based on campus projections of 2020-2021 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 5.34 percent, inclusive of 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 a housing program net revenue debt service coverage of 1.33 in 2020-2021, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 1.50, which exceeds the CSU benchmark of 1.35 for a campus.

Trustee Resolutions and Recommendation

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 \$172,690,000 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 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 1 of the Committee on Finance at the January 31–February 1, 2017, meeting of the CSU Board of Trustees is recommended for:

California State University, Long Beach Continuing and Professional Education Classroom Building

California State Polytechnic University, Pomona Student Housing Replacement, Phase I

COMMITTEE ON FINANCE

Report on the Implementation of New Investment Authority

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 information to the California State University Board of Trustees regarding the initial implementation of the new investment authority of the California State University.

Background on New Investment Authorities

Signed into law by Governor Jerry Brown in September 2016, the new investment authority of the CSU became effective January 1, 2017.

Key components of new legislation are as follows:

1. Expands the types of investments CSU can make to include mutual funds (including equity mutual funds) and real estate investment trusts.
2. Limits the amount of funds in the new investments and phases in such investment over a four-year period. The first year is limited to \$200 million, year two is limited to \$400 million, year three is limited to \$600 million, and thereafter no more than 30% of the CSU's total eligible investments may be invested in the new investment options.
3. Requires the trustees to establish an independent advisory committee to provide advice and expertise on investments. The committee must include a majority of members with investment expertise and who are not CSU employees. The State Treasurer has the option to serve, or appoint a designee to serve, as a member of the committee.
4. Expands quarterly and annual reporting to the trustees and adds an annual report requirement to the legislature that includes investment returns, comparisons to benchmarks, portfolio holdings, market values, and fees.
5. Restricts the use of earnings from the new investments to meet non-recurring capital needs, including deferred maintenance and critical infrastructure.

6. Prohibits the CSU from citing any losses associated with the new investments as justification for increases in student tuition or fees.
7. Prohibits the CSU from seeking State general fund dollars to offset any losses associated with the new investments.

Implementation Progress and Next Steps

With respect to establishing the investment advisory committee, staff has been in contact with potential members. Potential candidates have been discussed with the Chair of the Committee on Finance, who has agreed to serve as the chair of the investment advisory committee, however, the investment advisory committee has not yet been finalized.

Staff has commenced work on revising and drafting investment policy documents, drafts of which will be presented to the investment advisory committee for discussion and further revision before being presented to the trustees for final discussion and approval at a future meeting.

Staff has also met with University of California staff about the possibility of partnering with the University of California and taking advantage of its investment capabilities as a means of implementing the CSU's new investment authorities quicker. Such a partnership would still be subject to review and approval by the investment advisory committee and the Board of Trustees.

Staff will continue work on the formation of the investment advisory committee and the investment policy documents with the goal of presenting the initial set of recommendations from the investment advisory committee and staff at a future meeting of the Board of Trustees.

COMMITTEE ON FINANCE

Report on the 2017-2018 Support Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The near term fiscal outlook for the California economy and state government is mixed. The legislative analyst's November 2016 outlook concluded that the state's economy will continue to modestly grow in calendar years 2017 and 2018. However, the governor's January 2017 budget proposal projected lower revenues than previously forecasted, while still showing year-over-year growth. Both forecasts call into question the assumptions state leaders will use for major state tax revenues and the ability for the state to address new and emerging program costs, make new investments, and grow reserves to balance future economic uncertainty.

The governor's administration has reduced the previous revenue forecast for 2017-2018 by \$1.6 billion. This translates to a lower rate of growth than previously anticipated, but still represents a three percent year-over-year growth rate. The governor's budget plan sets aside \$2.7 billion of state revenues for reserves, of which approximately \$1.2 billion would be placed in the restricted rainy day fund and approximately \$1.5 billion into a discretionary reserve fund for future budget emergencies. This is consistent with the administration's fiscal prudence in planning for a small to moderate recession in coming years. Medi-Cal caseload and program cost increases as well as civil service compensation increases are significant examples of many new investments included in this budget proposal. The proposal included some budget balancing changes. Examples include the phase out of the Middle Class Scholarship Program for new cohorts of students, a retrenchment of a planned one-time spending for affordable housing and state office building modernization, and curbing the start of new state programs.

The governor's budget provides a \$157.2 million state general fund recurring increase for the California State University's (CSU) support budget. The governor's budget proposal does not contain any one-time funding proposals for the CSU.

California Fiscal Outlook

Since the November 2016 meeting of the CSU Board of Trustees, three reputable entities have published forecasts for California's economy and the resulting effect on the state budget—the Legislative Analyst Office (LAO) California Fiscal Outlook in November 2016, the University of

California, Los Angeles Anderson Forecast in December 2016, and the Department of Finance 2017-2018 Governor's Budget in January 2017. All three forecasts conclude that the state's economy will continue to modestly grow in calendar years 2017 and 2018. The associated growth in employment, real personal income, and other factors are expected to yield greater tax receipts primarily in personal income taxes. The major differences in the fiscal outlooks lie in the level of growth by tax category, but all agree that California's economy will continue to grow. The timing of a future recession remains unknown at this time, but historic economic patterns suggest that a mild or moderate recession will affect federal and state economies in the coming years.

Regardless of the differences in the economic forecasts today, the state will receive more tax receipts in 2017 and 2018, which could allow for increases in state program expenditures and help the state save for future economic uncertainty.

State Budget Overview

The state's budget outlook has markedly changed in recent years. Five years ago, the Governor's Budget estimated both immediate and future annual budget deficits in the billions of dollars. As championed by state leaders, and with the assistance of many others, including the CSU and its stakeholders, voters approved Proposition 30 and Proposition 55 in November 2012 and November 2016, respectively. These initiatives temporarily increased sales tax, since expired, and personal income tax through calendar year 2030. Additionally, voters approved Proposition 2 in November 2014, which required the state to annually pay down debt and save more money in a "rainy day" fund. However, the most significant factor was a growing state economy, resulting in additional state revenue, debt reduction, stronger savings requirements, and significant permanent expenditure reductions that transformed the fiscal fortunes of California.

To illustrate the short-term positive fiscal trajectory, the LAO's California Fiscal Outlook from November anticipates state revenues outpacing planned expenditures, resulting in a \$4 billion state surplus at the end of 2017-2018. Of this amount, the LAO reports that \$2 billion must be deposited in the state's rainy day fund, but that the remaining \$2 billion could be used for any discretionary purpose, including CSU, if state leaders choose this approach.

The more guarded short-term fiscal trajectory provided by the Department of Finance in the release of the 2017-2018 Governor's Budget on January 10, 2017, reported a \$2.7 billion surplus for 2017-2018. Of this amount, the Governor's administration proposes to deposit \$1.2 billion in the state's rainy day fund and the administration proposes to set aside the remaining \$1.5 billion in a discretionary reserve fund for unexpected budget purposes or emergencies.

Longer-term forecasting is difficult, and all parties are cautious in placing significant weight on those types of multi-year educated guesswork. Nevertheless, the LAO offered two revenue scenarios that extend through 2020-2021. The first suggests that future average annual growth

could be 5.1 percent under a continuing economic growth scenario. The second suggests a mild recession in mid-2018 and an average annual growth scenario of only 2.8 percent. The governor's budget estimates future annual revenue growth of approximately four percent through 2020-2021.

2017-2018 CSU Support Budget

The governor's budget proposal continues to make higher education a priority, although not at the level requested in the CSU budget plan approved by the trustees in November 2016. Below are elements of the 2017-2018 Governor's Budget proposal that affect the CSU.

Appropriation Increase

The governor's budget proposes a recurring augmentation of \$157.2 million of state general fund. This funding is for general CSU operational purposes and consists of two pieces. First, \$131.2 million aligns with the governor's multi-year funding plan for higher education first implemented in 2013-2014. This is an additional year of the funding commitment, which extends beyond the original four years to align with the governor's term in office. Second, the budget proposes \$26 million of recurring funds from changes to the Middle Class Scholarship program in 2015.

However, the proposed funding is significantly short of the trustees' support budget request of \$324.9 million of state general fund—a \$167.7 million difference that would provide greater student access, quality, and achievement at the CSU.

Ongoing Capital Program Funding

The funds that support debt service payments for all outstanding general obligation (GO) bond and State Public Works Board (SPWB) bond-funded CSU academic facility projects were folded into the CSU support budget in 2014-2015. The "fold-in" of \$297 million for GO and SPWB debt service would be augmented by a recurring \$5.1 million to cover new SPWB debt service costs that will begin in 2017-2018. The governor's administration committed to the CSU to ramp up funding over a three-year period for those capital projects approved by the state, but which were not completed prior to the adoption of the new capital financing authority. This is the third and final year of such funding. The \$7.6 million augmentation provided in 2015-2016, the \$7.9 million in 2016-2017, and the \$5.1 million proposal for 2017-2018 would be cost neutral in the near term. As this debt is retired over time, the new capital financing authority provides the CSU the opportunity to retain the three-year total of \$20.6 million indefinitely and to use more of those funds in future years for infrastructure or other capital needs.

The governor's budget generally provides similar treatment to the CSU and the University of California (UC). For each system, the budget would provide an augmentation of \$131.2 million for support of each system. In other words, the governor's budget differentiates between the two

systems. For example, (1) CSU would receive a \$26 million recurring supplement to the \$131.2 million support budget increase (bringing CSU's total to \$157.2 million) and (2) UC would receive a one-time increase of \$169 million to help pay down the UC retirement plan's unfunded liability.

Leaders in both houses of the state legislature expressed general support of the governor's proposed investments in education, but also expressed concern over the proposal to phase out the Middle Class Scholarship Program. It is, however, very early in the 2017-2018 state budget cycle, and it will be several months before the Assembly and Senate create their final budget proposals specific to CSU. Ahead are several months of legislative budget committee work that will include an evaluation of the CSU support budget request, the governor's revised May budget proposal, a careful analysis and revision by both the LAO and the Department of Finance of anticipated state revenues, and balancing funding priorities for higher education with other areas of state government. While this is happening, it will be important for the CSU administration, along with trustees, students, faculty, and staff, to meet with legislators and staff to continue emphasizing the importance of investing in higher education to power California's future economy.

Conclusion

If approved by the legislature, the governor's budget proposal would allow the CSU to minimally cover a portion of unavoidable mandatory CSU costs, such as employee health benefits, and fulfill commitments already made in current employee compensation agreements. This scenario leaves no fiscal flexibility to fund other significant trustee priorities such as Graduation Initiative 2025, facility maintenance and other infrastructure needs, additional student access to meet the demand for a CSU education, and additional compensation increases for non-represented employees and for represented employees without agreements for 2017-2018.

Presuming that the state's mostly positive economic prospects persist into the May Revision, CSU staff commits to working with the governor and legislature, alongside faculty, staff, and students, through the budget process to ensure that the priorities outlined in the trustee-approved CSU support budget request are met by an appropriate level of state support.

COMMITTEE ON FINANCE

Tuition Adjustment Proposal for the 2017-2018 Academic Year

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The California State University (CSU) Board of Trustees is considering all possible funding strategies as part of the 2017-2018 support budget plan. The CSU's first priority and commitment continues to be to pursue full funding from the state and to work with partners across the system to make the case in Sacramento for the level of new funding that supports student success as reflected in the CSU 2017-2018 Support Budget Request. Additionally, the CSU is committed to its efforts to find administrative efficiencies and increase effectiveness across the system, which help mitigate increasing mandatory costs. However, to ensure the university has the revenue to meet its 2017-2018 priorities, the CSU began a conversation and consultation process about a possible tuition adjustment. If adopted, the proposal would generate \$77.5 million in net revenue. The tuition adjustment would take effect in fall 2017, aligning with the timeline and requirements of the Working Families Student Fee Transparency and Accountability Act (Act). The CSU remains committed to keeping costs as low as possible for students. Several financial aid grant and waiver programs cover the full cost of tuition for more than 60 percent of all CSU students. Because these programs are designed to pay the full cost of tuition, the proposed tuition adjustment would have no financial effect on the over 267,000 students who receive these grants and waivers.

Background

The trustees have the sole authority to establish and adjust systemwide tuition. In order to adjust tuition in a fiscal year without state appropriation cuts, the CSU must follow a precise timeline and meet several requirements outlined by the Act codified in 2012 by Assembly Bill 970. The last recession prompted the state to cut CSU's appropriation by one billion dollars over a four-year span, which resulted in the CSU cutting academic and non-academic programs and significantly increasing tuition more than once during that period. Understandably, the unpredictability of budget cuts and tuition adjustments prompted CSU stakeholders to pursue, and state lawmakers to adopt the Act in an attempt to:

“...continue the state’s historic commitment to ensuring access to the state’s public universities for all Californians by ensuring sufficient notification to the general public, students, and the state’s working families of any increases in student fees, proper consultation with students, and accountability and transparency with respect to student fee revenue.”

The Act requires the CSU to consult with the California State Student Association (CSSA) before the trustees consider any adjustment to mandatory systemwide tuition and ensure transparency in the process. Specifically, the CSSA is to receive a detailed tuition proposal and the opportunity to consult with the CSU at a minimum of six months before CSU can fully implement a tuition adjustment. Specific to this proposal and its potential effect on the 2017-2018 academic year, the Chancellor’s Office prepared and delivered to the CSSA the “Possible 2017-18 Tuition Proposal for Consideration” on September 29, 2016. Information about the proposal is also available online at <http://www.calstate.edu/tuition-adjustment>. A consultation meeting between CSSA executive leadership and Chancellor’s Office representatives to discuss the proposal followed on October 5 and subsequent meetings occurred on October 26 and November 6, 2016. Next, the Act requires public notice of the proposed tuition adjustment (this item meets this requirement), followed by a meeting of the trustees to discuss the proposal and gather public comment. The proposal will be considered for adoption at the March 2017 Board of Trustees meeting.

Justification for the Proposed Tuition Adjustment

Over the last two decades, state tax revenues that support public higher education institutions have significantly fluctuated, with a trend toward a decrease in real dollars, across the country and within California. This decline came as states responded to the condition of the economy and shifted public dollars to other priorities.

The decrease in public investment has come at a time of increased student and industry demand for bachelors, masters, and other advanced degrees. Universities including the CSU have responded over the past two decades by making programmatic cuts while increasing tuition and fees in order to balance budgets. These cuts, coupled with shifting of costs from states to students and the connected reduction in educational opportunities for students were unfortunate, yet necessary steps to continue to operate quality programs.

State investment in support of the CSU has moved from approximately 80 percent in the mid-1990s to closer to 50 percent by 2016-2017, with the remaining revenue provided by tuition and fees. In spite of this fiscal trend, the CSU has remained committed to providing students a high-quality education and admitting qualified students from California’s high schools and community colleges.

Over the last four years CSU advocacy efforts coincided with an important increase in state tax revenues, which recovered by \$33.2 billion between the low point of the recession and today. However, it is only as of 2016-2017 that the CSU has been funded at prerecession levels of 2007-2008, despite serving 20,000 additional students.

Over the past four years, the CSU has consistently made support budget requests that would reinvest in the most critical priority areas. However, only once in these last four years had the CSU's request been fully funded. Put another way, the state has not provided a total of \$425 million of recurring funding requested by the CSU since the recovery began.

The governor's multi-year funding plan for the CSU from 2013-2014 through 2016-2017 provided increases in general fund support with a caveat requirement that tuition be held at 2011-2012 levels. These state funds have allowed modest recoveries in course sections, faculty and staff hires, and technology and infrastructure, while providing employees with salary increases for the first time since the beginning of the recession.

Based on recent information in the governor's January budget proposal, the governor proposed an increase of \$157.2 million to the CSU support budget for 2017-2018. This continues the limited and incremental nature of investment that has dominated state funding for the CSU during California's recovery.

2017-2018 CSU Support Budget

The final support budget request, as adopted by the trustees, concluded that priority areas would require investment of \$324.9 million in additional state investment. The governor proposed allocating \$157.2 million in new funding to the CSU in his January budget proposal. This leaves a \$167.7 million funding gap between anticipated state funding and the real needs of the university. The proposed tuition adjustment would generate \$77.5 million in revenue systemwide, after a one-third set-aside that would increase the State University Grant pool to help cover the cost of the adjustment for students who receive the grant.

The trustees' priorities detailed in the 2017-2018 Support Budget Request will continue the CSU's commitment to the Graduation Initiative 2025, maintain access to the university, increase compensation for faculty and staff, attend to the highest priority academic infrastructure and deferred maintenance needs, and fund mandatory cost obligations. The current funding assumptions from the state fall short of providing the necessary resources to properly invest in each of these priorities.

Board of Trustees Priorities

1. *Graduation Initiative 2025*: The CSU is committed to improving the opportunities for faster time to degree for all our students, including doubling of the four-year graduation rate from 19 percent to 40 percent, achieving a 70 percent six-year graduation rate,

shortening time to degree for transfer students, and eliminating the achievement gap among low income and underserved students. The tools and strategies that will help support more students earn degrees in a timely manner are directly tied to the ability to invest new funding to offer more courses, increase tenure-track faculty hiring, student-advisor ratios, eAdvising platforms, college readiness, and use of data to ensure resources are dedicated to the most important factors leading to overall student success.

2. *Funded Enrollment Growth:* The CSU confers the most baccalaureate degrees in the state and contributes to the California workforce in significant ways. Increased enrollment funding contributes to new sections of high-demand courses, hiring new tenure-track and temporary faculty, providing more academic and student support services, and bolstering overall institutional support and operation of the campus to serve additional students. With a total student body of more than 470,000 students, the CSU continues to see increased demand from qualified applicants each year.
3. *Facilities & Campus Infrastructure:* Leading-edge academic facilities support quality degree programs setting the stage for CSU graduates to be workforce ready and equipped to excel in their chosen field. A significant portion of CSU facilities are dated and in need of renovation. Specifically, fifty-five percent of all CSU buildings are more than 40 years old. While the CSU has maintained its buildings as best as it could with available resources, the state funded most of the costs associated with the construction and maintenance of academic buildings and physical infrastructure. The state shifted this obligation to the CSU in 2014, making facilities a significant consideration when developing and implementing the CSU support budget. Dedicating a portion of the CSU support budget to facilities and infrastructure is essential to allow the most pressing needs on campuses to be addressed.
4. *Employee Compensation:* Central to the student experience is the ability to interact, learn from, and be guided by outstanding faculty and staff. The CSU is proud of the thousands of employees who are dedicated to students and their success. As such, compensation increases are a significant priority for the CSU in order to remain competitive to recruit and retain faculty, staff, and administrators who are committed to students' well-being and academic success.
5. *Mandatory Costs:* Mandatory costs are the expenditures in the operating budget that increase annually due to inflation and other state, federal, or statutory mandates that apply to the CSU. These include changes in the cost of health care and retirement for employees, changes in state and federal wage laws, and the increased cost of operating and maintaining new facilities. Without funding for mandatory cost increases, campuses would have to make cuts and redirect resources from other program areas to meet these obligations.

Proposed Tuition Adjustment

The CSU will continue to engage with the board, students, faculty, staff, alumni, business leaders, and other stakeholders to advocate for full funding by the state of the CSU's support budget request. However, to ensure the university has the revenue available to meet its 2017-2018 priorities, the CSU must continue a conversation about a tuition adjustment. The process to adjust tuition began in September 2016 with a written proposal to the CSSA and continues with appropriate consultation with, and feedback from, other CSU stakeholders.

The consultation period includes this information item at the January-February 2017 Board of Trustees meeting and a possible action item at the March 2017 board meeting. The state budget cycle is asynchronous from the planning decisions of the CSU, as well as the planning that current and potential students must undertake to prepare for the 2017-2018 academic year. Specifically, the outcome of the 2017-2018 budget cycle will not be known until June 2017. To provide students and their families adequate time to plan, and to ensure that the CSU is in alignment with the law, the administration, the trustees, and all constituents began a conversation on tuition in late September 2016. If the trustees consider and approve a tuition adjustment at their March 2017 meeting, the tuition adjustment would go into effect for the fall 2017 term and apply to the full 2017-2018 academic year.

The proposed tuition adjustment, not-to-exceed \$270 per resident undergraduate student, would take the annual tuition price from \$5,472 per student to \$5,742 and could generate up to \$77.5 million of net revenue in 2017-2018 to support the trustees' budget priorities. Similar adjustments are proposed to non-resident tuition, as well as graduate, doctoral, and teacher credential programs.

Potential Impact to Students and Mitigation of Impact on Students with Financial Need

The CSU remains committed to keeping costs as low as possible for students. More than 60 percent of all CSU students receive grants and waivers to cover the full cost of tuition (over 267,000 students). Nearly 80 percent of all CSU students receive some form of financial assistance. The CSU does not expect these percentages to change as the result of a possible tuition adjustment.

Financial Aid Awareness

The CSU will continue its commitment to informing students and families of the availability of financial aid. Each campus maintains a robust internet site that provides information to students and families. Campuses will continue to communicate with students on a regular basis with reminders and notices of key application periods and deadlines. Information will continue to be available via CSU Mentor (the admission application site) and calstate.edu. Campuses will also provide information as part of student outreach, the admission process, and orientation events. Workshops both on and off campus will also be provided to prospective and current students and their families.

State Grants and Waivers

A student who receives a Cal Grant tuition award would not be affected by a potential tuition adjustment because the award amount for this state program is designed to pay the entire tuition cost. This would include students utilizing the California Dream Act Application. Similarly, a student who receives a state-mandated tuition fee waiver would not be affected by the potential tuition adjustment because these state programs are also designed to waive the entire cost of tuition.

Institutional Grants

The State University Grant (SUG) is available to undergraduates, teacher credential candidates, and graduate students. A student who receives a full SUG would not be affected by a potential tuition adjustment because this CSU-administered institutional aid program waives the entire tuition charge. For students who do not receive the maximum award to cover the full tuition cost and absent any other financial aid, SUG may cover the potential adjustment in tuition. However, individual SUG awards vary for each student. CSU doctoral programs and graduate business professional programs also offer need-based grant programs similar to SUG. As part of the proposed tuition adjustment, systemwide SUG funding would grow by more than \$38 million to accommodate eligible students' additional need resulting from a potential tuition adjustment.

Federal Grant and Loans

Federal programs, such as the Pell Grant or loan programs may partially or fully cover tuition and may partially or fully cover any potential tuition adjustment.

The maximum full-time Pell Grant award is \$5,815. If tuition were adjusted by an additional \$270 per year, CSU tuition would be \$5,742, which means a resident undergraduate student who qualifies for the maximum Pell Grant award would still have the entire cost of tuition covered by this program. Pell Grant award amounts can vary based upon income and enrolled units. For students who do not receive the maximum award, and absent any other financial aid, the Pell Grant may partially cover the potential adjustment in tuition. However, individual Pell Grant awards vary for each student.

Loan programs can also be used to cover all tuition costs for a student. Based on CSU financial aid packaging policies in which grants and waivers are applied first, and loans second, it is unlikely that student loan debt would increase materially, if at all, in order to pay for a potential adjustment.

Employment

CSU financial aid policies do not include or establish a minimum workload expectation for students. Student may work to cover tuition and other college-related expenses and if they qualify, can participate in the federal work-study programs for this purpose. For students who work to meet their full cost of attendance, at the current minimum wage of \$10.50 per hour, a resident undergraduate student would have to work approximately 33 additional hours per academic year—equivalent to 1 hour per week—to cover a \$270 proposed adjustment in tuition (assuming taxes and other withholdings).

Student Indebtedness

While 49 percent of all CSU students graduate with some loan debt for college-related expenses, the amount of the debt is substantially lower than the California and national average, as shown in the table below.

AY 2013-14	Amount of Debt	% with Debt
National Average	\$28,950	69%
California Average	\$21,382	55%
CSU Average	\$14,388	49%

Average indebtedness would increase slightly if a student needs to borrow additional funds to cover the proposed tuition adjustment. For example, if a student borrows an additional \$270 a year for four years of enrollment (total \$1,080), the anticipated monthly payment upon graduation would increase by approximately \$13, based on the maximum interest rate and a standard 10-year repayment schedule. Based on similar terms and conditions, if a student borrowed an additional \$270 a year for six years of enrollment (total \$1,620), the anticipated monthly payment would increase by approximately \$19. Average indebtedness at the CSU would still be significantly lower than the California average or national average.

Purpose/Use of New Tuition Revenue

The state general fund and student tuition and fees are the two primary revenue sources that support the educational endeavors of more than 470,000 CSU students. The current support budget is made up of approximately 56 percent from state general funds and 44 percent from student tuition and fees. State funding and tuition revenue support general operations of the university including instruction, academic support, student services, institutional support, operations and maintenance of academic facilities, and institutional financial aid. The board adopted a support budget request for 2017-2018 that would invest new resources in top priority areas.

Now that the trustees have finalized this budget plan and submitted it to the state for consideration, it is the responsibility of the governor and legislature to determine the appropriate amount of state general fund for the CSU. Subject to final trustee decisions, and subsequent action by the governor and legislature on the CSU budget, revenue generated by a potential tuition adjustment would be used in combination with state funding to support the categories of incremental expenditure increases in the table below.

2017-2018 Support Budget Request	
Incremental Expenditures	In Millions
Graduation Initiative 2025	\$75.0
Enrollment Growth: 3,600 FTES	\$38.5
Compensation: Existing Contracts	\$139.1
Compensation: New Contracts & Non-Represented Employees	\$55.1
Academic Facilities & Infrastructure Needs	\$10.0
Mandatory Costs	\$26.0
Total	\$343.7
Anticipated Incremental Revenue	
General Fund:	
Administration’s Funding Plan	\$157.2
Tuition Revenue:	
Net Tuition from Enrollment Growth	\$18.8
Total	\$176.0
CSU Remaining Need	\$167.7

Strategies for Addressing Support Budget Shortfall

Earlier this month, the governor’s budget proposed a \$157.2 million state General Fund increase for the CSU. It is consistent with the governor’s funding plan for the CSU and the funding can be used for any purpose. That said, this amount is approximately a two percent increase in total operating funds, and is \$167.7 million short of the trustees’ support budget request to the state.

As a result, the CSU has three primary strategies for addressing its fiscal priorities in the coming year. These strategies are not mutually exclusive and may be combined in varying proportions by the end of the budget process. In general, the three strategies are described below.

Strategy A: Increase state funding to cover the full support budget request

The CSU’s first priority and commitment is to pursue this strategy. The CSU will work with partners across the system including students, faculty, staff, business, union leaders, alumni, and friends to make the case in Sacramento for the level of new funding that supports student success. With the historic gains made in four-year and six-year graduation

rates, the aggressive targets set out in Graduation Initiative 2025, and the state recently focusing on these same goals, CSU arguments for increased state funding have never been stronger. While additional state funding is the preferred strategy, the state allocation will not be known until a final budget agreement is reached in June 2017.

Strategy B: Adjust tuition to partially cover the support budget request while continuing to advocate for more state funding

A proposed, not-to-exceed tuition adjustment of \$270 per resident undergraduate student would take the annual tuition price from \$5,472 per student to \$5,742 and would generate approximately \$77.5 million of new revenue to support the 2017-2018 budget plan. Similar, not-to-exceed adjustments are proposed to non-resident tuition, as well as graduate, doctoral, and teacher credential programs. While the revenue raised from a potential tuition adjustment would not fully fund the support budget request, it would allow for a significant investment in Graduation Initiative 2025, coupled with continued advocacy efforts in Strategy A to fully fund the rest of the support budget request.

Strategy C: In lieu of additional state funding or a potential tuition adjustment, reduce programs and services, both academic and non-academic

The CSU's required financial obligations exceed anticipated new revenues for 2017-2018. If additional funding is not secured through Strategies A and/or B, many priority areas of the support budget would be reduced or eliminated while campuses would have to redirect funding from existing programs, services and priorities. Fewer course sections would be available to students, average unit load would go down and ultimately it could take longer for students to graduate.

The CSU will continue to pursue administrative efficiency and effectiveness. Efforts by the Office of the Chancellor and every campus to identify and employ administrative efficiencies and effectiveness will continue to be a high priority. However, it is important to manage expectations and dispel misconceptions about improved efficiency and effectiveness. With the 2017-2018 support budget plan funding gap of approximately \$167.7 million, these efforts will have a very small impact on narrowing that gap for two reasons. First, past successes have yielded, on average, savings and cost avoidance of tens of millions of dollars per year. Based on currently available information, CSU anticipates several, single-digit million-dollar cost savings or cost avoidance opportunities that could culminate in 2017-2018, but which will not significantly narrow the budget gap. Lastly, it is not always possible to align cost savings or avoidance with annual budget cycles, making it difficult to plan and redirect resources from one function to another.

CSU will continue to pursue and realize efficiencies, maintain effectiveness, and identify cost savings and avoidance opportunities as they become available. More importantly, CSU will examine ongoing investments to ensure they are in line with the mission of the university so that the money invested in CSU by the state and students is spent thoughtfully and with student success at its core.

Proposed Systemwide Tuition and Fee Adjustments for the 2017-2018 Academic Year

Undergraduate, Credential and Graduate Programs

Table 1 shows the current and proposed maximum tuition levels for undergraduate, credential, and graduate programs.

Table 1: Undergraduate, Credential and Graduate Tuition per Academic Year			
	Current Rate	Proposed Rate	Dollar Change
Undergraduate Programs			
6.1 or more units	\$5,472	\$5,742	\$270
0 to 6.0 units	3,174	3,330	156
Credential Programs			
6.1 or more	6,348	6,660	312
0 to 6.0	3,684	3,864	180
Graduate and Other Post-Baccalaureate Programs			
6.1 or more	6,738	7,176	438
0 to 6.0	3,906	4,164	258

Summer rates would be adjusted beginning with the summer 2018 term.

Doctoral Programs

The table below shows the current and proposed maximum tuition rates for the three doctoral programs offered by the CSU.

Table 2: Doctoral Program Tuition Per Academic Year			
	Current Rate	Proposed Rate	Dollar Change
Doctor of Education	\$11,118	\$11,838	\$720
Doctor of Nursing Practice	14,340	15,270	930
Doctor of Physical Therapy	16,148	17,196	1,048

State law (Education Code 66042.1) requires the tuition for the Doctor of Physical Therapy program is to be no higher than that of the University of California (UC). State law requires the tuition for the Doctor of Education program is to be no higher than the rate at the UC (Education Code 66040.5). The law does not limit the tuition that may be assessed for the CSU Doctor of Nursing Practice program and does not link the CSU tuition and UC tuition and fees for doctoral nursing programs.

Non-Resident Students

Non-resident tuition is in addition to applicable systemwide tuition. Table 3 shows the current and proposed maximum per semester and per quarter unit rates for non-resident students.

Table 3: Non-Resident Tuition				
	Current Per Semester Unit Rate	Current Per Quarter Unit Rate	Proposed Per Semester Unit Rate	Proposed Per Quarter Unit Rate
Non-Resident Tuition	\$372	\$248	\$396	\$264

Graduate Business Professional Program

The Graduate Business Professional Fee is in addition to applicable systemwide tuition. The board resolution authorizing this fee requires that whenever the board takes action to adjust tuition for graduate students, the same adjustment will be made to the Business Professional Fee. Table 4 shows the current and proposed maximum per semester and per quarter unit rates.

Table 4: Graduate Business Professional Fee				
	Current Per Semester Unit Rate	Current Per Quarter Unit Rate	Proposed Per Semester Unit Rate	Proposed Per Quarter Unit Rate
All Students	\$254	\$169	\$270	\$180

Further Information and Opportunity for Public Comment

In order to provide students and their families with as much information as possible for planning purposes, the <http://www.calstate.edu/tuition-adjustment> website includes information on the proposal. It provides information about the possible tuition adjustment, including maximum potential rate increases, general and specific campus financial aid resources, and other information.

The webpage also provides the opportunity for students, their families, and anyone else to comment on the proposal. Comments received will be compiled and summarized for the trustees at the March 2017 meeting.

Conclusion

The CSU’s first priority and commitment continue to be to pursue additional funding from the state and to work with partners across the system including the board, students, faculty, staff, business and union leaders, alumni, and friends to make the case in the capitol for the level of new funding that supports student success. However, to ensure the university has the revenue available to meet its 2017-2018 priorities, the CSU must continue the conversation and focus the consultation process on a possible tuition adjustment now.

This information item requests the trustees' consideration of a proposed tuition adjustment as part of the 2017-2018 support budget plan. The CSU would use new tuition revenue in combination with additional state general fund allocations to support CSU budget priorities. If the proposal is adopted at the March 2017 Board of Trustees meeting, it would take effect in fall 2017 and would keep with the timeline and requirements of the Working Families Student Fee Transparency and Accountability Act. In addition, the CSU would publish approved increases in order to provide advance notice to current and prospective students and their families. As advocacy efforts for the 2017-2018 budget are underway, it is the CSU's priority that the state fully-fund the CSU's support budget request in lieu of a tuition adjustment.