

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:00 a.m., Wednesday, September 14, 2022
Glenn S. Dumke Auditorium

Jack McGrory, Chair
Julia I. Lopez, Vice Chair
Diana Aguilar-Cruz
Larry L. Adamson
Lillian Kimbell
Anna Ortiz-Morfit
Romey Sabalius
Christopher Steinhauser

- Consent** 1. Approval of Minutes of the Meeting of July 13, 2022, *Action*
- Discussion** 2. Quarterly Investment Report, *Information*
3. Approval of the 2023-2024 Operating Budget Request, *Action*

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

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

July 13, 2022

Members Present

Jack McGrory, Chair
Julia I. Lopez, Vice Chair
Larry L. Adamson
Anna Ortiz-Morfit
Christopher Steinhauser

Wenda Fong, Chair of the Board
Jolene Koester, Interim Chancellor

Trustee Jack McGrory called the meeting to order.

Public Comment

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

Approval of the Consent Agenda

The consent agenda, including the minutes of the May 24, 2022, meeting of the Committee on Finance was approved as submitted.

2022-2023 Final Budget

This agenda item provided a recap of the state's final budget decisions related to the Trustees' budget request for the 2022-2023 fiscal year.

An important development this year was the multi-year compact between Governor Newsom's administration and the CSU. The administration commits to proposing annual, year-over-year ongoing state general fund increases of five percent (or approximately 2.8 percent of the CSU

Operating Fund). This does and will provide predictable and more sustainable funding for shared CSU and administration commitments through 2026-2027.

For 2022-2023, the CSU received a \$365 million-dollar ongoing, base increase. The largest portion of this increase is attributable to a \$211 million-dollar increase for general operating costs, which will primarily fund employee compensation and most mandatory cost increases. These categories of spending align with the priorities of the trustees 2022-2023 operating budget request.

Also, one-time funding reached one billion, eighty-two million dollars. Most of that funding is dedicated to specific academic, student supports, and student housing construction projects.

However, the funding provided to the University does not cover all of the CSU's new ongoing costs for 2022-2023. Consequently, it is estimated that campuses will redirect approximately \$50 million dollars from existing campus budgets to cover some of these new costs.

After the presentation, trustees asked if there were conditions related to housing funding and discussed understanding what it really costs to run university operations.

Planning for the 2023-2024 Operating Budget

The purpose of this item was to provide the Board of Trustees with a preliminary operating budget plan for the 2023-2024 fiscal year and to solicit comments and feedback from the trustees on that draft plan. That input will be used to craft the final plan that will be presented as an action item at the September board meeting.

Staff described a shift of the CSU's budget planning and adoption to two months earlier than it has been in the past, which will be the standard for the future. The new timeline provides the CSU more advocacy opportunities with the legislature and the governor's administration prior to the administration's state budget proposal in January. Also, the multi-year compact with the governor's administration has current and prospective state revenue implications that could impact how the operating budget request is structured for 2023-2024 and beyond.

Staff shared a draft budget request that contained potential ongoing revenue and expenditure categories as well as a potential one-time expenditure category and amount.

After the presentation, trustees requested that the Mercer salary study be listed separately, inquired about earmarks, mandatory costs, future expected costs, and the ability to holistically discuss the budget.

Law Enforcement Regulated Equipment and Tools

The purpose of this item was to review the requirements of AB 481 that took effect January 1, 2022. The process used to develop the proposed policy was discussed as well as a summary of the policy.

The overarching objective of CSU's university police departments is to build community trust and establish a guardian mentality. The CSU is committed to a transparent and supportive campus culture that contributes to the intellectual, social and personal development of CSU students. Just like the CSU, the goal of AB 481 is to enhance transparency for law enforcement agencies in California to help strengthen the public's trust.

After the presentation, trustees asked for reporting when this type of equipment is used and discussed understanding the nuances of how we use of force policies and how officers are hired and trained and embracing community dialogue. There was a question on funding for this effort and examples of when equipment may not be used within policy. There was also a request for a utilization report. Trustee Linares requested adding additional language to the policy regarding timing of community engagement meetings.

Trustee McGrory adjourned the meeting of the Committee on Finance.

COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

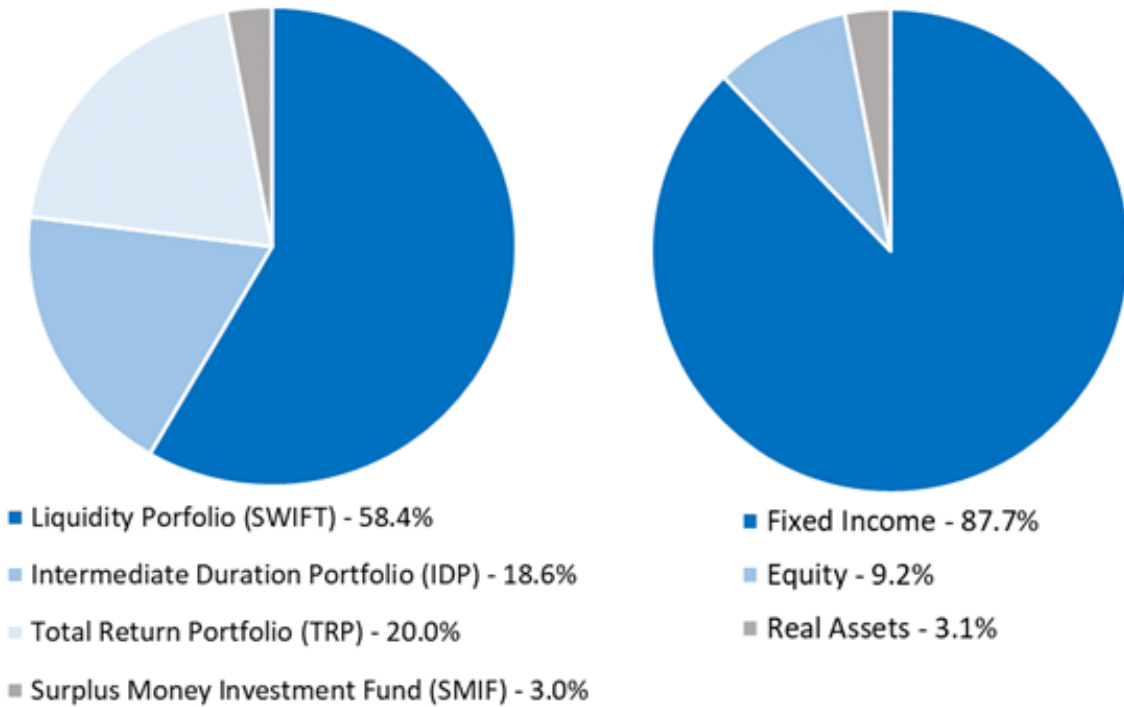
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended March 31, 2022. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

Background

The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of March 31, 2022 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.60 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**CSU Investments – Balances, Allocations, and Returns
 March 31, 2022**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (SWIFT)	\$4.049 billion	58.4%	-1.75%
Intermediate Duration Portfolio (IDP)	\$1.293 billion	18.6%	N/A
Total Return Portfolio (TRP)	\$1.388 billion	20.0%	4.20%
Surplus Money Investment Fund (SMIF)	\$0.209 billion	3.0%	0.23%
CSU Investments	\$6.94 billion	100%	



CSU Investment Portfolios

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

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

The Liquidity Portfolio is managed through contracts with two investment management firms, BlackRock Financial Management and Payden & Rygel, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the Liquidity Portfolio, for investment management purposes additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the State and the Liquidity Portfolio investment policy. Consistent with state law, the Liquidity Portfolio is restricted to high quality, fixed income securities.

CSU Intermediate Duration Portfolio (IDP)

The Intermediate Duration Portfolio launched on October 1, 2021, with an initial investment of \$675 million. On March 31, 2022, an additional \$675 million was invested in the IDP. The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. The IDP is managed through contracts with three investment management firms, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the IDP, for investment management purposes additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the State and the IDP investment policy. Consistent with state law, the IDP is restricted to high quality, fixed income securities.

CSU Total Return Portfolio (TRP)

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

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

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

issues such as investment policy, asset allocation, investment manager oversight, and investment performance.

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

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

The IAC has adopted an investment schedule for the TRP that utilizes a dollar-cost averaging approach and provides regular monthly contributions to the TRP. An initial investment of \$33.5 million into the TRP was made on April 1, 2018, and additional investments allowed the TRP to reach the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. After June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal of funding the TRP to as much as 30 percent of CSU investments by mid-2020. However, in April of 2020, the IAC approved a reduced investment schedule in the amount of \$20 million total between April and July of 2020, and in August of 2020, the IAC suspended further contributions to the TRP for the time being. Both of these actions were taken in order to preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. Recently, in January of 2022, the IAC approved an additional \$900 million investment into the TRP scheduled over the next eighteen months. The investment schedule may also be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed 30 percent of CSU Investments.

Since the TRP Inception date¹ through March 31, 2022, the TRP investment earnings were approximately \$308.9 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 7.36% annualized (net of fees) or a cumulative \$287.7 million, which was about 14.5 times higher than Liquidity Portfolio investment earnings.

In October 2021, the IAC approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to \$112.98 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional moneys

¹ The TRP Inception Date was April 1, 2018.

earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

Surplus Money Investment Fund (SMIF)

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

Reporting Requirements

California Education Code § 89726 requires quarterly investment reports to the Board of Trustees and an annual report to the State Legislature and the Department of Finance.

Subsequent Developments/Next Steps

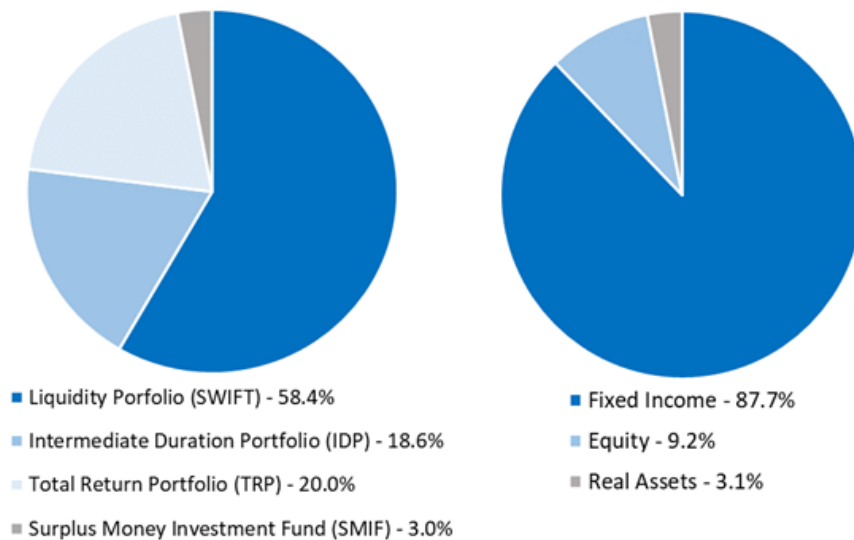
With oversight from the IAC, staff will continue implementing the TRP investment schedule and continue monitoring market conditions to determine if any changes in the TRP investment schedule are warranted. The next investment report to the board is scheduled for the November 2022 meeting and will provide information on the CSU Annual Investment Report for the fiscal year ending June 30, 2022.

CSU Quarterly Investment Report For the Fiscal Quarter Ended March 31, 2022

CSU investments as of March 31, 2022 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.60 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

Balances and Allocations as of March 31, 2022

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$4.049 billion	58.4%
Intermediate Duration Portfolio (IDP)	\$1.293 billion	18.6%
Total Return Portfolio (TRP)	\$1.388 billion	20.0%
Surplus Money Investment Fund (SMIF)	\$0.209 billion	3.0%
CSU Investments	\$6.94 billion	100%



For the quarter ending March 31, 2022, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.5 million, or about 0.042 percent (4.2 basis points) on CSU investments' average balance for the quarter ending March 31, 2022.

¹ Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 6.

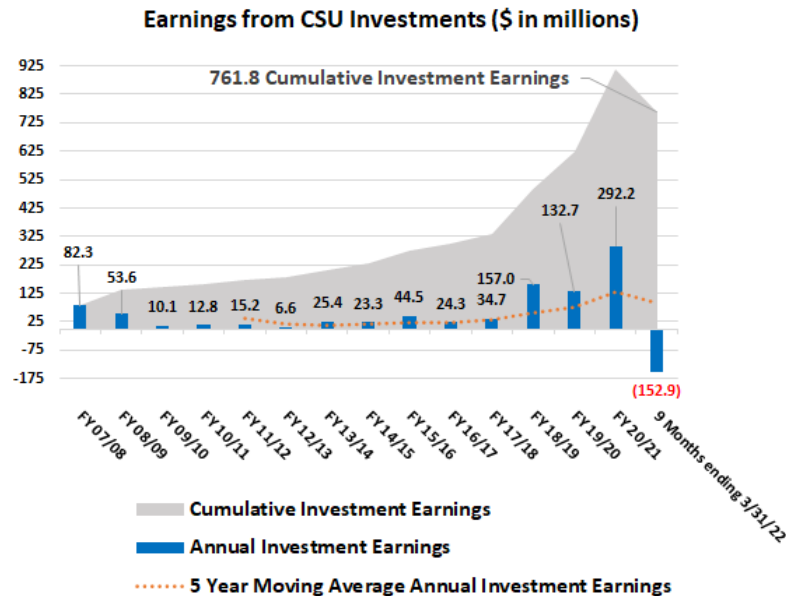
CSU Consolidated Investment Portfolio

The following table displays performance returns for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT), IDP, and TRP.²

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (SWIFT)
1 Year Return	-0.70%	4.20%	N/A	-1.75%
3 Year Annualized Return	2.83%	9.29%	N/A	0.89%
5 Year Annualized Return	2.39%	N/A	N/A	1.19%
10 Year Annualized Return	1.55%	N/A	N/A	0.95%
Since Inception Return ³	1.65%	8.63%	-5.80%	1.25%

As of March 31, 2022, the TRP investment earnings since inception were approximately \$308.9 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 7.36 percent annualized (net of fees) or a cumulative \$287.7 million, which was about 14.5 times higher than Liquidity Portfolio investment earnings.

Investment Earnings from CSU Investments Support Campus Operations and Student Experience



² CSU Consolidated Investment Portfolio returns exclude SMIF.

³ Inception Dates for the CSU portfolios were: Consolidated Investment Portfolio, July 1, 2007; SWIFT, July 1, 2007; IDP, October 1, 2021; and TRP, April 1, 2018. CSU Consolidated Investment Portfolio, SWIFT, and IDP returns reported gross of fees and as total return, including income and gains (realized and unrealized).

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

The purpose of the Liquidity Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives are safety of principal and liquidity. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark⁴</u>
1 Year Return ⁵	-1.75%	-2.04%
3 Year Annualized Return	0.89%	0.90%
5 Year Annualized Return	1.19%	1.13%
10 Year Annualized Return	0.95%	0.82%
Annualized Since Inception Return ⁶	1.25%	1.45%
Yield	1.74%	1.84%
Duration (Years)	1.29	1.44
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	41.86%	Commercial Paper	3.09%
U.S. Corporate Bonds	27.99%	Agency MBS	1.70%
Certificates of Deposit	10.37%	CA Municipal Obligations	0.87%
U.S. Government Agencies	8.00%	Supranationals	0.38%
Cash Equivalents	5.74%		

⁴ Benchmark for the SWIFT is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

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

⁶ Inception Date for SWIFT was July 1, 2007.

CSU Intermediate Duration Portfolio (IDP)

The purpose of the Intermediate Duration Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	CSU Intermediate Duration Portfolio	Benchmark⁷
Since Inception Return ⁸	-5.80%	-5.32%
Yield	2.90%	2.91%
Duration (Years)	4.64	4.53
Average Credit Rating	A+	AA-

Holdings by Asset Type (% of CSU Intermediate Duration Portfolio):

U.S. Corporate Bonds	58.6%	CA Municipal Obligations	1.2%
Agency MBS	22.4%	Cash Equivalents	0.4%
Treasuries	15.8%	Supranationals	0.1%
U.S. Government Agencies	1.5%		

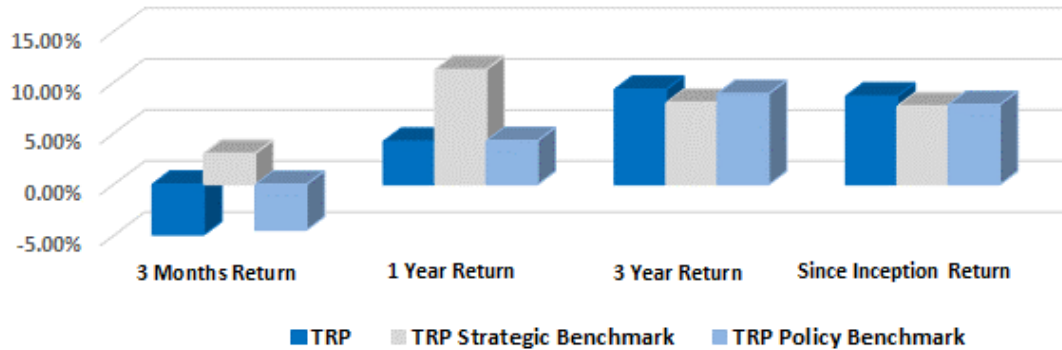
⁷ Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

⁸ Inception Date for the IDP was October 1, 2021. IDP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

CSU Total Return Portfolio (TRP)

The purpose of the Total Return Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission or in United States registered real estate investment trusts.

Annualized Investment Returns



	CSU Total Return Portfolio	Strategic Benchmark⁹	Policy Benchmark¹⁰
3 Months Return	-4.93%	3.02%	-4.46%
1 Year Return	4.20%	11.24%	4.28%
3 Year Annualized Return	9.29%	8.02%	8.88%
Annualized Since Inception Return ¹¹	8.63%	7.67%	7.81%

In October 2021, the CSU Investment Advisory Committee approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to \$112.98 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code Section § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.

⁹ The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.

¹⁰ The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

¹¹ TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	45.9%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.7%	Actively Managed Mutual Funds	26% ¹²
Real Asset Mutual Funds	15.4%		

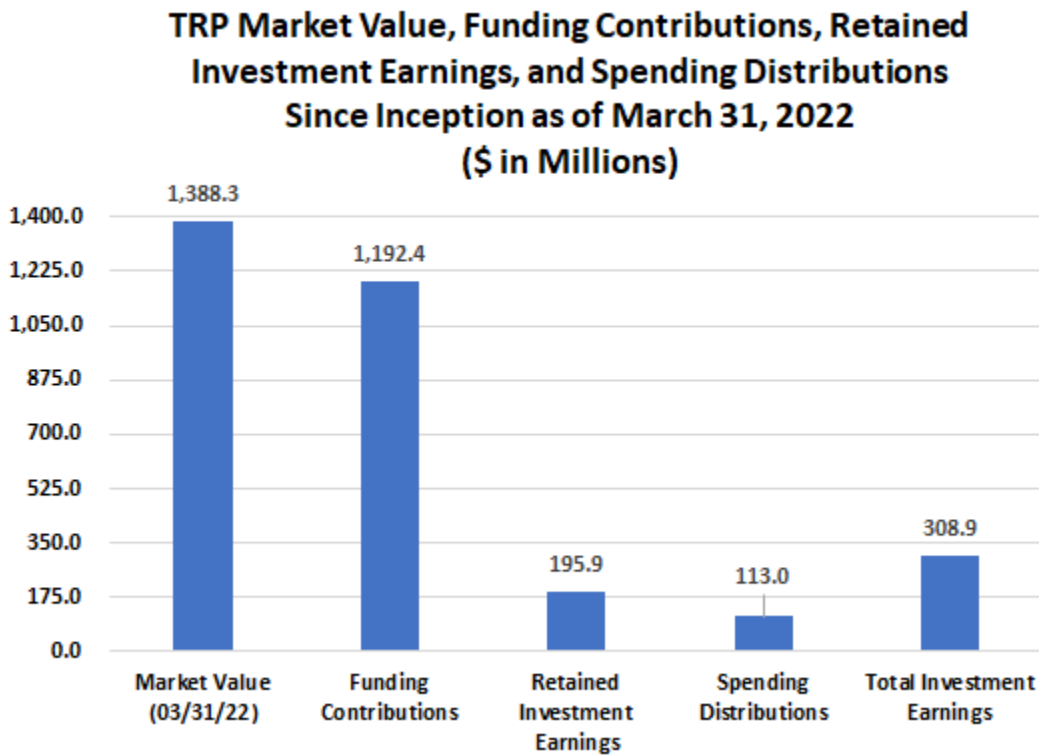
Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	303.0	21.83%	0.03%	0.42%
	Vanguard Inflation-Protected Securities Fd	VIPIX	68.6	4.94%	0.07%	0.37%
	Lord Abbett High Yield Fund	LHYOX	82.8	5.97%	0.59%	0.69%
	Pacific Funds Floating Rate Income Fund	PLFRX	41.3	2.97%	0.75%	0.77%
	Payden Emerging Markets Bond Fund	PYEIX	20.7	1.49%	0.69%	0.84%
	T. Rowe Emerging Markets Bond Fund	TREBX	20.8	1.50%	0.70%	0.84%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	336.8	24.26%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	164.9	11.88%	0.04%	0.88%
	Driehaus Emerging Markets Growth Fund	DIEMX	81.3	5.86%	1.07%	1.05%
	DFA Emerging Markets Value Fund	DFEVX	40.9	2.95%	0.45%	1.05%
	RWC Global Emerging Equity Fund	RWCEX	13.5	0.97%	1.20%	1.05%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	113.4	8.17%	0.10%	0.88%
	Vanguard Materials Index Fund	VMIAX	35.6	2.56%	0.10%	0.95%
	First Sentier Global Listed Infrastructure Fd	FLIIX	64.6	4.65%	0.95%	0.98%
Cash			0.0	0.00%	NA	NA
Total			1,388.3	100%	0.24%	0.73%

¹² The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan. The total TRP Fund Expense Ratio and total Universe Median Expense Ratio are weighted averages using the percent of the Total Return Portfolio shown in the table for each fund and their respective universe.

TRP Annual Spending Distributions Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of March 31, 2022. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.



Surplus Money Investment Fund (SMIF)

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

Apportionment Annual Yield¹³	
Trailing 12 months as of 3/31/22	0.23%
Average (FYE 06/30/07 – 3/31/22)	1.06%

¹³ Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.

COMMITTEE ON FINANCE

Approval of the 2023-2024 Operating Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item requests approval by the California State University Board of Trustees of the 2023-2024 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2023-2024 request, which contains historical detail as well as prospective information for the Board of Trustees' consideration.

At its July 2022 meeting, the Board of Trustees reviewed a preliminary plan for purposes of crafting the CSU's operating budget request to the state. That preliminary plan included consideration of past and forecasted information regarding the state's economy and tax revenue as well as past and planned funding of the CSU. With that history and context, the focus of this item are the details of the proposed 2023-2024 CSU Operating Budget Request and a brief discussion of potential opportunities to address the necessary revenues of the operating budget.

The California Constitution requires the submittal of the governor's budget proposal each year by January 10. To better meet consequent deadlines of the Department of Finance as well as additional time this fall to promote this request with state lawmakers and the governor's administration, it is necessary to adopt the proposed 2023-2024 CSU Operating Budget Request at the September CSU Board of Trustees meeting.

Proposed 2023-2024 CSU Operating Budget Request

With the exception of 2020-2021, the state has systematically increased its investment in the CSU for a decade. The challenging \$299 million ongoing budget reduction in 2020-2021 was immediately followed by a state budget rebound in 2021-2022 that unwound the prior year reduction and added \$251 million of incremental, ongoing funding to the CSU's budget. The 2022-

2023 fiscal year was another strong fiscal year for the state and the CSU with \$365.7 million of incremental, ongoing funding added to the CSU’s funding base.

At this point in time, both positive and challenging economic signals make the future uncertain. On the challenging side, inflation and interest rates are up and gross domestic product is down for the first two quarters of 2022. These suggest the possibility of economic challenges ahead. On the positive side, the state has had record-breaking state budget surpluses over the past two fiscal years despite the pandemic and unemployment remains low. Additionally, the governor’s administration committed in its multi-year compact with the CSU to consistently propose five percent, ongoing state general fund increases in both positive and challenging times for the next four years. For 2023-2024, the governor’s administration is committed to a proposal of \$227.3 million ongoing.

The prospect of the state providing investments above the compact level in 2023-2024 could break either direction. As a result, the university should be positioned for potential investment. We must prepare for when the finances and priorities of the state align with the priorities of the university. As shown in the below table and in Attachment A, the 2023-2024 Operating Budget Request proposes a base, ongoing increase of \$529.8 million supported by the compact, state general fund above the compact, and new tuition revenue from enrollment growth. With these investments, the state and the CSU will be in a better position to meet the overall economic and future workforce needs of California.

Incremental Expenditures	in million
Graduation Initiative 2025 & Basic Needs: Equitable	
Student Outcomes	\$75.0
Workforce Investments	311.5
<i>Faculty & Staff Compensation Pool</i>	<i>\$261.0</i>
<i>Health Premium Increases</i>	<i>50.5</i>
Academic Facilities & Infrastructure	50.0
Strategic Resident Enrollment Growth (1%)	50.6
Required Operational Costs	42.7
<i>Maintenance of New Facilities</i>	<i>6.0</i>
<i>Insurance Premium Increases</i>	<i>13.7</i>
<i>Inflation on Non-Personnel Costs</i>	<i>23.0</i>
Total Incremental Expenditures	\$529.8

Anticipated, Incremental Revenues	
State General Fund: Compact	\$227.3

Tuition from Enrollment Growth	16.1
State General Fund: Above Compact	286.4
Total Incremental Revenues	\$529.8

One-Time Funding Request	in million
Critical Capital Renewal	\$1,300.0

Potential Opportunities to Address Operating Budget Revenue Needs

The CSU's highest priority is to advocate for increased state funding above the compact to cover the full operating budget request. The CSU will work collaboratively with stakeholders and partners across the system including trustees, campuses, alumni, students, and CSU champions to make the case in Sacramento for increased funding that supports our priorities.

While additional general fund is the highest priority and the best option for the university, the final state allocation will not be known until the state reaches a budget agreement in June 2023. It is early in the 2023-2024 budget cycle and the economy's direction is not certain. State revenues are heavily dependent on personal income tax and this source is prone to fluctuations.

Consequently, all funding options must remain open. As a regular and routine business matter, the CSU will follow state statutory intent and prepare for and discuss with California State Student Association leadership a written tuition proposal. At this point, the CSU does not expect to raise tuition rates for 2023-2024 but will keep the possibility open in case the state budget deteriorates. The CSU must ensure that the university has the resources it needs to maintain the quality of academic and supportive services for students, while maintaining authentic access to the university.

If the CSU does not secure funding at or beyond compact levels for the operating budget request through general fund, priority areas of the operating budget would not be funded, would be reduced or eliminated, and campuses would have to redirect funding from designated balances, reserves, and existing programs. Faced with budget reductions, it is possible that fewer course sections would be available to students, average unit loads would go down not up, and ultimately it could take longer for students to graduate, costing students more money and creating challenges for Graduation Initiative 2025 efforts.

Conclusion

The state's budget cycle is just beginning. At this time there are some funding assumptions from the state and it is not known if the final state budget for 2023-2024 will meet or exceed the anticipated \$227.3 million from the compact and provide the necessary, additional resources to invest in the operating budget priorities of the CSU. As the budget cycle moves forward, the CSU will collaborate with its partners across California to advocate for funding by the state of the Board of Trustees' operating budget request.

This is an action item presenting final recommendations for the CSU 2023-2024 Operating Budget Request to the governor and legislature. It is the CSU's goal that the state support the budget plan so that the CSU can focus on its transformational mission.

The budget outlined in Attachment A is the official presentation of the 2023-2024 CSU Operating Budget Request and, if approved, the Chancellor's Office will distribute the request to the governor, legislators, and other policy makers in the capitol. Access to the document and additional supplemental detail is at www.calstate.edu/budget.

Recommendation

The following resolution is presented for approval:

RESOLVED, that the future of California rests on the California State University's ability to provide a high-quality, affordable, and accessible education to nearly 500,000 students each year; and be it further

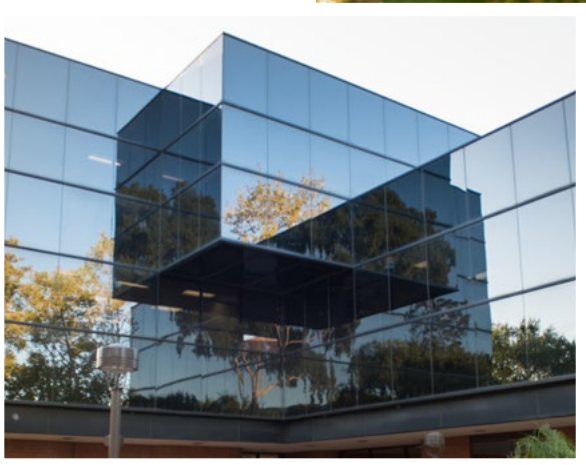
RESOLVED, by the Board of Trustees of the California State University that the 2023-2024 Operating Budget Request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that the chancellor promptly communicate any changes to the trustees; and be it further

RESOLVED, that the chancellor transmit copies of this resolution and the 2023-2024 CSU Operating Budget Request included as Attachment A to this agenda item to the governor, to the director of the Department of Finance, and to the legislature.

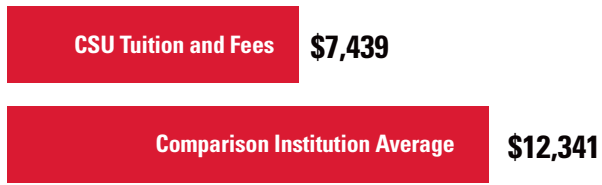
OPERATING BUDGET REQUEST

2023-24

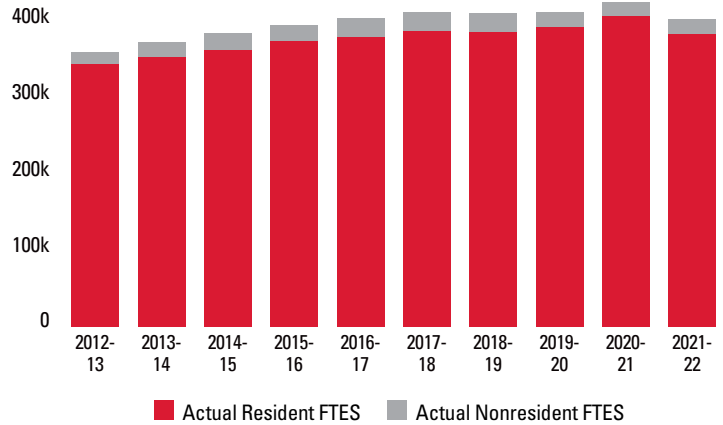


CSU TUITION AND FEES REMAIN AFFORDABLE

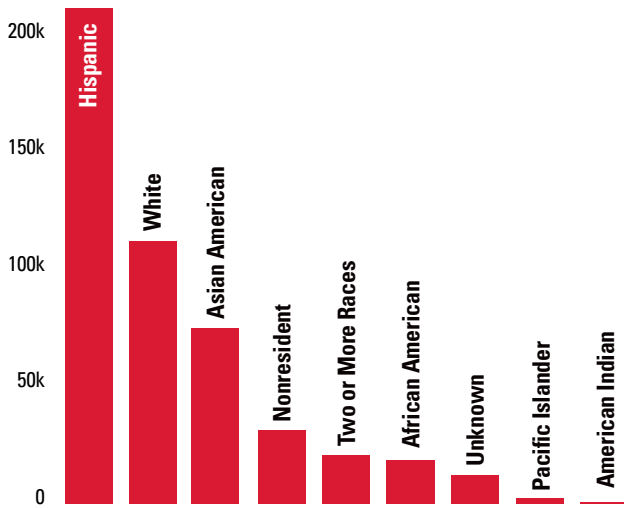
(Based on average resident undergrad)



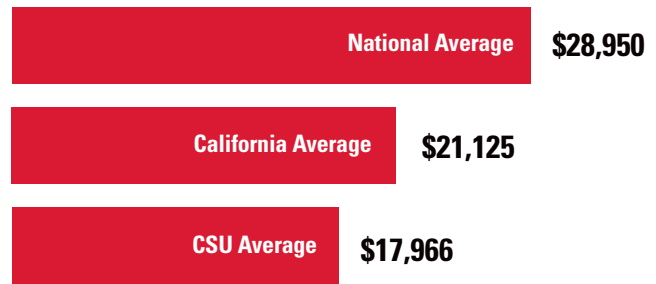
95% OF CSU STUDENTS ARE FROM CALIFORNIA



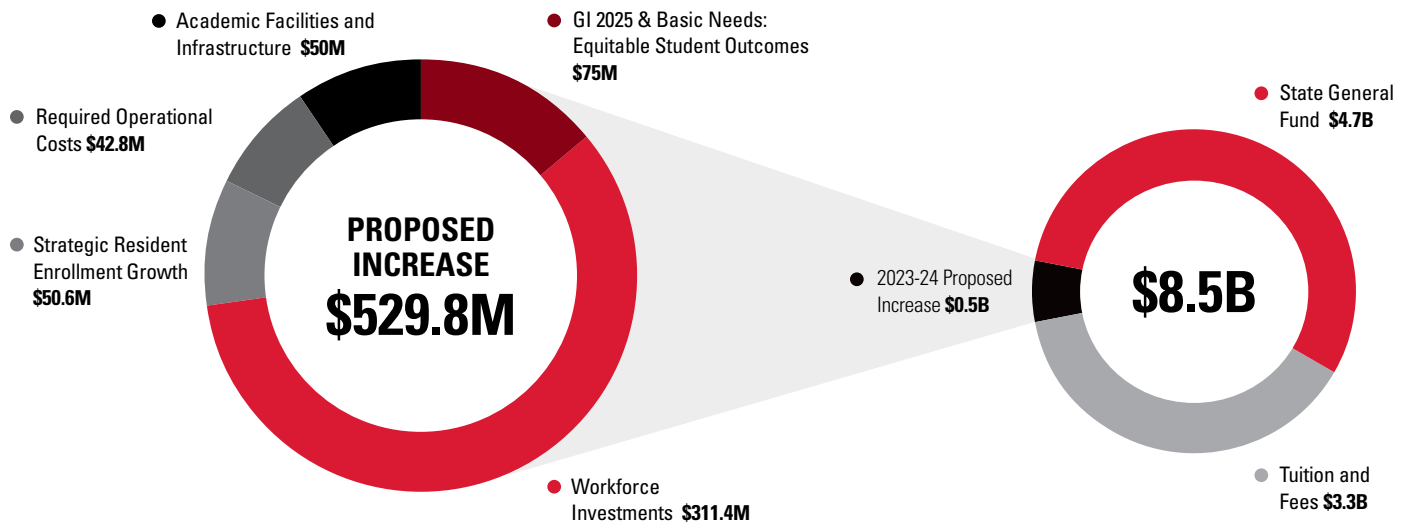
CSU SERVES A DIVERSE STUDENT POPULATION



CSU STUDENTS HAVE LOWER AVERAGE DEBT

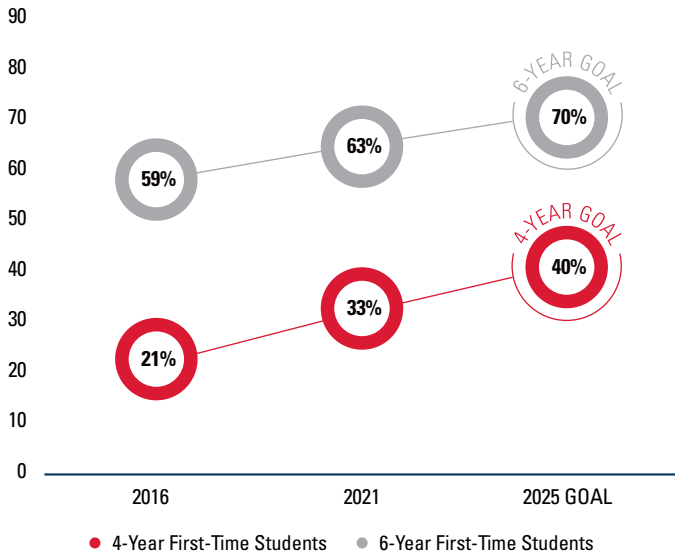


2023-24 PROPOSED OPERATING BUDGET

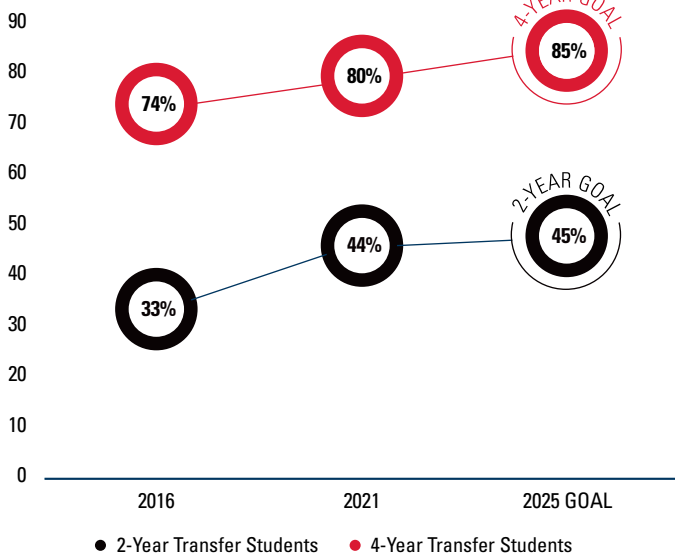


CSU IS ON TRACK TO MEET ITS SYSTEMWIDE GRADUATION RATE GOALS BY 2025

FIRST-TIME STUDENTS



TRANSFER STUDENTS



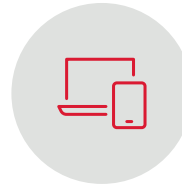
EQUITABLE STUDENT OUTCOMES



REENGAGE AND REENROLL UNDERSERVED STUDENTS



EXPAND CREDIT OPPORTUNITIES



ACCESS TO A DIGITAL DEGREE PLANNER



ELIMINATE BARRIERS TO GRADUATION



PROMOTE EQUITABLE LEARNING AND REDUCE HIGH FAILURE RATES

81%

OF ALL CSU STUDENTS RECEIVED FINANCIAL AID

60%

OF ALL CSU STUDENTS PAID \$0 TUITION

56,000

FACULTY AND STAFF ARE EMPLOYED BY CSU

51%

OF UNDERGRADUATES ARE FROM TRADITIONALLY UNDER-REPRESENTED MINORITIES

95%

OF NEW UNDERGRADUATE TRANSFERS ARE FROM CALIFORNIA COMMUNITY COLLEGES



College
of
Engineering
and
Computer

C
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THE CSU TODAY



In the 2022-23 final budget, the CSU received from the state a permanent base budget increase of \$365.7 million and will receive a \$68.5 million state-funded retirement adjustment in a subsequent General Fund appropriation. The 2022-23 total CSU operating budget of \$8.0 billion is composed of \$4.7 billion in state General Fund and \$3.3 billion in tuition and fees. New resources to fulfill the CSU's budget request for 2023-24 are \$529.8 million, as shown in Table 1.

TABLE 1: OPERATING BUDGET AND INFRASTRUCTURE

	2021-22 Past Year	2022-23 Current Year	2023-24 Budget Year	2023-24 Increase
General Fund, Operations	\$4,864,822,000	\$4,317,574,000	\$4,781,354,000	\$463,780,000
General Fund, Academic Facilities and Infrastructure	340,560,000	340,560,000	390,560,000	50,000,000
Tuition and Other Fee Revenue	3,240,100,000	3,302,044,000	3,318,112,000	16,068,000
TOTAL OPERATING BUDGET AND INFRASTRUCTURE	\$8,445,482,000	\$7,960,178,000	\$8,490,026,000	\$529,848,000

TABLE 2: EXPENDITURES BY PROGRAM AREA

	2021-22 Past Year	2022-23 Current Year	2023-24 Budget Year
Instruction	\$3,065,003,000	\$3,182,672,000	\$3,182,672,000
Research	34,614,000	25,822,000	25,822,000
Public Service	26,015,000	18,825,000	18,825,000
Academic Support	812,116,000	816,791,000	816,791,000
Student Services	863,084,000	858,315,000	858,315,000
Institutional Support	1,353,058,000	1,205,697,000	1,205,697,000
Operation and Maintenance of Plant	1,496,914,000	1,096,540,000	1,096,540,000
Student Grants and Scholarships	794,678,000	755,516,000	755,516,000
New Expenditures	0	0	529,848,000
TOTAL EXPENDITURES	\$8,445,482,000	\$7,960,178,000	\$8,490,026,000

The operating budget is focused on fulfilling the CSU's core mission: to serve students with a high-quality, affordable, and accessible education. As shown in Table 2, the CSU spends 71 percent, \$5.6 billion, of its total operating budget on instruction, academic support, student services, and financial aid. All these activities promote student success, enrich the academic experience, and ensure that each CSU graduate is prepared to succeed.



The CSU's core values of inclusive excellence, equity, access, and elevating lives through the transformative power of higher education are on exhibit every day across the 23 Cal State universities. University leadership, faculty, staff, and—importantly—students are accelerating the CSU's undeniable positive momentum evidenced by record numbers of graduates and student success measures at all-time highs for students from all backgrounds and walks of life.

The university is fertile ground for self-evaluation and commitment to transformation. To that end, more must be done to address existing inequities in academic preparation, retention, and graduation and to ensure that every Cal State student has the equal opportunity to earn the life-long and life-transforming benefits of a CSU degree. Based on the recommendations of an advisory committee comprised of a broad cross-section of faculty, staff, students, and community leaders, the university is implementing an equity action plan across the 23 universities. The plan includes:

- An immediate, systemwide reenrollment campaign to reach out to students who have stopped out and to connect them with the support they need to return to college and get back on track
- The implementation and wide usage of digital degree planners across the 23 campuses to give students an accurate, real-time roadmap of the courses they need to graduate
- Expanded resources for students to take courses over the summer and winter intersession to accumulate academic credits and remain on track for graduation
- Efforts to dramatically improve outcomes in key courses with the highest number of underserved students receiving Ds, Fs, or withdrawals
- The elimination of administrative barriers that disproportionately impede low-income and first-generation students from progressing toward their degrees

As the CSU continues to advance its educational mission, strategic work groups are currently assessing our operations in key areas and developing recommendations for continuous improvement. These collaborative partnerships will drive success at the system and campus levels by addressing four of the CSU's most critical strategic challenges: 1) creating a sustainable financial model; 2) managing enrollment to ensure that every qualified student can have access to a high-quality Cal State degree; 3) meeting Graduation Initiative 2025 goals to graduate more students and eliminate inequities in student outcomes; and 4) recruiting, hiring, and retaining the diverse, world-class human talent that the CSU's students deserve.

The recommendations developed by the CSU's leadership and foremost subject matter experts will offer rich resources and actionable strategies to tackle the institution's most pressing strategic and operational challenges.

Financial sustainability and predictability are critically important for the CSU to accomplish its mission and to overcome its challenges. The State of California has been and is poised to remain a vital partner. California is underwriting the CSU's efforts in two extremely important, and foundational ways. The first includes the sustainable, new financial investments by state lawmakers and governors over the past decade. The second is the multi-year compact between the governor and the CSU. The compact provides predictable funding over the next five years for our shared commitments to access, equity, and student success. Further, the compact is a critical safety net to protect the university from economic fluctuations. The CSU is grateful for both the past sustainable investments as well as the future financial commitments by state leaders.

The 2023-24 budget plan will allow the CSU to grow student enrollment, provide additional investment in Graduation Initiative 2025 (with particular emphasis on ensuring equitable student outcomes), improve compensation for all employee groups, cover required operational cost obligations, begin or continue initiatives included in the multi-year compact, and make progress on facility and infrastructure needs and critical capital renewal. Funding commitments included in the multi-year compact would support significant portions of the preliminary plan. State general fund *above* the compact would support other portions of the plan if the state's budget condition were to allow it and if state leaders were to choose to invest more in the CSU.

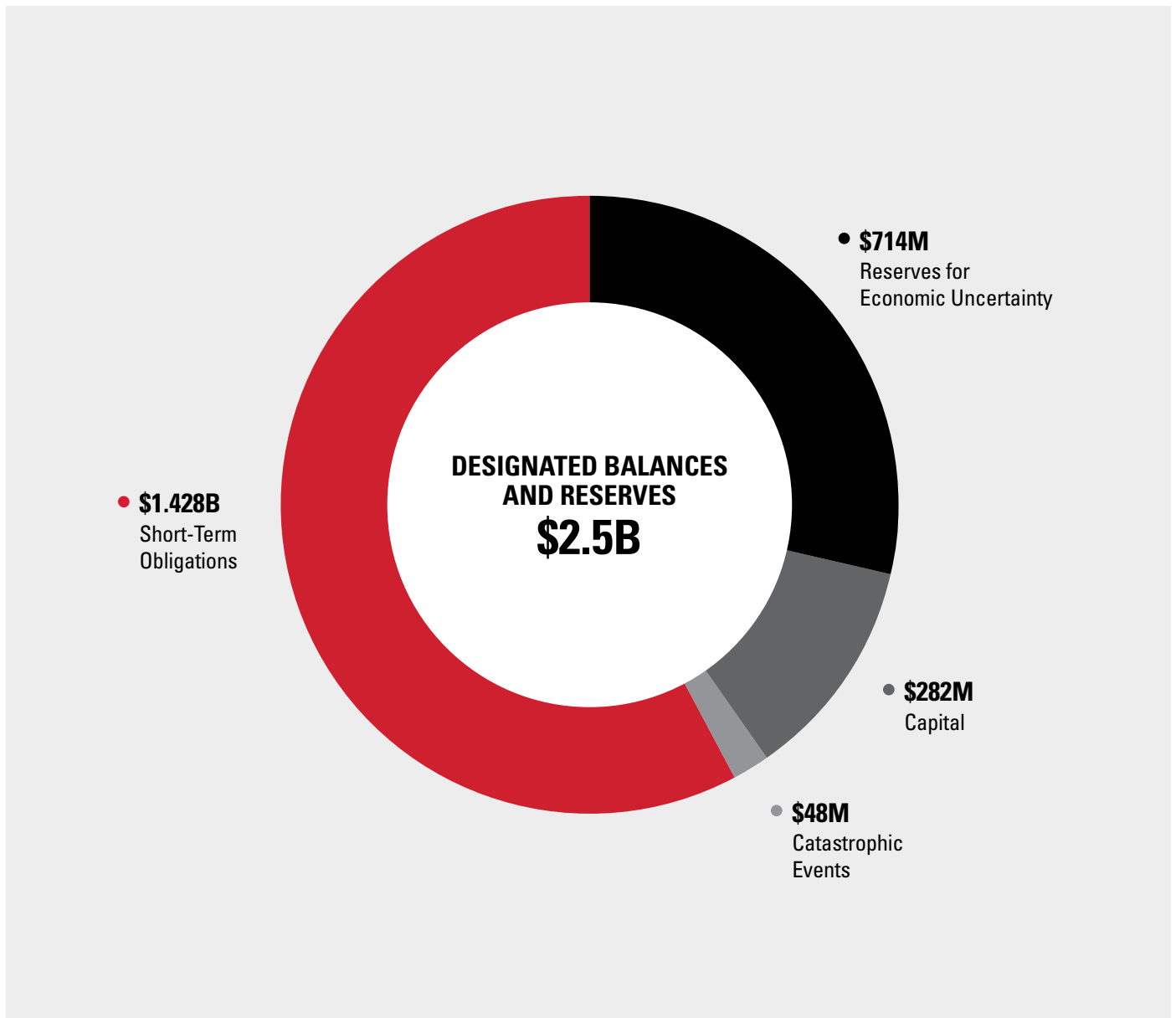
The budget priorities included in this plan are critical to the university, consistent with our core values, promote student success, and advance our mission. Understanding this, stakeholders from across the CSU and throughout the state will continue to advocate with a powerful and unified voice for the needed resources to continue to transform lives, families, and communities as we help drive California to its brightest future.

DESIGNATED BALANCES AND RESERVES: \$2.5 BILLION

Designated balances and reserves in the CSU operating fund represent equity balances that are held or designated for specific purposes. They are used to address non-recurring expenses by managing short-term obligations and commitments; provide funding for capital projects, infrastructure repairs, and facility maintenance; and help to ensure that operating costs can be paid during times of catastrophic events and economic and budgetary uncertainty. Designated balances and reserves are determined and reported annually by the campuses and the system office and are published on CSU's financial transparency portal (calstate.edu/transparency).

Designated balances and reserves are not used to fund recurring expenses, such as salary increases. The use of one-time monies to pay ongoing, permanent expenses can lead to structural deficits.

The CSU has prudently managed designated balances and reserves to meet certain strategic goals. As of June 30, 2022, designated balances and reserves in the operating fund totaled \$2.5 billion. They are held for economic uncertainty, catastrophic events, capital needs, and short-term obligations as displayed in the chart below.





Reserves for Economic Uncertainty

Reserves for economic uncertainty are part of the university's prudent fiscal strategy. Reserves are held for costs that may occur due to short-term recessionary cycles or state budget fluctuations. As of June 30, 2022, reserves for economic uncertainty totaled \$714 million and represent about 33 days of operation for all 23 campuses and the Chancellor's Office. This is significantly below the need to maintain three to six months of operating expenses.

Designated for Catastrophic Events

These designated balances are to be used in the event of a natural disaster or other catastrophic event. Typically, these balances are used to pay for costs not covered by insurance. Balances designated for catastrophic events totaled \$48 million, which is sufficient to cover expected needs.

Designated for Capital

Balances designated for capital are for new projects and to repair current buildings that include planning costs and

equipment acquisition associated with those buildings. Capital reserves fall well short of the expected need, which is at least ten percent of the cost of academic projects approved in the most recent multi-year capital plan. With over \$16.5 billion of academic facility and infrastructure needs identified in the 2022-23 through 2026-27 multi-year capital program, over \$1.6 billion is required. Balances designated for capital totaled \$282 million.

Designated for Short-Term Obligations

Amounts designated for short-term obligations are for open contracts and purchase orders, near-term debt service payments, financial aid obligations, and programs that are in development. Balances designated for short-term obligations totaled \$1.4 billion at the end of last year, which are sufficient to cover expected needs and are typically paid in the following fiscal year.

2023-24 OPERATING BUDGET PLAN

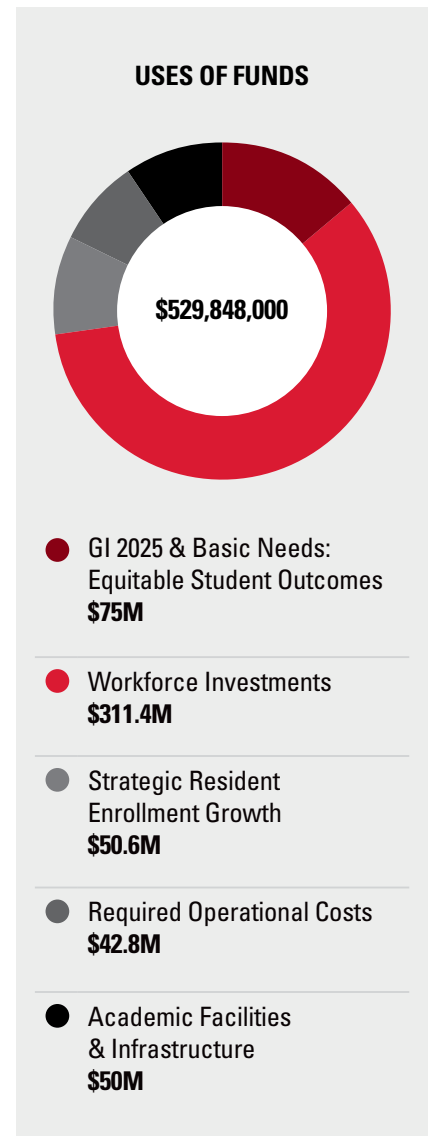


The CSU proposes an \$8.5 billion operating budget for 2023-24, with \$5.2 billion from the state General Fund and \$3.3 billion from tuition and fee revenue. As shown in Table 1, this budget plan is an increase of \$529.8 million over the 2022-23 operating budget. It includes significant investments so the CSU can continue to serve as the key to California’s prosperous economy, consistently ranked as one of the top ten largest in the world. Table 3 outlines the sources and uses of funds that make up the \$529.8 million increase. Because of the multi-year compact, the 2023-24 budget plan is different than past budget plans: it indicates sources and uses of funds within the limits of the multi-year compact and sources and uses of funds above the compact. The 2023-24 budget plan reveals that within the compact, the CSU would prioritize Graduation Initiative 2025, provide workforce investments for all employee groups, grow student enrollment, and cover required operational costs. All budget priorities included in the plan could be supported by a combination of sources from within and above the compact.

TABLE 3: SOURCES AND USES OF FUNDS

SOURCES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
Incremental New Revenue			
State General Fund: Compact	\$227,302,000		\$227,302,000
Tuition from Strategic Resident Enrollment Growth	16,068,000		16,068,000
State General Fund: Above Compact		\$286,478,000	286,478,000
TOTAL NEW SOURCES	\$243,370,000	\$286,478,000	\$529,848,000

USES OF FUNDS	WITHIN COMPACT	ABOVE COMPACT	BUDGET REQUEST
Incremental New Expenditures			
GI 2025 & Basic Needs	\$30,000,000	\$45,000,000	\$75,000,000
Workforce Investments			
Faculty & Staff Compensation Pool	92,466,000	168,444,000	260,910,000
Health Premium Increases	50,524,000		50,524,000
Academic Facilities and Infrastructure		50,000,000	50,000,000
Strategic Resident Enrollment Growth	50,648,000		50,648,000
Required Operational Costs			
Maintenance of New Facilities	6,032,000		6,032,000
Liability and Property Insurance Premium Increases	13,700,000		13,700,000
Inflation on Non-Personnel Costs		23,034,000	23,034,000
TOTAL NEW USES	\$243,370,000	\$286,478,000	\$529,848,000



GRADUATION INITIATIVE 2025 & BASIC NEEDS: EQUITABLE STUDENT OUTCOMES: \$75 MILLION

As it enters its seventh year, Graduation Initiative 2025 is well on its way to meeting many of its bold systemwide goals with the highest graduation rates for first-time and transfer students since the launch of the initiative. Still, the CSU is committed to doing more, which means ensuring that all students, regardless of background, receive a high-quality education and have the same opportunity to earn a CSU degree. Since 2015-16, the CSU has dedicated an estimated \$420 million of ongoing funding to the initiative. The CSU expects to invest \$75 million more through the 2023-24 operating budget request to meet these ambitious goals.

Graduation Initiative 2025 reflects the CSU's commitment to not only improve student success but to advance equity. To that end, in 2021, the CSU redoubled its efforts to support equitable student outcomes by developing a targeted equity action plan through consultation with an advisory committee comprised of faculty, staff, and students from across the university. Within the newly defined equity priorities, the CSU has established goals and metrics for supporting equitable student outcomes.

Campus teams and system leaders have shown exceptional collaboration and creativity in addressing this critically important systemwide goal. The additional \$75 million investment will support the Graduation Initiative 2025 goals by advancing these priorities. The equity priorities website (calstate.edu/equity-priorities) contains updates on systemwide progress and showcases some of the best practices and initial success stories emerging from the action plan. The website will be updated frequently on CSU efforts in the identified priority areas:

- **Reengage and Reenroll Underserved Students**
Reflecting a nationwide trend exacerbated by the COVID-19 pandemic, student retention decreased disproportionately among historically-underserved students. Efforts are focusing on reengaging with students of color, Pell Grant recipients, and first-generation students to support their reenrollment to the CSU and assist them in meeting their academic goals. Targeted systemwide and campus reenrollment campaigns have begun for spring, summer, and fall 2022 terms. These efforts will continue over the next three years with the goal to identify and implement effective outreach to students who left the CSU before earning a degree. Each CSU campus is charged to leverage all available resources and strategies, including leading change management initiatives and re-imagining reenrollment processes and academic policies as well as addressing administrative barriers.
- **Expand Credit-Earning Opportunities**
Summer sessions and intersessions provide an opportunity to gain additional academic credits. This is particularly important for students of color and first-generation students who may have had fewer opportunities to earn academic credits. Additional funding will support students falling behind in academic credits and help facilitate timely degree completion.
- **Access to a Digital Degree Planner**
Digital degree planners, or roadmaps, help students navigate the registration process, select core courses, and stay on track for timely graduation. The CSU is committed to making a digital degree planner available to all students.
- **Eliminate Administrative Barriers to Graduation**
Administrative barriers disproportionately impact underserved students who are often more susceptible to academic disruptions, such as fee assessments, registration holds, and cumbersome processes. Campuses are reviewing practices to eliminate barriers to timely graduation.
- **Promote Equitable Learning and Reduce DFW Rates**
Earning a non-passing grade negatively impacts a student's academic trajectory. Without compromising academic rigor, the CSU is addressing equitable learning practices for classes with persistent high failure rates (D, F, or withdrawal) and providing opportunities for additional learning when needed.

Ensuring that every Californian has an equal opportunity to earn the life-long, life-transforming benefits of a CSU degree

Graduation Rates Continue to Climb

Four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students continue to improve and have reached all-time highs. These increases are notable because of the commitment of CSU faculty, staff, and other campus leaders to student success despite the challenges of the pandemic.

- Every year, more and more students graduate from the CSU and enter the workforce. Since 2015, the number of students who annually earn a baccalaureate degree has increased by nearly 25,000.
- The systemwide four-year graduation rate increased two percentage points to 33 percent from the previous year and 14 percentage points since 2015.
- The systemwide six-year graduation rate increased one percentage point to 63 percent, continuing to exceed the national average for public four-year universities.
- The CSU is on track overall to meet its systemwide graduation rate goals by 2025.

Additional state funding for Graduation Initiative 2025 is critical to maintain this momentum. These new investments

will be used to advance innovative student success practices. Specifically, campuses will focus on addressing a number of equity priorities within the framework of the six operational pillars of the Graduation Initiative:

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

Increased state funding will allow campuses to accelerate existing Graduation Initiative 2025 efforts, support equitable student outcomes, and scale programs that have demonstrated success to ensure all California students have the same opportunity to earn a degree. More information about specific systemwide and campus priorities can be found at the Graduation Initiative 2025 website (calstate.edu/graduationinitiative).

TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE 2025 PROGRESS

		2016	2017	2018	2019	2020	2021	2025 Goal	
GRADUATION RATES	First-Time Students	4-Year	21%	23%	25%	27%	31%	33%	40%
		6-Year	59%	59%	61%	62%	62%	63%	70%
	Transfer Students	2-Year	33%	35%	38%	40%	44%	44%	45%
		4-Year	74%	75%	77%	77%	79%	80%	85%
EQUITY GAPS (in percentage points)	Underserved Students of Color	12.0	12.2	10.5	11.1	10.5	12.4	0.0	
	Pell Grant Recipients	10.0	10.6	9.5	10.2	9.2	10.2	0.0	

WORKFORCE INVESTMENTS: \$311 MILLION

The CSU Board of Trustees recognizes that competitive salary and benefits for faculty, staff, and management is a key element to the university’s success. Continued investment in competitive salary and benefits is critical for the CSU to provide access to an affordable, high-quality education and graduate a well-prepared workforce. A competitive compensation package is essential to recruit and retain a world-class workforce.

Faculty and Staff Compensation Pool	\$260,910,000
Health Premium Increases	50,524,000
TOTAL	\$311,434,000

Faculty and Staff Compensation Pool

The faculty and staff compensation pool is funding that, under mutual agreement by the CSU and each CSU bargaining unit, could be used for different elements of compensation, such as salary and benefit changes for all employees of a bargaining unit; to address specific market, salary structure, or job framework issues for certain groups of employees within a bargaining unit; or for a wholesale change from one salary structure to another (e.g., market, traditional, job family, or step rate). The mutual agreement between the CSU and each CSU bargaining unit will determine the form of compensation that the compensation pool will support.

With some minor exceptions, no collective bargaining agreements have salary and benefit provisions that extend beyond 2022-23. This budget plan includes \$260.9 million to fund 2023-24 compensation increases for all employee groups. The compensation pool is subject to collective bargaining and contingent on the state providing the funding to support this priority.

Health Premium Increases

Permanent base budget costs associated with January 2023 employer-paid health care premium increases are \$50.5 million, reflecting an eight percent increase in costs. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU currently invests over \$600 million per year in health care premiums for its employees. The CSU is governed by California Government Code Section 22871, which defines the employer-paid contribution rates.

ACADEMIC FACILITIES AND INFRASTRUCTURE: \$50 MILLION

Creating innovative and sustainable spaces that inspire learning, creativity, inquiry, and discovery

To provide students with the best educational experience, it is necessary to regularly invest in critical infrastructure and academic facilities. The CSU proposes using \$50 million of the request to finance needed facility and infrastructure projects. These projects will address critical infrastructure needs, renovate existing buildings, and expand capacity for growth in new student enrollment. The CSU five-year capital plan identifies the priority needs of each of the 23 campuses and is based on the categories and criteria approved by the Board of Trustees. The priorities are consistent with the state’s priorities of critical infrastructure, energy efficiency, and life safety projects.

The five-year plan identifies a systemwide need in 2023-24 alone that exceeds \$4.2 billion to address academic infrastructure and facility needs. The \$50 million in the 2023-24 budget request will help finance approximately \$750 million of the priority projects identified by the campuses and the Chancellor’s Office. While the 2023-24 Capital Plan is still being developed, the table below summarizes some of the CSU’s highest priority projects that could be funded with this additional support.

Category	Project Description	Total Budget
Existing Infrastructure	Statewide Infrastructure Improvements	\$510,000,000
Existing Facility	Replacement Facilities (Seismic)	\$170,000,000
New Facility	Sciences & Engineering–Growth	\$71,000,000

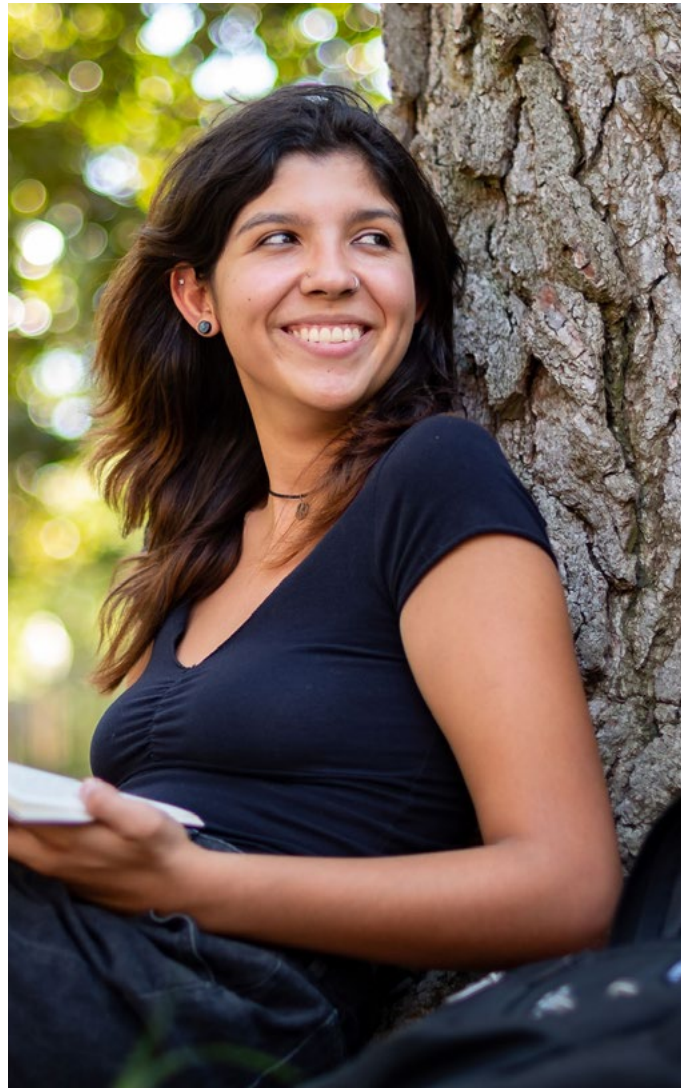
For more information on specific projects and priorities, please reference the CSU five-year capital plan (calstate.edu/major-capital-outlay).

**STRATEGIC RESIDENT ENROLLMENT GROWTH:
\$51 MILLION**

The CSU aims for steady and strategic increases in enrollment to meet student demand for a CSU education and to ensure a solid foundation for California’s economy with a well-educated, degree-holding workforce. Aligned with the state’s expectations in the multi-year compact, the CSU plans to increase resident undergraduate enrollment by one percent or 3,434 full-time equivalent students (FTES) for 2023-24. Using the marginal cost rate, which is the cost of education per FTES, the funding required to support these new students is \$50.6 million.

As was done in 2022-23, it is the CSU’s intent to strategically place new enrollment at campuses that are experiencing significant prospective student demand and can expand more seats in academic programs that support high-demand career fields in California.

2022-23 Resident FTES Base	383,680
1% Proposed Growth	3,434
2023-24 TOTAL RESIDENT FTES	387,114
Marginal Cost Rate per FTES	\$14,749
TOTAL COST OF ENROLLMENT GROWTH	\$50,648,000
State’s Share of Marginal Cost Rate	\$10,070

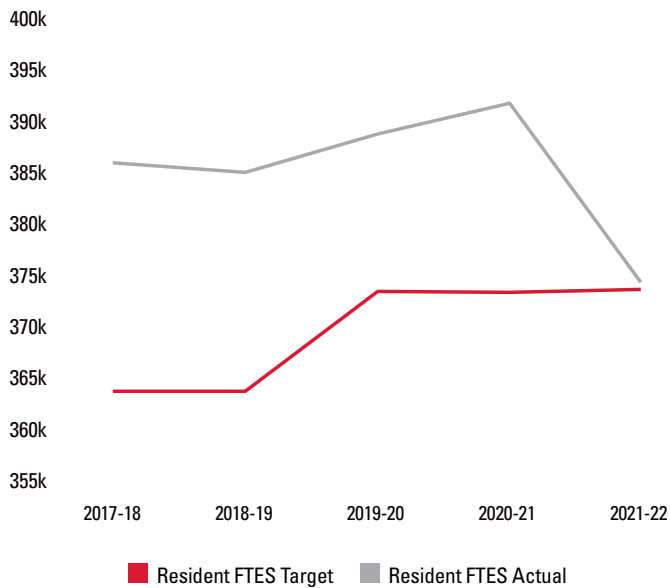


In 2015, the Public Policy Institute of California (PPIC) concluded that the state would fall about 1.1 million college graduates short of economic demand by 2030. Of the 1.1 million-degree gap, the PPIC calculated the CSU would need to graduate an additional 480,000 students to meet its share of the state’s need. The CSU’s commitment to Graduation Initiative 2025 will help meet workforce demand by increasing access and completion outcomes, but the other part of the equation necessary to shrink the gap is funded enrollment increases each year over the next several years. The multi-year compact includes a commitment by the CSU to grow resident undergraduate enrollment by one percent each year so that by 2026-27, CSU’s enrollment will grow by approximately 14,000 FTES.

Transforming the lives of more deserving and qualified students—and meeting California’s growing need for a diverse, highly educated workforce

For decades, California has encouraged generations of young Californians to pursue higher education, and during that time, the CSU has been a beacon of access to that opportunity. For many years now, the CSU has educated many more students than expected—approximately 76,000 more students over the past five years (cumulative) beyond the funded enrollment targets agreed to by the CSU and the state.

STUDENT ENROLLMENT EXCEEDS TARGET



Higher education enrollment declined across the country during the pandemic, but CSU campuses collectively fared better than other institutions. The 2021-22 academic year ended with actual resident enrollment tracking very closely to the resident enrollment target. As the state emerges from the pandemic, CSU campuses have returned to in-person outreach and recruitment efforts, but challenges exist including those related to the national sentiment about the value of a college degree and decreasing enrollment in California K-12 and community colleges. With 95 percent of CSU undergraduate student population enrolling from California schools, the system and campuses will need to carefully monitor application and enrollment numbers in future years.

REQUIRED OPERATIONAL COSTS: \$43 MILLION

Required operational costs (or mandatory costs) are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase despite the level of state support. The 2023-24 operating budget request includes \$42.8 million for increases due to inflation on non-personnel expenditures, maintenance of new facilities, and liability and property insurance premiums.

Maintenance of New Facilities	\$6,032,000
Liability and Property Insurance Premium Increases	13,700,000
Inflation on Non-Personnel Costs	23,034,000
TOTAL	\$42,766,000

Maintenance of New Facilities

The CSU is scheduled to open 284,405 square feet of new facilities in 2023-24. The cost to fund regular maintenance of these facilities is \$21.21 per square foot, for a total of \$6 million in 2023-24. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape, and administrative support.

Liability and Property Insurance Premium Increases

The CSU requests \$13.7 million, equivalent to a 14 percent increase, in costs related to property and liability coverage. The insurance markets for property and liability coverage are emerging from nearly a decade of low premiums. Insurance premiums are on the rise across the country and more so for California public entities. There are many factors causing this significant rise in premiums in California, including an overall rise in claims and inflated values of settlements and verdicts. California higher education faces some of the toughest challenges in the liability insurance market due to higher physical abuse and molestation, law enforcement, and employment practice exposures. Additionally, sizable liability settlements at other higher education institutions are resonating throughout the insurance industry. Wildfire losses are also a factor; the CSU has experienced multiple losses, and these contribute to property insurance premium increases.

Inflation on Non-Personnel Costs

Inflation impacts all areas of the university. Over the past decade, the CSU operating budget request and the final state budget have not included funding explicitly dedicated to cost increases on a variety of expenses, such as technology, instructional equipment, library subscriptions, software subscriptions, contracts, and other supplies. Utilizing the California Consumer Price Index of three percent for 2023-24, the CSU requests \$23 million for expenditure increases due to inflation.



ONE-TIME REQUEST



CRITICAL CAPITAL RENEWAL: \$1.3 BILLION

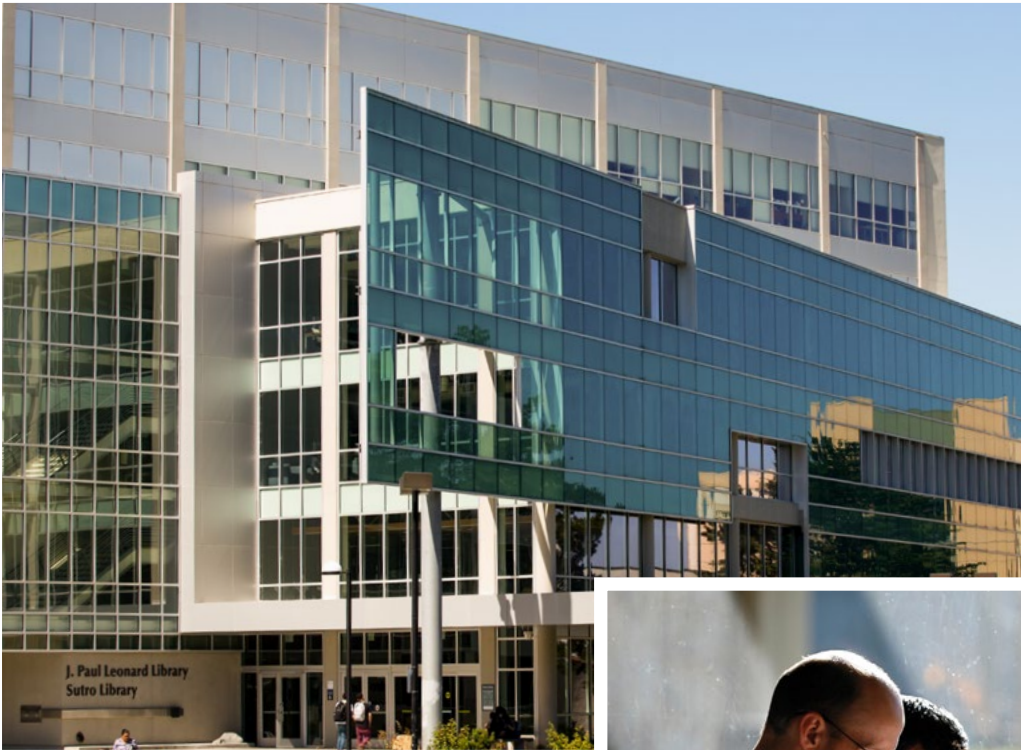
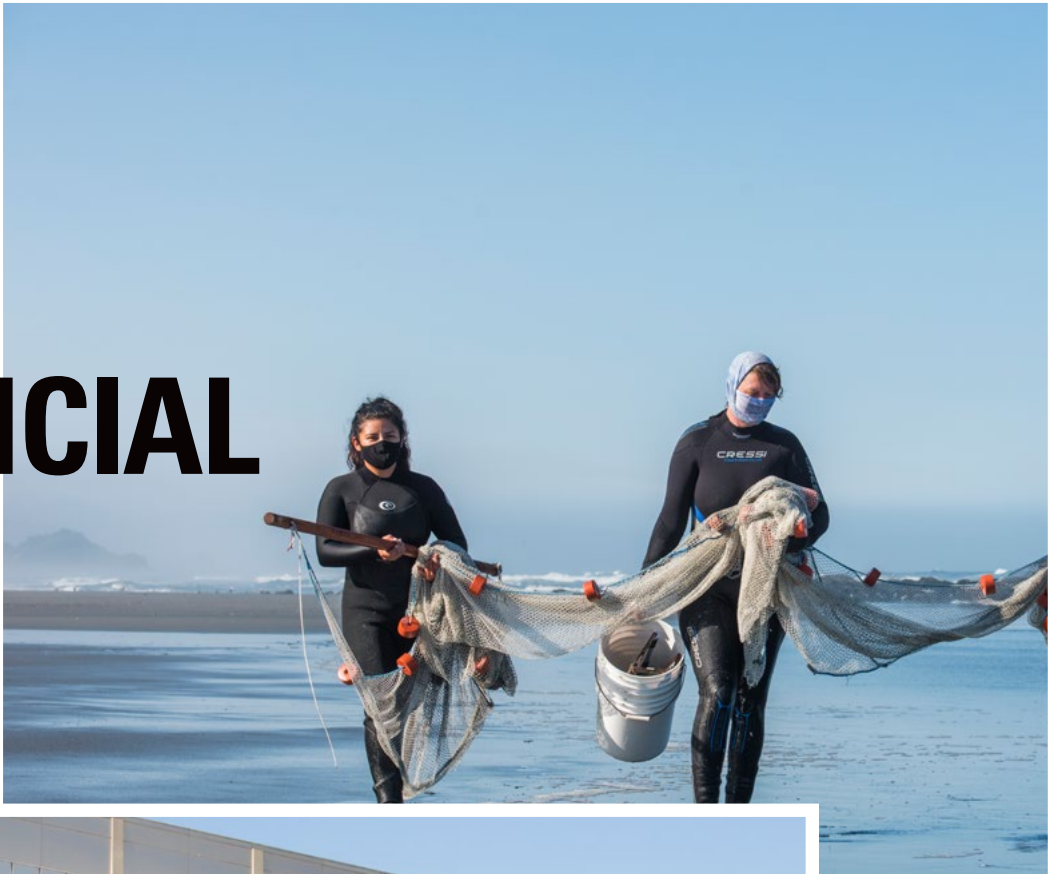
Providing safe and modern facilities for students, faculty, and staff—spaces where teaching, learning, and student well-being can thrive

The CSU seeks \$1.3 billion of one-time funding to continue to address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. More than half of the CSU's academic buildings are over 40 years old, and many of these buildings are overdue for major renovation. The CSU has an estimated \$5.8 billion critical capital renewal backlog and accumulates approximately \$284 million of additional critical capital renewal costs per year.

As buildings and their associated systems age, the cost to operate, maintain, and renovate the facilities increases. Although CSU facilities staff does an admirable job of keeping these aging facilities operational with limited financial resources, increased funding is necessary. Over the past two years, the state has provided \$450 million in one-time funding to address a portion of the deferred renewal backlog. This is a substantial amount of funding, and it is being put to good use on the most pressing campus projects. It should be noted, however, that two significant factors are exacerbating this budget challenge: year-over-year growth in the CSU backlog and construction inflation exceeding ten percent in 2021-22.

The \$1.3 billion one-time funding request will allow the university to address additional systemwide deficiencies, improve the reliability of systems, and prevent costly and disruptive outages caused by system failures. Aligned with the CSU's overarching academic mission, system repairs, and replacements will provide safer and healthier environments that support teaching and learning across all 23 campuses.

CSU FINANCIAL AID



The CSU understands the impact financial aid has on social mobility—a student’s ability to attend college, earn a baccalaureate degree, and enter the California workforce in a position to attain greater lifetime earnings. The CSU strives to keep costs to a minimum by offering institutional aid in addition to federal and state grant and loan programs. Financial aid allows CSU students to better focus on their academics by easing the pressure of educational and personal costs. Although CSU tuition is among the lowest in the nation at \$5,742 per year for a resident undergraduate student, 81 percent of all CSU students receiving financial aid and 60.5 percent of all enrolled undergraduate students receive non-loan aid to cover the full cost of tuition. The CSU currently provides nearly \$945 million of institutional aid, which includes \$701 million for the State University Grant program. An additional \$821 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition, fees, and some personal expenses. These CSU, state, and federal financial aid programs help defray the cost of attendance for the lowest-income students and keep CSU student debt well below the national average. In 2020-21, CSU baccalaureate degree recipients have lower average debt (\$17,966) than other students in California (\$21,125) compared to the 2019-20 national average (\$28,950).

STATE UNIVERSITY GRANT PROGRAM

To further the CSU’s mission to provide an affordable, high-quality education to all students, the CSU launched the State University Grant (SUG) program in 1982-83 to assist students with the greatest financial need. Each year, the CSU awards need-based grants to eligible California residents and Dream Act applicants who enroll at CSU campuses in undergraduate, postbaccalaureate, teaching credential, and graduate programs. Financial need is determined by the Expected Family Contribution based on the Free Application for Federal Student Aid application. Financial need is determined for Dream Act students through the California Dream Act Application. The SUG program has grown considerably since its inception, from \$4 million in 1982-83 to \$701 million in 2022-23. Over 140,000 students received a SUG award in 2020-21. Currently, nearly nine percent of the CSU’s total operating budget is dedicated to financial aid for students with the greatest need. The SUG program remains one of the largest commitments in the CSU operating budget.

ADDITIONAL BUDGET CONSIDERATIONS



Although the state has provided significant investments in the CSU over the past two years, it is important to point out several remaining fiscal challenges the university system still faces.

STAFF AND FACULTY COMPENSATION STUDIES

The Budget Act of 2021 included funding for the Chancellor's Office to evaluate the existing salary structure for CSU non-faculty, represented staff employees. The study, executed by consulting firm Mercer, found issues related to salary structure and pay inequities. To properly address all findings and recommendations, Mercer identified initial ongoing costs of \$287 million in year one and over \$50 million additional each year thereafter for the implementation of salary steps. The CSU and employee unions advocated together for state funding to support the implementation costs of the study. However, the Budget Act of 2022 did not include funding for this item.

In December 2021, the CSU initiated a faculty employee salary study. The work is underway, and the study findings and recommendations are expected in 2023.

Future collective bargaining agreements between the CSU and employee bargaining units will be necessary to implement any staff study or faculty study recommendations. For the CSU to be able to implement any cost-creating recommendations of either study, the receipt of new, incremental, ongoing funding for this purpose will be necessary.

CHANGES TO FEDERAL AND STATE FINANCIAL AID PROGRAMS

Recent changes to federal and state financial aid programs could impact access to the CSU and put financial pressure on the State University Grant program. Financial aid programs complement one another to provide maximum financial support for students. Program changes have cascading effects that must be considered and potentially addressed. Several of the approved changes will streamline processes, remove barriers, and expand access. But these changes come with certain tradeoffs, such as a lower income eligibility threshold, removal of non-tuition awards for all CSU students, and a drop in aid for transfer students. As the CSU strives to maximize access to aid and balance the federal and state changes, the CSU will be pressed to change or expand the State University Grant institutional aid program to make up some of the losses in the state financial aid programs. The financial implications are currently unknown.

ENERGY

Across the 23 campuses, the CSU estimates recent energy cost increases of approximately \$15.4 million. The war in Ukraine, other geopolitical dynamics, and market conditions are some of the many complex factors contributing to energy



cost increases. However, it is not yet clear if the recent energy cost increases are permanent and require base, ongoing funding or are temporary one-time funding obligations. The CSU will monitor conditions and continue analyzing the situation over the coming months to determine the appropriate funding source to address these required operational costs.

MINIMUM WAGE

In January 2022, the California minimum wage reached \$15 per hour. Senate Bill 3 of 2016, which raised the state's minimum wage to \$15 per hour over consecutive years, includes a provision for the state to adjust the rate in subsequent years for inflation. Due to high rates of inflation, it is likely that the minimum wage will increase to \$15.50 in January 2023. The estimated annualized cost of the increase on CSU campuses is \$3.9 million.

RETIREMENT BENEFITS (BEYOND STATE-FUNDED)

Beginning with the 2013-14 fiscal year, the legislature placed a limit on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. CalPERS employer contribution rates increased significantly for 2022-23. While rates are estimated to drop again in the next few years, the



increase is a significant financial burden to the CSU. It is estimated that the unfunded cost to the CSU will be \$28 million in 2022-23 and will require the reprioritization of existing one-time campus resources to fund this required cost until rates drop again in the next few years.

Although the state's statutory obligation to adjust retirement funding based on annual rates set by CalPERS continues (Government Code Section 20814), the salary base applied to the incremental rate change is fixed at the CSU 2013-14 pensionable payroll level in the state budget. Final 2021-22 pensionable payroll for the CSU was \$738 million (32 percent) above the 2013-14 frozen pensionable payroll level. The retirement increase amount above the frozen payroll level is an unfunded cost for the CSU, and it continues to increase each year when pensionable payroll or retirement contribution rates increase.

This practice is problematic and unsustainable. Throughout the years that this budget practice has been in effect, the state or students ultimately covered the unfunded liability above frozen pensionable payroll because retirement costs are required and unavoidable. The CSU must balance the need to serve students with the level of funding available to the university, particularly as tuition rates have remained relatively constant.

UNFUNDED 2022-23 COMPENSATION

Following two years without salary increases, nearly all CSU employees received, at minimum, a seven percent general salary increase over 2021-22 and 2022-23. However, the CSU did not receive sufficient funding in the Budget Acts of 2021 and 2022 to cover all necessary budget priorities during the two fiscal years. Consequently, it is estimated that campuses will be required to redirect approximately \$44 million from existing campus budgets to cover some of these new compensation costs. The commitment to fair and competitive employee compensation requires budgetary tradeoffs and nearly all other operating budget request priorities will only receive some or none of the new funding in 2022-23 (enrollment growth is the exception). For example, the CSU is unable to fully invest in the Graduation Initiative 2025 or finance some of our highest priority academic facilities and infrastructure projects as identified by the CSU's five-year capital plan.



23 California State University Campuses

