

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 11:45 a.m., Wednesday, March 22, 2023  
Glenn S. Dumke Auditorium

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

- Consent**
1. Approval of Minutes of the Meeting of January 25, 2023, *Action*
  2. California State University Annual Debt Report, *Information*
  3. California State University Quarterly Investment Report, *Information*
  4. California State University Master Investment Policy Revisions, *Action*
  5. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at San Francisco State University, *Action*
- Discussion**
6. University Cost Reduction Initiatives, *Information*
  7. Sustainable Financial Model Workgroup, *Information*

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

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

**January 25, 2023**

**Members Present**

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

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

Trustee Julia Lopez called the meeting to order.

**Public Comment**

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

**Approval of the Consent Agenda**

The minutes of the November 16, 2022 meeting of the Committee on Finance was approved as submitted. Trustee Sabalius removed the 2023-2024 Lottery Budget and Report from the consent agenda.

**2023-2024 Lottery Budget and Report**

This item requested that the California State University Board of Trustees approve the 2023-2024 lottery budget. In accordance with CSU lottery guidelines, the item also contained a report of actual lottery fund expenditures in 2021-2022.

### **Conceptual Approval of a Public-Private Partnership for Redevelopment of the Alquist Site at San José State University**

This action item requested conceptual approval to pursue a public-private partnership for redevelopment of the Alquist site, including, but not limited to, several potential uses, including housing and mixed-use development. If housing is ultimately developed at the site, the possible development could be for a new housing apartment complex, including affordable workforce housing at San José State University (SJSU).

### **California State University Doctor of Public Health Tuition**

This action item was presented to the CSU Board of Trustees to recommend authorization of a California State University Doctor of Public Health tuition rate. The tuition rate is recommended in order to implement provisions of Senate Bill (SB) 684 (Hueso), which authorized the CSU to award Doctor of Public Health (DrPH) degrees. Chaptered in the Statutes of 2022, the law authorizes the CSU to charge tuition for public health doctoral programs at a rate no higher than the University of California's (UC) fee for doctoral programs. It is anticipated that DrPH degree programs will be implemented as early as the summer or fall of the 2023 term.

### **2022-2023 Student Fee Report**

This information item presented the 2022-2023 annual campus fee report. Specifically, this item presented the 2022-2023 annual Category II campus-based mandatory fee report as required by the fee policy. Additionally, information on total average tuition and mandatory fees for the CSU system and their comparison institutions is included.

Staff to email Trustees with information on current policy and law.

### **2023-2024 Operating Budget Update**

This item summarized the latest developments on the state and CSU budget plans for 2023-2024. The state expects a tax revenue shortfall and resulting budget shortfall for the 2023-2024 cycle. For context, this deficit ends up being about a three percent budget deficit, on average, for the past, current, and budget years.

Despite the state budget deficit, the governor's budget proposes a \$227.3 million ongoing increase to the CSU, which would fulfill the multi-year compact commitment to provide a five percent state general fund increase to the CSU for 2023-2024 (or a 2.85 percent increase to the operating budget). Another proposal would revise the financial structure of several campus facility and infrastructure projects. This item also requested approval to issue Trustees of the California State University Systemwide Revenue Bonds and related debt instruments related to the governor's proposal.

The Board of Trustees recommended deferring this vote to a later meeting.

Trustee Lopez adjourned the meeting of the Committee on Finance.

## **COMMITTEE ON FINANCE**

### **California State University Annual Debt Report**

#### **Presentation By**

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

#### **Summary**

This item reports on the debt of the California State University Systemwide Revenue Bond program in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

#### **Background**

The Systemwide Revenue Bond (SRB) program, under provisions and authorities of the State University Revenue Bond Act of 1947 (California Education Code sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with authority to establish procedures for the management of the SRB program consistent with the Board of Trustees' objectives for the use of debt, including the establishment of benchmark financial ratios to ascertain the financial viability of projects to be financed with CSU debt. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended by the Board of Trustees in November 2014 and can be found at: <https://calstate.policystat.com/policy/11691604/latest>.

The SRB program provides capital financing for projects of the CSU approved by the Board of Trustees, including student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other academic facilities. Revenues from these programs and revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the debt issued to finance the projects. A 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.

Since the inception of the SRB program, the CSU has also issued commercial paper (CP) primarily to provide campuses with short term, lower cost capital financing on projects until long term bonds are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by bond anticipation notes issued by the CSU. The CSU currently has a CP program in the amount of \$300 million, although both the Board of Trustees and the CSU Institute have authorized a CP

program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in May 2025.

### **SRB and CP Portfolio Profile**

As of June 30, 2022, and December 31, 2022, outstanding SRB debt of the CSU was approximately \$8.8 billion and approximately \$8.6 billion, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.24%
Weighted Average Maturity:	15.3 Years
Interest Rate Mix:	97% Long Term Fixed Rate 3% Short Term Fixed Rate

As of December 31, 2022, outstanding CP was \$99,591,000 at a weighted average interest rate of 4.37 percent.

### **SRB Operating Performance and Debt Service Coverage Ratios**

For the fiscal years ended June 30, 2020, June 30, 2021, and June 30, 2022, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
Operating Revenues	\$5,188	\$4,790	\$5,362
Operating Expenses	<u>1,864</u>	<u>1,622</u>	<u>1,886</u>
Net Revenues	3,324	3,168	3,476
Annual Debt Service	\$423	\$470	\$489 <sup>1</sup>
Debt Service Coverage <sup>2</sup>	<b>7.86</b>	<b>6.74</b>	<b>7.11</b>

(1) For the fiscal year ended June 30, 2022, the amount of annual debt service allocated to tuition was \$141 million and the amount allocated to other fees was \$348 million.

(2) The minimum benchmark for the system, as established by executive order, is 1.45.

## **Activity since the March 2022 Annual Debt Report**

### Projects Approved for Financing under Delegated Authority

In March 2018, the Board of Trustees amended Section II(f). of its Standing Orders to delegate authority to the chancellor to, among other things, authorize debt financing for projects valued up to \$40 million and authorize debt financing for all remodels, parking structures, and utilitarian projects, regardless of cost.

In October 2022, under this delegation of authority, the chancellor authorized debt financing for the following project:

- California State University, Sacramento - University Enterprises, Inc. Nine Ten Place Faculty and Staff Housing project with a not-to-exceed financing amount of \$16,100,000

This project met CSU debt financing benchmarks and will be included in the CSU's next SRB issuance.

## **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**

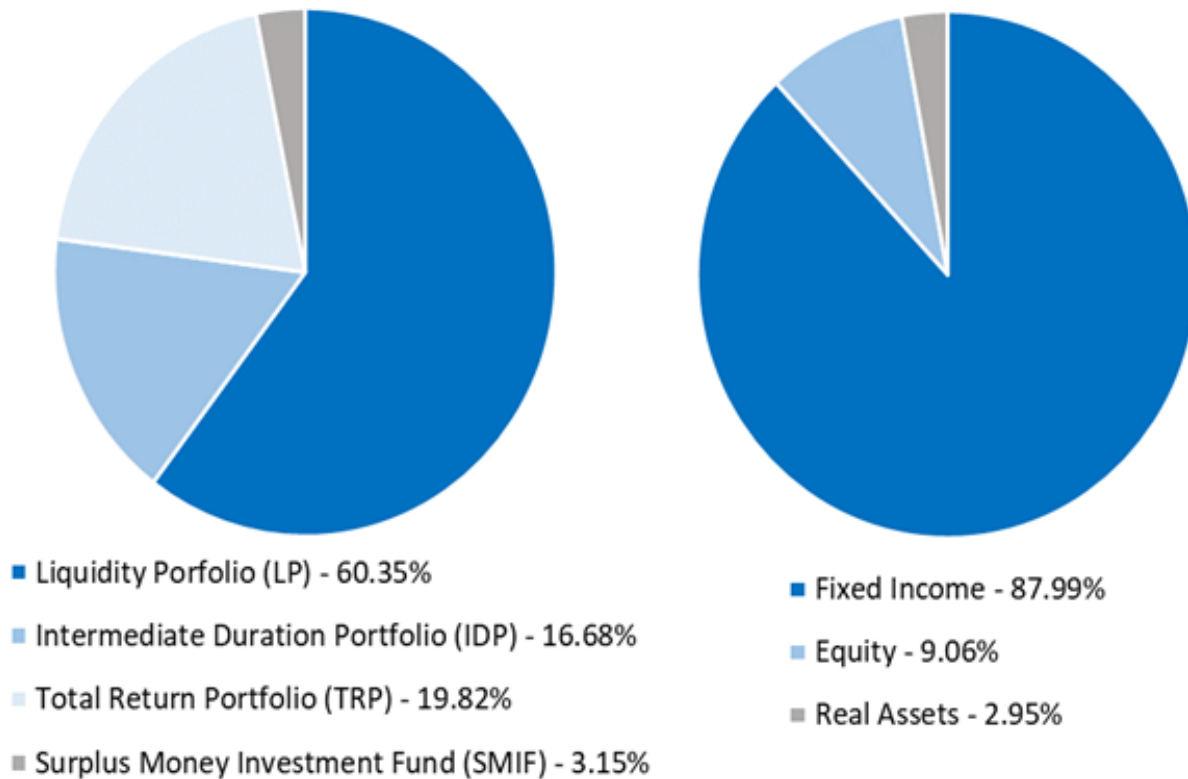
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended September 30, 2022. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

#### **Background**

The California State University Master Investment Policy (RFIN 11-17-17) is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of September 30, 2022 consisted of investments in the Liquidity Portfolio, 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 \$1.27 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  
 September 30, 2022**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (LP)	\$4.363 billion	60.35%	-2.67%
Intermediate Duration Portfolio (IDP)	\$1.206 billion	16.68%	-12.16%
Total Return Portfolio (TRP)	\$1.433 billion	19.82%	-17.23%
Surplus Money Investment Fund (SMIF)	\$0.228 billion	3.15%	0.58%
<b>CSU Investments</b>	<b>\$7.23 billion</b>	<b>100%</b>	



**CSU Investment Portfolios**

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



### **CSU Liquidity Portfolio**

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)**

As reported to the Board of Trustees at its March 2022 meeting, the Intermediate Duration Portfolio launched on October 1, 2021, with an initial investment of \$675 million. 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. In January of 2022, the IAC approved an additional \$900 million investment into the TRP scheduled over the following 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 its statutory limit as a percentage of CSU investments.

Since the TRP Inception date<sup>1</sup> through September 30, 2022, the TRP investment earnings were approximately \$53.5 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 2.42% annualized (net of fees) or a cumulative \$43.4 million, which was about 5.3 times higher than Liquidity Portfolio investment earnings.

In October 2022, the IAC approved the fourth annual TRP distribution to the system of approximately \$48.8 million, bringing total TRP distributions to the system since inception to \$161.8 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

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<sup>1</sup> The TRP Inception Date was April 1, 2018.

### **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 the passage of AB 2422, effective January 1, 2023, up to 65% of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. In light of these legislative changes, in January 2023 the IAC took two actions. First, the IAC approved a recommendation to the Board of Trustees to revise the California State University Master Investment Policy. These recommended revisions are being presented to the Board of Trustees at this March 2023 meeting in Agenda Item 4 for the Committee on Finance. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP over a twelve-month period.

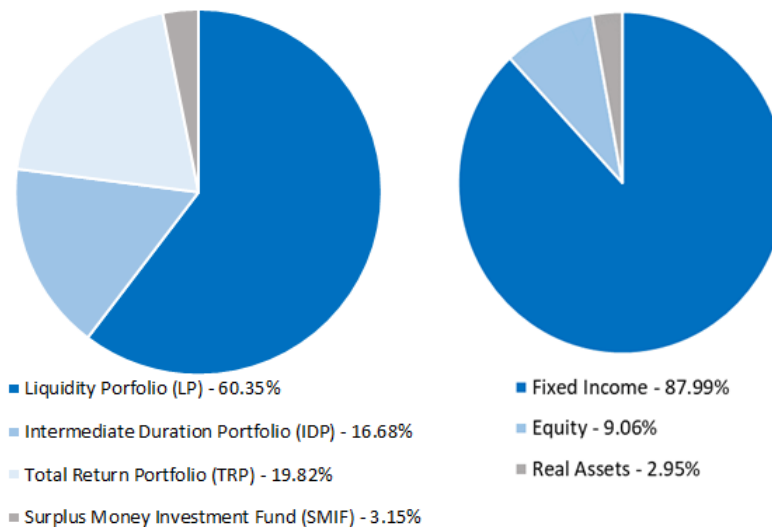
The next investment report to the board is scheduled for the May 2023 meeting and will provide information on CSU investments for the fiscal quarter ending December 31, 2022.

**CSU Quarterly Investment Report  
 For the Fiscal Quarter Ended September 30, 2022**

CSU investments as of September 30, 2022 consisted of investments in the CSU Liquidity Portfolio (LP), 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 \$1.27 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 September 30, 2022**

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (LP)	\$4.363 billion	60.35%
Intermediate Duration Portfolio (IDP)	\$1.206 billion	16.68%
Total Return Portfolio (TRP)	\$1.433 billion	19.82%
Surplus Money Investment Fund (SMIF)	\$0.228 billion	3.15%
<b>CSU Investments</b>	<b>\$7.23 billion</b>	<b>100%</b>



For the quarter ending September 30, 2022, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just under \$1.0 million, or about 0.015 percent (1.5 basis points) on CSU investments' average balance for the quarter ending September 30, 2022.

<sup>1</sup> 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**

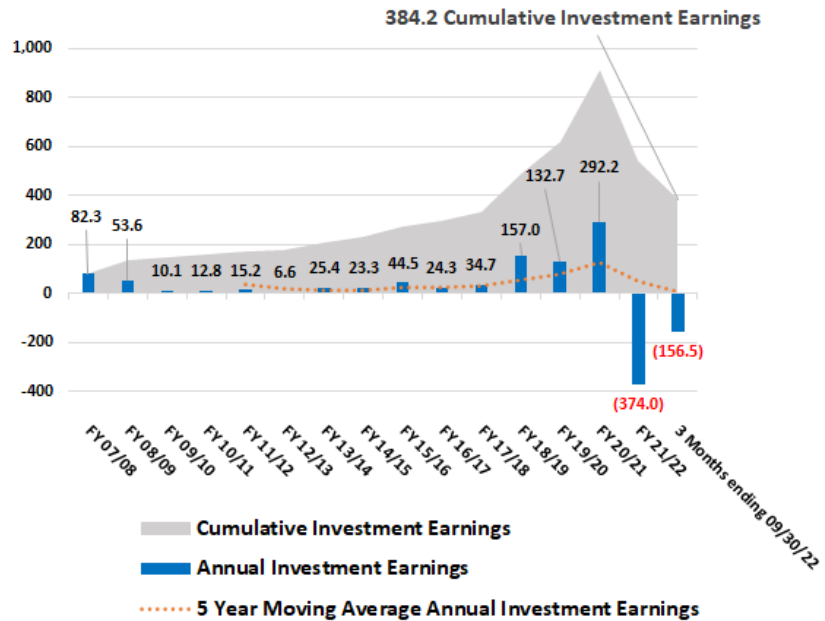
The following table displays performance returns for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio, IDP, and TRP.<sup>2</sup>

	<b>CSU Consolidated Investment Portfolio</b>	<b>CSU Total Return Portfolio (TRP)</b>	<b>CSU Intermediate Duration Portfolio (IDP)</b>	<b>CSU Liquidity Portfolio (LP)</b>
1 Year Return	-7.35%	-17.23%	-12.16%	-2.67%
3 Year Annualized Return	0.33%	1.37%	N/A	0.09%
5 Year Annualized Return	1.15%	N/A	N/A	0.90%
10 Year Annualized Return	0.95%	N/A	N/A	0.82%
Since Inception Return <sup>3</sup>	1.23%	3.36%	-12.16%	1.15%

As of September 30, 2022, the TRP since inception investment earnings were approximately \$53.5 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 2.42 percent annualized (net of fees) or a cumulative \$43.4 million, which was about 5.3 times higher than Liquidity Portfolio investment earnings.

***Investment Earnings from CSU Investments Support Campus Operations and Student Experience***

**Earnings from CSU Investments (\$ in millions)**



<sup>2</sup> CSU Consolidated Investment Portfolio returns exclude SMIF.

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

**CSU Liquidity Portfolio (LP)**

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>Benchmark<sup>4</sup></u>
1 Year Return <sup>5</sup>	-2.67%	-3.40%
3 Year Annualized Return	0.09%	-0.16%
5 Year Annualized Return	0.90%	0.76%
10 Year Annualized Return	0.82%	0.65%
Annualized Since Inception Return <sup>6</sup>	1.15%	1.31%
Yield	3.90%	4.13%
Duration (Years)	0.93	1.37
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	40.4%	Cash Equivalents	4.7%
U.S. Corporate Bonds	24.1%	Agency MBS	2.0%
U.S. Government Agencies	11.4%	CA Municipal Obligations	0.7%
Certificates of Deposit	8.6%	Supranationals	0.3%
Commercial Paper	7.8%		

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<sup>4</sup> Benchmark for the Liquidity Portfolio is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

<sup>5</sup> Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>6</sup> Inception Date for the Liquidity Portfolio 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.

	<b>CSU Intermediate Duration Portfolio</b>	<b>Benchmark<sup>7</sup></b>
3 Months Return <sup>8</sup>	-3.65%	-3.87%
1 Year Return	-12.16%	-11.95%
Since Inception Return	-12.16%	-11.95%
Yield	4.93%	4.89%
Duration (Years)	4.65	4.62
Average Credit Rating	A+	AA-

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

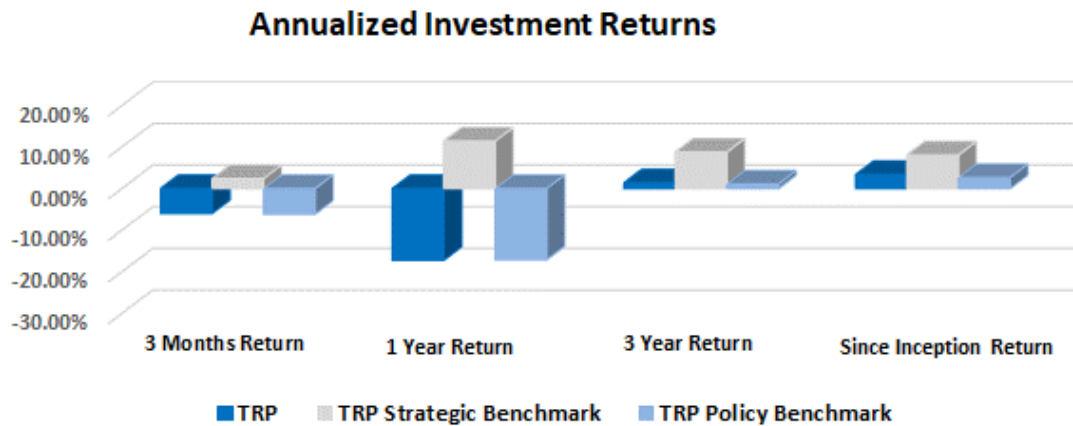
U.S. Corporate Bonds	59.44%	CA Municipal Obligations	1.11%
Agency MBS	20.96%	Asset-Backed Securities	1.03%
Treasuries	15.44%	Cash Equivalents	0.33%
U.S. Government Agencies	1.61%	Supranationals	0.08%

<sup>7</sup> 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.

<sup>8</sup> 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.



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>9</sup></b>	<b>Policy Benchmark<sup>10</sup></b>
3 Months Return	-5.96%	2.39%	-6.21%
1 Year Return	-17.23%	11.40%	-17.45%
3 Year Annualized Return	1.37%	8.77%	0.92%
Annualized Since Inception Return <sup>11</sup>	3.36%	8.05%	2.52%

In October 2022, the CSU Investment Advisory Committee approved the fourth annual TRP distribution to the system of approximately \$48.8 million, bringing total TRP distributions to the system since inception to \$161.8 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with 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.

<sup>9</sup> The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.2% per annum.

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

<sup>11</sup> TRP Inception Date was April 1, 2018.



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

Equity Mutual Funds	45.7%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.4%	Actively Managed Mutual Funds	26% <sup>12</sup>
Real Asset Mutual Funds	14.9%		

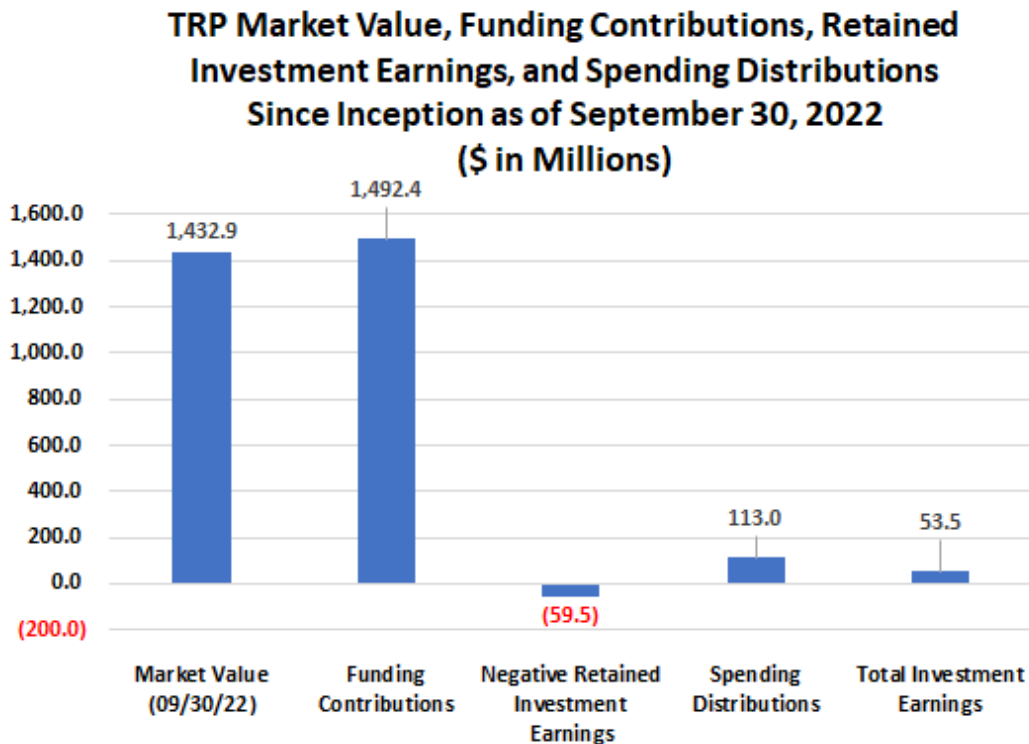
**Values, Holdings & Fees (CSU Total Return Portfolio)**

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	321.6	22.44%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	71.0	4.96%	0.07%	0.36%
	Lord Abbett High Yield Fund	LHYOX	87.0	6.07%	0.59%	0.69%
	Pacific Funds Floating Rate Income Fund	PLFRX	43.6	3.04%	0.72%	0.75%
	Payden Emerging Markets Bond Fund	PYEIX	20.8	1.45%	0.69%	0.81%
	T. Rowe Emerging Markets Bond Fund	TREBX	20.7	1.45%	0.70%	0.81%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	341.8	23.85%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	170.5	11.90%	0.04%	0.88%
	Driehaus Emerging Markets Growth Fund	DIEMX	85.7	5.98%	1.08%	1.03%
	DFA Emerging Markets Value Fund	DFEVX	42.6	2.97%	0.45%	1.03%
	RWC Global Emerging Equity Fund	RWCEX	14.3	1.00%	1.25%	1.03%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	114.9	8.02%	0.10%	0.86%
	Vanguard Materials Index Fund	VMIAX	36.0	2.51%	0.10%	0.94%
	First Sentier Global Listed Infrastructure Fd	FLIIX	62.2	4.34%	0.95%	0.97%
<b>Cash</b>			0.0	0.00%	NA	NA
<b>Total</b>			<b>1,432.9</b>	<b>100%</b>	<b>0.24%</b>	<b>0.73%</b>

<sup>12</sup> 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 June 30, 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.

<u>Apportionment Annual Yield<sup>13</sup></u>	
Trailing 12 month as of 9/30/22	0.58%
Average (FYE 06/30/07 – 9/30/22)	1.05%

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

## **COMMITTEE ON FINANCE**

### **California State University Master Investment Policy Revisions**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

This item requests approval from the Board of Trustees to revise the California State University Master Investment Policy to reflect recent legislation concerning the CSU's investment authorities. Attachment A provides a marked-up version of the existing California State University Master Investment Policy amended to reflect the proposed revisions, using italics for proposed new language and ~~strikethroughs~~ for deletions. All proposed revisions are highlighted in yellow.

#### **Background and New Legislative Authority**

The existing California State University Master Investment Policy (RFIN 11-17-17) is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the California State University Master Investment Policy, the CSU has three investment portfolios: the Liquidity Portfolio, the Intermediate Duration Portfolio, and the Total Return Portfolio (TRP).

The TRP was created to take advantage of legislation effective January 1, 2017 that expanded the CSU investment authority to allow investment in mutual funds (including equity mutual funds) and real estate investment trusts. The legislation also stipulated that investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings. Furthermore, investments in the TRP could 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 IAC approves recommendations for action by the Board of Trustees but also approves actions for certain matters on its own under delegated authority from the Board of Trustees.

As previously reported to the Board of Trustees, California Assembly Bill 2422, which became effective January 1, 2023, provides new investment authorities for the CSU, summarized as follows:

- Allows the CSU to invest up to sixty-five percent of its investments in the TRP (an increase over the previous authorized amount of thirty percent).
- Expands investment options for the CSU to also allow investment, through the TRP, in institutional commingled funds and exchange-traded funds. These new options are in addition to the existing options allowing investment in mutual funds (including equity mutual funds) and real estate investment trusts.

### **IAC Recommendation to the Board of Trustees and Other Actions**

At its meeting in January of 2023, the IAC approved an action to recommend a revised California State University Master Investment Policy to the Board of Trustees for approval at this March 2023 meeting. The revised California State University Master Investment Policy as proposed by the IAC is included herein as Attachment A and includes the following key changes:

1. Changing the Target and Maximum acceptable allocations for the TRP to “57%” and “65%”, respectively, in response to the new legislation now allowing the CSU to invest up to sixty-five percent of its investments in the TRP.
2. Removing outdated references to “Systemwide Investment Fund Trust” or “SWIFT” in reference to the Liquidity Portfolio. This change is strictly a clean-up change and is not in response to the new legislation.

In addition to the recommendation to the Board of Trustees to revise the California State University Master Investment Policy, the IAC, under delegated authority, also approved two other actions of note. First, the IAC approved a new TRP investment schedule calling for an additional \$1.25 billion to be invested in the TRP over the 12-month period beginning January 1, 2023 and ending December 31, 2023, with the provision that investment in the TRP may not exceed thirty percent of total CSU investments until the California State University Master Investment Policy is revised by the Board of Trustees as proposed in this agenda item. 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 its statutory limit as a percentage of CSU investments. Second, the IAC revised the TRP investment policy to add the new investment options—institutional commingled funds and exchange-traded funds—authorized by the new legislation.

## **Recommendation**

The following resolution is presented for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the Trustees hereby:

1. Approve the revised California State University Master Investment Policy as presented in this Agenda Item 4 and included as Attachment A of the March 20-22, 2023 meeting of the Committee on Finance;
2. Authorize the chair of the Committee on Finance; the chancellor; the executive vice chancellor and chief financial officer; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all actions necessary under delegated authority to implement this resolution. This resolution shall supersede RFIN 11-17-17 and take effect immediately upon approval by the Board of Trustees.



# Master Investment Policy For The California State University

Approved on November 8, 2017  
*and revised on March 22, 2023*  
By The Board of Trustees of The California State University

## Contents

I.	Scope and Purpose.....	3
II.	Compliance with Law and Adherence to Policy.....	3
III.	Background and Investment Objectives.....	3
IV.	Investment Portfolios.....	4
V.	Roles and Responsibilities.....	5
	▪ Board of Trustees.....	5
	▪ Chancellor’s Office Staff.....	6
	▪ Investment Advisory Committee.....	7
	▪ Prudence, Ethics and Conflict of Interest.....	8
	▪ Document and Acceptance of the Investment Policy Statement.....	8
VI.	Environmental, Social and Governance (ESG) Framework.....	9
VII.	Adoption of the Investment Policy Statement.....	9

## **I. Scope and Purpose**

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

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

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

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

## **II. Compliance with Law and Adherence to Policy**

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

## **III. Background and Investment Objectives**

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



The following objectives shall govern the investment of CSU funds:

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

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

#### **IV. Investment Portfolios**

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

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

##### **Liquidity Portfolio (~~Systemwide Investment Fund Trust or "SWIFT") (LP)~~**

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

##### **Intermediate Duration Portfolio (IDP)**

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

**Total Return Portfolio (TRP)**

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

<u>Portfolio</u>	<u>Min – Target – Max</u>
Liquidity <i>Portfolio (“LP”) – Systemwide Investment Fund Trust (“SWIFT”)</i>	<b>5% - 20% - 100%</b>
Intermediate Duration Portfolio (“IDP”)	<b>0% - 523% - 95%</b>
Total Return Portfolio (“TRP”)	<b>0% - 2857% - 3065%<sup>2</sup></b>

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

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

**V. Roles and Responsibilities**

**Board of Trustees**

The Board assumes fiduciary responsibility to conserve and protect the investment assets of the CSU, and by prudent management, to prevent exposure to undue and unnecessary risk. However,

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<sup>2</sup> Percentage allocations to the TRP are *limited to 65% of CSU investments subject to annual phase in restrictions through June 30, 2020* per state law.

the Board also acknowledges investments are inherently risky with risk of loss and, as such, are viewed with a long-term time horizon.

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

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

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

### **Chancellor and Chancellor's Staff**

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

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

1. Overseeing and implementing general administrative and investment operations for the Portfolios.
2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.
3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.

4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.
5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.
6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.
7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.
8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.
9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.
10. All other duties designated or delegated by the Board or the IAC.

### **Investment Advisory Committee**

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

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

1. Understanding the overall investments of the CSU and each of the Portfolios as informed by the Chancellor's Staff, investment advisors and/or investment managers.
2. Developing and approving an IAC charter to establish guidelines for operations of the IAC.

3. Developing, approving, and overseeing the implementation of an investment policy statement for the TRP.
4. Reviewing and approving target asset allocations and ranges for the TRP.
5. Monitoring and reviewing the performance of the TRP to its stated objectives.
6. Prudently reviewing, selecting, monitoring, and replacing investment management firms engaged to manage the TRP's assets.
7. Monitoring and supervising all service vendors and fees for the TRP.
8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

#### **Prudence, Ethics and Conflict of Interest**

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

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

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

### **Document Acceptance of the Investment Policy Statement**

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

## **VI. Environmental, Social and Governance Framework**

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

Approved:

The California State University Board of Trustees  
November 8, 2017

**Revised:**

***The California State University Board of Trustees***  
***March 22, 2023***

## **COMMITTEE ON FINANCE**

### **Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at San Francisco State University**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

This item requests that the California State University Board of Trustees 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 CSU commercial paper (CP) program, in an aggregate amount not-to-exceed \$16,895,000 to provide financing for a campus project:

#### **San Francisco State University West Campus Green Student Health Center and Dining Project**

#### **Background**

The SRB program provides capital financing for projects of the CSU – student housing, parking student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the Board of Trustees. Revenues from these programs and other revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and pay debt service on the bonds issued to finance the projects. The consolidated pledge of gross revenues to the bondholders strengthens the SRB program and has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP.

**San Francisco State University West Campus Green Student Health Center and Dining Project**

The San Francisco State University West Campus Green Student Housing and Health Center Project was presented to the Board of Trustees Joint Committee on Finance and Campus Planning, Buildings and Grounds for schematic approval in the January 2023 meeting. Further, the San Francisco State University West Campus Green Student Housing Component of the project was also presented for financing approval to the Board in the January meeting because it had finalized the guaranteed maximum price of the project. Since that time, the campus has finalized the budget for the health center and dining component (“the Project”). The combined housing and health center/dining project was awarded funding from the State’s Higher Education Student Housing Grant Program of \$116,300,000. Of that amount, \$33,418,000 of the grant will be used to fund the health center and dining component.

The Project will be located on the west side of campus on the site of the existing West Campus Green, a soccer field. The project will be adjacent to the housing component and consist of a three-story 49,900 gross square foot building. The dining hall will be located on the first floor. A separate entrance to the Student Health Center will be located on the first floor adjacent to the dining hall, along with a pharmacy and wellness education space. The upper two floors will provide space for health promotion and wellness, psychological services and counseling, and student health services. The dining hall will be under the oversight and financial management of the campus student housing program.

The not-to-exceed principal amount of the proposed bonds is \$16,895,000, based on a total health center/dining project budget of \$51,432,000, grant funding of \$33,418,000 from the State’s Higher Education Student Housing Grant Program, and a \$3,000,000 health center program reserve contribution. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$1,881,000), are expected to be funded from bond proceeds. The Project building is scheduled to start construction in April 2023 with completion expected in December 2025.

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	\$16,895,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$1,164,605
Projected debt service coverage including the new project:	
Net revenue – San Francisco pledged revenue programs: <sup>1</sup>	1.67
Net revenue – Projected campus housing program:	1.44
Net revenue – Projected campus health center program:	1.21

1. Combines 2025-26 information for campus pledged revenue programs with 2025-26 projections for project.



The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.72 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes 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 1.44 in fiscal year 2025-26, the first full year of operations, which is better than the CSU benchmark of 1.10 for the program. The campus financial plan also projects a health center program net revenue debt service coverage ratio of 1.21 in fiscal year 2025-26, the first full year of operations, which is also better than the CSU benchmark of 1.10 for the program. When combining the Project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.67, which is better than the CSU benchmark of 1.35 for a campus.

In coordination with CSU's Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing resolutions to be distributed electronically to the Board prior to this meeting that authorize interim and permanent financing for the health center and dining component project described in this agenda. The proposed resolutions will achieve the following:

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate amount not-to-exceed \$16,895,000 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, the revenue bonds, and the related debt instruments.

Approval of the financing resolutions for this project as described in this Agenda Item 5 of the Committee on Finance at the March 20-22, 2023, meeting of the CSU Board of Trustees is recommended for:

**San Francisco State University West Campus Green Student Health Center and Dining Project**

## **COMMITTEE ON FINANCE**

### **University Cost Reduction Initiatives**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

David Beaver  
Chief Procurement Officer  
Contract Services & Procurement

Elvyra F. San Juan  
Assistant Vice Chancellor  
Capital Planning Design and Construction

Ed Clark  
Chief Information Officer  
Information Technology Services

Jason Wenrick  
Executive Director, Common Human Resource System  
Systemwide Human Resources

#### **Summary**

This item provides an update on cost saving initiatives that have occurred since the March 2019 presentation (formally named Operational Effectiveness Initiatives) to the California State University Board of Trustees.

The California State University (CSU) strategically and routinely evaluates and improves university operations to support the academic mission and deliver quality education to students. The CSU's commitment to good stewardship requires the 23 universities and system office to continuously look for opportunities that optimize operations. Additionally, the CSU does not receive funding for inflationary cost increases, including the growing cost of compliance. Therefore, the 23 universities and system office must reduce costs to balance the budget. Current initiatives to reduce costs and enhance effectiveness include exploring and implementing strategic procurement, simplifying, and streamlining administrative processes, and consolidating services to lower costs and enhance services.

## Overview of Current Initiatives

The CSU takes a focused approach to reduce costs and enhance quality. The overall strategy used includes efforts to improve processes, collaborate across the system and other higher educational segments, institute a procurement vision focused on reducing costs, and conducting assessments that identify future opportunities.

### Procurement Strategies

Universities use process improvement methods to systematically identify and remove non-value-added work that allows us to redirect resources to other critical functions. The CSU has implemented several tools such as the balanced scorecard and process streamlining to support continuous improvement.

Procurement leaders across the 23 universities and system office created a strategic vision, titled 23C, to focus on forward-looking planning and collaboration. This effort has increased the focus on reducing costs across the system and leveraging the joint resources and bargaining power of the CSU.

The 23C initiative was created to better leverage the collective buying power and strength of the 23 Procurement Departments across the CSU.

- Our **vision** is to support the CSU's mission of educating tomorrow's leaders by becoming a strategic partner contributing to the financial health of the CSU, higher education and bolstering California's economy.
- Our **mission** is to be a trusted partner through collaboration to maximize value across the CSU by optimizing the procurement of goods and contracted services.
- Our commitment to customer service excellence is guided by our core **values** of integrity, transparency, inclusiveness, and professionalism.

Over the past two years, procurement teams across the 23 universities have recorded more than 967 savings projects and generated \$138M in administrative savings across the CSU.

These savings cross many different areas such as information technology hardware and software, furniture, banking, construction, facility operations and services, motor vehicles, food and beverage, travel, office supplies, and consulting services.

A few highlights are listed below.

*San Jose State University (SJSU)*

In FY20/21 SJSU negotiated an advance commission payment of \$1.5M to allow further liquidity to Spartan Shops, Inc. (auxiliary) during the financial recovery period of the pandemic. Chartwells, a food service provider, worked with the C.O.'s Contract Services and internal leadership team to broker this arrangement, which helped further foster a mutually beneficial, long-term relationship SJSU has come to build with the concessionaire.

SJSU conducted an extensive sourcing process to procure consulting services for a university wide website migration project (Barkley REI – Website Migration). After a period of extensive negotiation between the University and the finalists, SJSU was able to reduce the costs to the University by \$865K.

*San Francisco State University (SFSU)*

During the pandemic, the SFSU procurement team was actively renegotiating existing contracts to help reduce costs. In one example, SFSU renegotiated the contract with their food service provider, Sodexo, which required the university to pay for 2,200 mandatory meal plans, regardless of the student resident population. By moving to an “at-cost” model, the university was able to save \$5.5M. In another example, the procurement team renegotiated its residential network services contract with the service provider, Apogee, resulting in savings of \$1.0M.

*San Diego State University (SDSU)*

The SDSU procurement team conducted an RFP for LED displays for Aztec Stadium and the main campus. After an extensive proposal review and negotiations, the team selected Daktronics resulting in savings of \$2.2M over the life of the contract.

The SDSU procurement team utilizes a number of available strategies when looking to award contracts to vendors. For example, the team utilized job order contracting (JOC) to find the right supplier for electrical and roofing construction projects. In addition to the process and time savings associated with this JOC procurement, these contracts resulted in savings of \$188K.

*Cal Poly San Luis Obispo*

The Cal Poly procurement team is involved in many public works projects across their campus. Their involvement in a collaborative design-build services solicitation for the Fremont Hillside restoration and Stabilization Project resulted in savings of \$3.5M.

Cal Poly also negotiated new rates for charter air service with Allegiant Airlines for athletic charter flights resulting in total savings of \$223K. With a multi-year commitment, Allegiant reduced its fares significantly.

#### *Cal State Dominguez Hills (CSUDH)*

The CSUDH procurement team conducted a collaborative design-build solicitation process for the Student Housing Phase IV and Dining Commons project. After an extensive and thorough selection process, the evaluation team awarded the contract to C.W. Driver/Steinberg Hart, resulting in savings of \$3.6M.

#### *Office of the Chancellor*

The Chancellor's Office procurement team established a master enabling agreement for an enterprise digital signature platform with Adobe Sign. The contract has been adopted by over 20 universities resulting in annual savings of \$2M over the pricing from their competition – DocuSign. In addition to the transactional savings, the CSU is also benefiting from the automation of multiple processes requiring review and signatures. This contract was critical during the COVID pandemic and allowed our workforce to move to a hybrid environment without the need to come into the office to sign critical documents.

The US Bank procurement card program has been adopted by all universities and is generating \$2M per year in rebates that are returned to the universities each year. The CSU contract has been adopted by the Foundation for California Community Colleges as well as other agencies and is considered an industry-leading contract for returning value back to the institutions which adopt this contract.

At the start of the pandemic, as universities were beginning to seek various personal protective equipment to protect students, faculty and staff, the Chancellor's Office worked to set up a program with the California Office of Emergency Services to provide selective equipment at no cost to the 23 universities. During the last 2 years, the CSU system received over \$20M of supplies at no cost. This significant cost savings allowed the 23 universities to purchase other critical supplies and support their operations.

#### **Strategic Partnerships**

An example of a multiple university strategic partnership is the CSU's first-of-its-kind multi-university dining services agreement.

Cal Poly Humboldt led the collaboration with students, consultants, and both CSU and auxiliary employees across multiple universities. The team developed the RFP and awarded the resulting

contract to Chartwell's Higher Education to provide various levels of dining services from the management of self-operating programs to full-service models, depending on the need of each university. Chartwells has dedicated a full team specifically for all 23 universities and each university can negotiate specific terms that meet its needs. At Cal Poly Humboldt, some of the highlights include \$7 million unrestricted signing bonus, three paid internship positions and 75% of dining staff comprised of Humboldt students, \$200 thousand in annual scholarships, \$50 thousand per year to student athletes, \$100 thousand per year to the student food pantry and many other benefits such as guaranteed commissions and royalties.

This collaboration pulled together strengths and expertise from across CSU's auxiliary organizations and the system, and created a partnership that will improve operations, support our students, and encourage engagement in CSU initiatives.

The CSU's Strategic Partnership Team is now looking at opportunities in the banking category with US Bank as well as a network of digital kiosks across multiple universities.

### **Shared Services – Financing and Treasury**

At the CSU Chancellor's Office, the Financing and Treasury department has handled all of the CSU's debt issuance, investments, and cash management for many years. Rather than duplicate financing and treasury teams at each campus, the CSU has been able to leverage its size and opportunities for efficiencies to generate tremendous cost savings. The CSU has been able to save significant amounts of money in the amount of interest we pay on our Systemwide Revenue Bond debt, by lowering fees on our investment portfolios, by saving on personnel expenses, and through lower banking fees. Based upon conservative estimates, savings in these areas have totaled \$123 million over the last two fiscal years alone.

### **CSU Information Technology**

In the Information Technology category, the CSU saved \$20.4 million dollars in cost through migration of critical enterprise systems to the Cloud, consolidation of software and hardware purchases, and enhanced security features such as two-factor authentication and disaster recovery sites to help secure information and reduce incidents and potential claims and ensure that our most critical services are up and running in the event of a disaster.

In addition to systemwide common management system savings from virtualization, bulk discounts, and contract negotiations for FY20/21 \$6.9 million, FY21/22 \$4.9 million.

The **Common Network Initiative** or CNI, is one of the most impressive university network collaborations in the U.S. and provides network equipment and related services to ensure that every university has a robust communications infrastructure. This initiative dates back to 2011 and consistently saves the CSU over \$7.5 million per year. The service also includes Wide Area

Network (WAN) connectivity and was born out of the collaboration between the CSU, CCC and UC systems.

In total, these strategies saved \$33 million.

### **Construction Delivery**

Job order contracting (JOC) is a flexible, cost-effective contracting delivery method used by the CSU to complete major repairs and refurbishment of university infrastructure and building facilities. The use of JOCs provides accelerated project delivery, reduces administrative costs, and lowers direct construction costs while meeting all federal and state bidding and procurement requirements. JOC utilizes a published construction task catalog also referred to as the "unit price book" that includes various task items with established unit prices for various trades.

All 23 universities and system office issued 80 individual JOCs to contractors, which in turn produced almost 800 minor capital projects systemwide. Instead of having to bid out each one of these projects individually, JOC allowed CSU to issue multiple projects per contract. This method streamlines contract administration which reduces procurement time and costs resulting in savings of \$3.5 million. As construction costs continue to rise, adopting flexible contracting models like JOC are critical to help control costs and facilitate a more efficient and accelerated contracting process.

### **Construction Insurance**

The Owner Controlled Insurance Program (OCIP) is a tool the CSU employs on all Public Works Construction projects over \$10 million. The program is procured every five years and has been in place since 2013. Projects enrolled in the OCIP have the Contractors and all subcontractors covered by a package of insurance coverage that includes General Liability and Workers' Compensation.

The CSU's significant construction volume and track record of low incidents and claims enables the purchase of insurance at rates lower than most large and small contractors can obtain. Over the last two years, the CSU had 12 projects enrolled into the OCIP with a total construction value of \$524 million. The utilization of the OCIP resulted in an estimated savings of \$8.6 million. The new OCIP program kicked off on January 3, 2023, and even with a rate increase the centralized program is anticipated to provide significant savings in the years to come.

### **Energy Procurement**

The Direct Access (DA) marketplace is a wholesale energy purchasing strategy in which the CSU purchases electricity for 13 universities in the system. The majority of remaining

universities are either ineligible due to their location being served by a municipal utility or have elected to remain on bundled service due to the financial analysis that favors the local utility.

Direct electricity commodity purchasing allows the CSU to take advantage of favorable market conditions. The program also provides a level of budget certainty to universities as purchases can be made in multi-year portfolios. The CSU's Energy Contracts Oversight Board is responsible for advising on these strategies and works to reduce price risk by reviewing the market conditions and recommending purchase prices and terms.

In the 2021/22 fiscal year, energy prices favored the direct access market dramatically and long-term purchases resulted in estimated cost savings of \$4 million as compared to the traditional utility services. While in 2022/23, with energy prices spiking across the world impacting the electricity commodity costs, the program is still expected to outperform the local utilities once their regulated rates are adjusted.

### **Instructional and Student Services**

The CSU continues instructional and student service initiatives geared towards assisting our students in achieving their educational goals and saved \$42 million in costs through coordinated purchases of electronic library resources, academic software, and accessibility solutions.

One such example is Canvas, a Learning Management System (LMS), which has been implemented systemwide and designed to provide a secure online teaching and learning environment.

By utilizing the combined buying power and volume of the CSU, to the CSU has procured library resources at discounts much higher than any one university could have received on its own. In some cases, discounts are in excess of 70% below list price and have allowed the universities to save millions of dollars each year.

### **Common Human Resources System (CHRS)**

CHRS is a new human resource system that is based on standardized data and business processes across all CSU universities. The multi-year initiative will enable shared service opportunities and consolidated data entry to reduce training and labor costs. All 23 universities are now live using the Employee Onboarding system, and four campuses will go live in November 2023 on the larger Human Resources shared system. The next pilot area is employee recruitment with the hope to improve collaboration across campuses and attract candidates to employment opportunities across the CSU.



### **2020-2022 Cost Savings**

The table below summarizes the costs savings generated from Fiscal Year 2020 through 2022 by category:

#### **2020-2022 CSU Cost Savings (in millions)**

<b>Category</b>	<b>Cost Savings</b>
Administrative Services	\$138
Shared Services – Finance and Treasury	\$123
Instructional and Student Services	\$42
Information Technology	\$33
Construction Efficiencies	\$12
Energy Purchases	\$4
<b>TOTAL</b>	<b>\$352</b>

### **Future Initiatives**

The CSU will continue searching for opportunities to reduce costs, and enhance effectiveness by focusing on:

- Identifying additional opportunities that align with CSU's procurement strategic plan;
- Continuing to foster relationships with the UC and Community College systems and pursue multi-university opportunities;
- Looking for additional multi-university and shared services opportunities
- Looking for more opportunities to increase revenue through strategic partners
- Broadening the use of process redesign and performance tools to increase value and lower costs; and,
- Successfully implementing the third phase of the CSU's new Procure to Pay (P2P) system which will standardize procurement practices across all universities and drive significant savings and process improvements along the entire P2P process.

## **COMMITTEE ON FINANCE**

### **Sustainable Financial Model Workgroup**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Julia Lopez  
Trustee

#### **Summary**

#### **Workgroup Charge**

On July 25, 2022, the Interim Chancellor appointed a Workgroup and charged it to recommend a multi-year strategy to achieve stable and predictable revenues to support the California State University (CSU) mission, maintain affordability for its students, and recognize the differing needs of its 23 universities. In carrying out this charge, the Workgroup determined that a strategy for long-term financial sustainability must consider revenues in the context of projected future costs so that strategies for raising revenues can be realistic in terms of overall budgetary needs. This update describes the progress of the Workgroup in projecting costs and considering strategies to increase revenues to achieve long-term financial sustainability.

#### **The Current Budgetary Situation as the Starting Point for this Work**

As a public state university, the CSU has two principal sources of revenue to support its operations: the state general fund and tuition. In fiscal year 2021-22, the CSU operating fund totaled \$8.3 billion in revenues. Of total operating revenues:

- The state general fund contributed \$4.5 billion (55%);
- Tuition and fees totaled \$3.2 billion (39%);
- The remaining \$0.5 billion (6%) was from a variety of sources, including investment income, grants, and other sources including sizable one-time HEERF<sup>1</sup> grants.

Over the past five years:

- State support has increased steadily (other than the reduction made in 2020 due to the effect of the pandemic on state resources)<sup>2</sup> for an increase over 2017-18 of 34 percent;

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<sup>1</sup> Higher Education Emergency Relief Funds (HEERF) were federal grants to help address impacts of the pandemic.

<sup>2</sup> In 2020 the budget was cut by over \$299 million; these funds were more than restored the following year.

- Tuition, on the other hand, has not changed since 2017-18,<sup>3</sup> and total revenues from tuition and fees have decreased slightly (-1%) since then.
- Total operating revenues (all sources, excluding HEERF) have increased by 18 percent.

Unchanged tuition—a steady and reliable revenue source to the CSU—has increased reliance on growing and more volatile state support. And importantly, inflation since 2017 has raised costs in California by over 22 percent, negating the 18 percent increase in total revenues.

Over this same period of five years, CSU's 23 universities have taken on numerous additional responsibilities through state mandates and priorities, Board actions, and have seen cost pressures build from a variety of fronts. The annual Trustees' budget requests recognize these needs, but total revenues continue to fall short of costs.

### **Inadequate Financing Model Hinders Understanding the Dimensions of the Problem**

More revenues are needed to properly support the university, but how much and for what purposes specifically? CSU's operating budget reflects what the University receives in revenue and what it uses through expenditure, but these expenditures do not capture costs. When the CSU receives less than it requests from the state and tuition collection is unchanged, two things happen: (1) some costs go unaddressed (e.g., critical capital renewal projects) and (2) costs that cannot be deferred are accommodated by redirecting funds from other, existing areas, which become short-changed. These two actions result in major disconnects between costs and expenditures.

The disconnect between costs and expenditures is exacerbated by the incremental budgeting method by which the CSU is funded by the state and by which allocations from the Chancellor's Office to the universities are generally made. Under this model:

- The adequacy of existing resources is not always well communicated and understood between the state and CSU, and between the Chancellor's Office and the universities;
- There is little examination of how base funds are impacted, in light of the many redirections to accommodate changing cost pressures; and
- New funds are generally expected to fund new priorities, while the actual costs of the new priorities are unique to each university and often do not precisely align with new revenue.

Financial sustainability cannot simply be an exercise in identifying new revenues. There are myriad costs that existing spending patterns do not reveal. The best-known example of costs that are not captured by spending patterns includes the ever-growing costs of critical capital renewal projects that have been put off year after year because the annual budget was insufficient. Other examples include:

- Positions that are held vacant to use the dollars for other, unfunded purposes;

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<sup>3</sup> Prior to a 4.9% increase in 2017-18, tuition had been unchanged for the previous six years.

- Instructional materials and equipment that are not purchased;
- Student support that falls short of desires and expectations; and
- Mandates from governmental authorities that add costs without funding, requiring redirecting funds from other, existing areas.

In addition to current unfunded costs, there are anticipated increased costs such as the expectation to increase enrollment and degrees in higher-cost science, technology, engineering, and math (STEM) disciplines, to educate more transfer students whose upper-division instruction is more costly than lower-division instruction, and to add graduate programs to meet regional and statewide employment needs.

As long as there are unfunded costs that mount year over year, financial sustainability will remain elusive. It is, therefore, not enough to consider how to increase revenues without knowing how much is needed to pay for the costs to operate the California State University and its 23 universities. This is why the Workgroup began its work with the fundamental question – how much does it cost for CSU’s operations?

### **Building a Cost Model as a Starting Point to Understand the Amount of Revenues Needed**

To better understand costs, not just expenditures, the Workgroup constructed a budget of estimated costs consistent with the CSU’s mission, student characteristics, and curriculum. The model relies heavily on a model developed for the state of Virginia by the National Center for Higher Education Management Systems (NCHEMS), a leading national organization that consults on higher education finance. It builds the budget in layers, rather than using an incremental budgeting approach.

Using the CSU’s actual expenditures for 2019-20,<sup>4</sup> later adjusted for inflation to get to a 2021-2022 base from which to make projections, the cost model estimated costs as follows:

1. “Structural Baseline” – Defined as the Cost to “Keep the Doors Open” and Protect the State’s Assets

These fixed costs are incurred because independent of enrollment, a campus needs to have an infrastructure for administration, facility maintenance, library and technology support, faculty governance, and basic student service functions such as advising, counseling, admissions and records.

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<sup>4</sup> Rather than using line items (salaries, benefits, supplies, etc.,) the model uses functional categories reported to the national Integrated Post-Secondary Data Center (IPEDS). These include Institutional Support, Academic Support, Student Services, Instruction, and others.

Based on that principle, the model computed the cost of providing such an infrastructure for the campuses. This was done using actual expenditure data for the categories of Institutional Support, Academic Support, Student Services, and Instruction. Included in the structural baseline are the operation and maintenance costs of preventing any further increase in critical capital renewal.

## 2. Costs of Actual Enrollments and Student Characteristics

Next, the model estimates the cost to serve the actual enrollments above that of the structural baseline. This was done for Institutional Support, Academic Support, and Student Services.

The final adjustment was to add a premium to serve students from underrepresented groups and federal Pell-eligible groups. The academic literature has amply documented the need for additional support for these students. Also, the state has recognized similar premiums to funding formulas for underrepresented groups in school and community college funding formulas.

## 3. Instructional Costs

A comprehensive analysis of instructional expenditures and enrollments by discipline and level of instruction (lower division, upper division, graduate) was conducted. For the cost model, actual IPEDS expenditures, adjusted for inflation, were used, with a few additions to recognize the apparent under-funding of some high-need, high-cost disciplines and account for additional support for items such as faculty travel, faculty development, and instructional equipment and supplies.

## 4. Other Items to Complete the Cost Estimate

No adjustments were made, other than inflation, to the IPEDS categories of research, public service, and financial aid and scholarships. An estimate of annual debt service payments and the ongoing costs of the Chancellor's Office were included.

The model explains why there never seems to be enough money to pay for what universities think they need. Comparing the cost model and the 2021-2022 actual expenditures shows that the CSU would need to increase its revenues to fully cover costs. The principal reasons are that the costs include ongoing maintenance and repair (separate from deferred maintenance), debt, and student and academic support for underrepresented students. They will continue to exert pressure on the budget in future years.

### **Sources of revenues must increase to cover costs.**

The Workgroup continues to refine the model and its five-year cost projections. At this preliminary phase, the expectation is that there will be a gap between costs and revenues and that the gap will

grow, primarily driven by inflation, salaries and benefit enhancements, and increases in the cost of meeting the needs of the state and its regions.

The Workgroup has now turned the bulk of its attention to potential revenue sources and projections over the next five years. It will consider many options. A possible recommendation would be to plan for tuition changes in a gradual, predictable, and moderate way. This would be accompanied by recommendations for the State University Grant (SUG) program, which is the largest financial aid item in the budget. A gradual and predictable tuition strategy will be a necessary component of a sustainable financial model but not the only component. The university will need to increase its state support, philanthropy, sponsored research funding, and other revenues.

Long-term financial sustainability will not be possible without a re-examination of the CSU's budget – both revenues and current expenditures. Cost pressures and changing conditions require that old assumptions and practices be examined with a pragmatic sense of what is possible given financial realities. Doing this is beyond the original scope of the Workgroup; however, the Workgroup has identified a need to review the budget process, as well as policies and practices that are used to build the budget, make allocations, and set priorities. The work on the cost modeling will provide useful information to guide future budget decisions.

The Workgroup will report to the Board of Trustees in May so that the Trustees may consider the recommendations as part of the annual budget process. That will be the initial step in addressing the long-term financial sustainability of the CSU. It is the hope of the Workgroup that the final report and recommendations will offer insights and a framework for how the Board and the next Chancellor can establish a vision for the future, a plan to implement it with clear priorities, expected results, and most importantly, how to pay for it.