

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:00 a.m., Wednesday, November 8, 2023
Glenn S. Dumke Auditorium

Julia I. Lopez, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Douglas Faigin
Mark Ghilarducci
Leslie Gilbert-Lurie
Anna Ortiz-Morfit
Jose Antonio Vargas
Darlene Yee-Melichar

- Consent**
1. Approval of Minutes of the Meeting of September 13, 2023, *Action*
 2. Approval to Issue Debt for Affordable Housing at California State University San Marcos, *Action*
 3. Approval of 2024-25 Lottery Budget and Report, *Action*
 4. Approval of an Auxiliary Organization Financing at California State University, Sacramento, *Action*
 5. California State University Annual Investment Report, *Information*
- Discussion**
6. Annual Systemwide Report on Hate Incidents on Campus, *Information*

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

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

September 13, 2023

Members Present

Julia I. Lopez, Chair
Jack McGrory, Vice Chair
Larry L. Adamson
Douglas Faigin
Mark Ghilarducci
Leslie Gilbert-Lurie
Anna Ortiz-Morfit

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

Trustee Julia Lopez called the meeting to order.

Public Comment

Public comment occurred at the beginning of the meeting's open session before all committees. Many comments were related to the Multi-Year Tuition Proposal.

Approval of the Consent Agenda

The minutes of the July 11, 2023, meeting of the Committee on Finance were approved as submitted.

Item 2, Appointment of the California State University Investment Advisory Committee Chair was an information item.

Item 3, California State University Quarterly Investment Report was an information item.

Discussion Agenda

The committee had two items on the discussion agenda.

Item 4, Tuition Policy, Action (RFIN 09-23-09)

This item was presented as an action item to adopt a tuition policy for the California State University.

Trustee Faigin made a motion to postpone the discussion on the tuition policy item until November and Trustee Gilbert-Lurie seconded the motion. Trustee Lopez invited comments on the motion to postpone. Trustee Lopez, Trustee McGrory, Chair Fong, and Interim Chancellor Koester advocated for the approval of the proposed tuition policy, as it serves as a framework and provides clear directives for tuition increases. The motion to postpone the tuition policy failed with a vote of eight nays (Trustees Adamson, Fong, Ghilarducci, Lopez, McGrory, Ortiz-Morfit, Vargas and Interim Chancellor Koester), two yeas (Trustees Faigin and Gilbert-Lurie) and no abstentions. The discussion returned to the original motion to approve the policy.

Data and information on potential changes in enrollment, such as data on prospective students who may have dropped out or not accepted offers due to financial burdens were requested. It was confirmed that this suggestion is part of their planning for the assessment.

Several committee members discussed the merits of a five-year policy for predictability and the potential for a cohort-based policy in the future. It was noted that the proposed policy doesn't prevent a cohort proposal.

Trustee Molina Mancio requested effective communication with students regarding financial aid policies. He also suggested beginning assessments in August when students are present on campuses. Trustee McGrory made a motion to amend the underlying motion to the assessment timeframe to ensure that student consultations would start in August. The motion to amend was approved unanimously. Trustee Lopez then called for a roll call vote on the motion to approve the tuition policy, as amended. The motion as amended passed with nine yeas (Trustees Adamson, Fong, Ghilarducci, Gilbert-Lurie, Lopez, McGrory, Ortiz-Morfit, Vargas and Interim Chancellor Koester), one nay (Trustee Faigin) and no abstentions.

Item 5, Approval of the 2024-2025 Operating Budget Plan (RFIN 09-23-11) and Multi-Year Tuition Proposal (RFIN 09-23-10), Action

This item recommended approval of the 2024-2025 CSU Operating Budget Plan by the Board of Trustees. The CSU's baseline operating budget totals \$8.1 billion. The 2024-2025 Operating Budget Plan would increase the budget by \$557 million. This represents a 6.9 percent increase.

This item also recommended approval of the Multi-Year Tuition Proposal recommended by the interim chancellor. The proposal would establish annual tuition rate increases of six percent for undergraduate students (\$342 for the 2024-2025 academic year). Similar increases would apply to all other levels of education. The increases would begin in fall 2024. The rate increases would span five academic years: 2024-2025 through 2028-2029. The Board of Trustees would need to determine any rate changes for 2029-2030 and beyond.

Lieutenant Governor Kounalakis expressed concern about the potential consequences of a tuition increase and highlighted the need for data collection and analysis to comprehend the effects of the tuition increase on students. She recommended postponing the vote on the tuition increase until sufficient information is gathered about its potential impact on students and until the newly appointed chancellor arrives and fully assesses the implications of this decision.

Chair Fong acknowledged public comment requests for alternative solutions to tuition increases and using reserves. She requested an in-depth explanation of the reserves and their nature as one-time funds. Steve Relyea explained the \$8.6 billion in reserves, noting that a subset of this is the \$2.5 billion in operating fund reserves. He explained that approximately \$1.7 billion of this is reserved for obligations like insurance, financial aid, and other commitments, leaving \$766 million as the true operating fund reserves available for economic uncertainty. This \$766 million is roughly equivalent to one month's operations for the CSU. The board policy recommends that there should be at least a minimum of three months operations up to six months of operation.

One-time funds, like reserves, cannot be used for recurring expenses such as salaries. Once spent, they are gone and cannot be replenished. Instead, one-time funds are appropriate for specific, non-recurring expenses, like addressing wildfire damage. Steve Relyea highlighted that the primary sources of CSU funding come from state investment and tuition. Other sources, such as philanthropy, are generally designated for specific purposes and do not typically support the operating budget. The state's investment is crucial and the CSU will continue to advocate for it. Chair Fong proposed an amendment on Trustee Faigin's behalf. The proposed amendment suggested changing the tuition increase duration from five years at 6% to three years at 6%. The motion to amend the proposal was seconded, initiating a discussion.

Interim Chancellor Koester opposed the proposed amendment. Such a change would result in a net revenue loss of \$245 million to the operating budgets. The \$245 million is equivalent to 100% of Chico's operating budget, 50% of San Jose State's operating budget, and exceeds the entire operating budget for 10 of the CSU universities. She further translated this revenue loss as covering the cost of 1,700 faculty or 2,300 staff or 13,800 courses. Additionally, a three-year plan would end at the conclusion of the governor's compact, leading to funding uncertainties with the changing leadership at the state level.

The proposed three-year amendment failed with nine nays, no yeas and no abstentions. The proposal to accept the tuition increase plan as presented by Interim Chancellor Koester was approved with nine yeas (Trustees Adamson, Fong, Ghilarducci, Gilbert-Lurie, Lopez, McGrory, Ortiz-Morfit, Vargas and Interim Chancellor Koester), no nays and no abstentions.

Following the approval of the tuition increase, Trustee Lopez called for a motion to approve the 2024-2025 budget proposal. Trustee McGrory moved to approve the 2024-2025 budget proposal, and a second was provided, initiating discussion on the budget.

Trustee Adamson asked if the budget included the one-time capital request. It was confirmed that the budget did include both a one-time request and money for future debt service in the operating budget, totaling \$1.3 billion for one-time funds and \$25 million in ongoing funding. Trustee Adamson proposed an amendment to increase the one-time capital outlay budget to \$2.4 billion. The amendment was seconded by Trustee McGrory. A vote on the proposed amendment to increase the capital outlay budget to \$2.4 billion was conducted and the amendment passed with nine yeas, no nays and no abstentions.

Following further discussion, Trustee Lopez called for a roll call vote on the motion to approve the 2024-2025 budget proposal as amended. The motion was approved with nine yeas (Trustees Adamson, Fong, Ghilarducci, Gilbert-Lurie, Lopez, McGrory, Ortiz-Morfit, Vargas and Interim Chancellor Koester), no nays and no abstentions.

Trustee Lopez concluded the business of the Committee on Finance.

COMMITTEE ON FINANCE

Approval to Issue Debt for Affordable Housing at California State University San Marcos

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 \$39,225,000 to provide financing for a campus capital project:

California State University San Marcos University Village Housing and Dining Project

The Board of Trustees previously approved schematics for this project in May 2023 and approved the financing component of the project from the State's Higher Education Student Housing Grant Program in July 2023.

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.

California State University San Marcos University Village Housing and Dining Project

The California State University San Marcos University Village Housing and Dining Project (the “Project”) was approved by the Board of Trustees’ Committee on Campus Planning, Buildings and Grounds for schematics during the May 2023 meeting. The Project will consist of a seven-story residence hall (123,618 gross square feet) and a two-story dining facility (13,382 gross square feet) and will be located southwest of the existing University Village apartments and north of parking structure 1. The housing building will provide 555 beds for students, including 390 affordable and 150 standard rate beds, in double residence hall style rooms, and 15 resident advisor beds. Additionally, the facility will have shared community and laundry rooms. The dining facility will be attached to the housing building and will include 210 indoor seats and 110 outdoor seats.

The not-to-exceed principal amount of the proposed bonds is \$39,225,000, based on a total project budget of \$126,300,000 with additional SRB funding of \$92,300,000 from the State’s Higher Education Student Housing Grant Program. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$5,225,000), are expected to be funded from bond proceeds. The Project is scheduled to start construction in December 2023 with completion expected in May 2026.

The funding from the State’s Higher Education Student Housing Grant Program was initially expected to be in the form of a one-time cash grant, which was awarded in the 2022-23 fiscal year. However, the 2023-24 state budget for the CSU clawed back the cash grants for all previously awarded projects in the program and replaced them with an increase in CSU’s annual support appropriation which will allow CSU to replace the cash grants with a like amount of additional SRB net proceeds. This additional SRB funding in the amount of \$92,300,000 for the Project was approved by the Board of Trustees during its July 2023 meeting (\$91 million as listed directly for the project and an additional \$1.3 million project augmentation from the \$157 million of pending approvals). The related debt to be issued under the SRB program will be repaid from the additional support appropriation from the state (rather than campus resources).

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	\$39,225,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$2,777,248
Projected debt service coverage including the new project:	
Net revenue – San Marcos pledged revenue programs: ¹	1.35
Net revenue – Projected campus housing program:	1.78

1. Combines 2026-27 information for campus pledged revenue programs with 2026-27 for the 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 5.89 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 1.78 in fiscal year 2026-27, the first full year of operations, which is 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 1.35, which meets 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 distributed to the Board prior to this meeting that authorize interim and permanent financing for the 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 \$39,225,000 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 2 of the Committee on Finance at the November 7-8, 2023, meeting of the CSU Board of Trustees is recommended for:

California State University San Marcos University Village Housing and Dining Project

COMMITTEE ON FINANCE

Approval of 2024-2025 Lottery Budget and Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item requests that the California State University Board of Trustees approve the 2024-2025 lottery budget. In accordance with CSU lottery guidelines, this item also contains a report of actual lottery fund expenditures in 2022-2023.

Background

The Lottery Act allows for the expenditure of lottery receipts for public education. The CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research are not permissible uses of lottery funds.

To date, the CSU has received \$1.65 billion in lottery funds from the state. Over the past five years, annual CSU Lottery Fund receipts have averaged \$70.6 million. Approximately 92.8 percent of lottery resources are expended directly for campus instructionally-related programs and the electronic core collection. The remaining 7.2 percent supports systemwide programs, such as summer arts, pre-doctoral, doctoral incentive, DREAM loan, system partnerships and memberships, and program administration and reporting requirements.

Each year, the Board of Trustees adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates of CSU lottery receipts for the budget year and the program area allocations of those anticipated receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements.

The Board of Trustees has delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds.

2024-2025 Lottery Budget Proposal

The System Budget Office estimates total lottery receipts available to the CSU in 2024-2025 will be \$70 million. After setting aside \$5 million as a contingency to assist with cash-flow variations in quarterly lottery receipts and other economic uncertainties, the \$65 million 2024-2025 lottery budget proposal remains principally designated for campus-based programs. The proposed budget increases campus-based allocations and support for the electronic core collection by approximately \$3 million and maintains support for administration and reporting responsibilities of the Lottery Fund at 1.15 percent of the proposed budget.

Systemwide Programs

Under the proposed budget, approximately \$13.6 million would be allocated for systemwide programs and administration costs:

- DREAM Loan Program (\$2.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor's Doctoral Incentive Program (\$1.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program (\$1.0 million) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program (\$1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Electronic Core Collection (\$6.25 million) provides all students access to electronic publications.
- System Partnerships & Memberships (\$1.0 million) allows the CSU to participate in regional or national organizations, which promote innovation, cooperation, resource sharing and student workforce preparedness in areas such as research and the public policy arena.
- Administration of Lottery Fund and system programs (\$805,000) provides support for Lottery Fund and program administration functions.

Campus-Based Programs

The remaining \$51.4 million of anticipated 2024-2025 lottery receipts would be used to fund campus-based programs and financial aid. \$46.4 million would be allocated directly to campuses, allowing presidents flexibility to meet unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of library materials and instructional equipment, curriculum development, and scholarships.

The proposed lottery budget would provide \$5 million to Supportive Pathways for First-Year Students (formerly the Early Start Program) for campus-based financial aid. An eligible student may receive a need-based fee waiver to ensure that financial hardship is not a barrier to enrollment. The program offers pathways and academic and social support that align with each incoming student’s needs. The program’s goal is to ensure that first-time students successfully complete the general education written communication (A2) and math/quantitative reasoning (B4) requirements within their first year.

The CSU Lottery Budget proposed for 2024-2025 is as follows:

2023-2024 Adopted and 2024-2025 Proposed Lottery Budget		
	2023-2024 Adopted Budget	2024-2025 Proposed Budget
Sources of Funds		
Receipts	\$67,000,000	\$70,000,000
Less Systemwide Contingency	(5,000,000)	(5,000,000)
Total Available for Allocation	\$62,000,000	\$65,000,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$1,000,000	\$1,000,000
California Pre-Doctoral Program	1,038,000	1,038,000
CSU Summer Arts Program	1,500,000	1,500,000
DREAM Loan	2,000,000	2,000,000
Electronic Core Collection	6,000,000	6,250,000
System Partnerships & Memberships	1,000,000	1,000,000
	\$12,538,000	\$12,788,000
<i>Campus-Based Programs</i>		
Campus Programs	\$43,691,000	\$46,407,000
Campus Financial Aid	5,000,000	5,000,000
	\$48,691,000	\$51,407,000
<i>Lottery Fund & System Programs Administration</i>		
	\$771,000	\$805,000
Total Uses of Funds	\$62,000,000	\$65,000,000

Reporting Requirement

In accordance with the CSU lottery guidelines, the CSU annually reports past year actual lottery expenditures to the Board of Trustees. This section of the agenda item satisfies that requirement.

In 2022-2023, similar to prior years, the majority of lottery funds were spent on instruction and instructionally related programs and services that supplement the CSU operating budget. The following table summarizes how available lottery revenues were spent in 2022-2023:

2022-23 Lottery Expenditures		
Program Support Area	Expenditures	Percentage of Total Expenditures
Doctoral Incentive Program ¹	\$0	0.0%
California Pre-Doctoral Program	895,560	1.3%
DREAM Loan Program	315,000	0.4%
CSU Summer Arts Program	1,892,769	2.6%
Campus Programs	66,600,813	92.8%
Campus Early Start Financial Aid	1,340,697	1.9%
Lottery Fund & System Programs Admin.	731,000	1.0%
Total	\$71,775,839	100.0%

¹ The Doctoral Incentive Program is a revolving educational loan program. The budget included \$2 million for any net increase in program participation, but funds were unnecessary as existing loan repayments supported the issuance of new loans to new participants.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2024-2025 lottery budget totaling \$70 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2024-2025 lottery budget approved by the Board of Trustees to the extent that receipts are greater or less than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2024-2025 lottery budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

Approval of an Auxiliary Organization Financing at California State University, Sacramento

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 authorize University Enterprises, Inc. (UEI), a recognized auxiliary organization in good standing at California State University, Sacramento, to secure seller-provided financing from a local non-profit organization in an amount not-to-exceed \$3,900,000 to purchase real property from the local non-profit organization.

Background

Through a public-private partnership (P3) structure, UEI completed an off-campus student housing project in the fall of 2021. The housing project, commonly known as Hornet Commons, provides 1,341 beds for upper division students. Because of the success of the Hornet Commons development, the auxiliary wishes to acquire a parcel of land adjacent to Hornet Commons from the Sacramento Regional Foundation (the "Foundation") and, in turn, eventually lease the land to Greystar, the developer of Hornet Commons, to construct additional student housing utilizing a similar P3 structure. Over time, it is expected that the future ground rents received for the new student housing development will well exceed the amount paid to acquire the land.

Project Description

Subject to financing approval from the Board of Trustees, UEI would acquire a 2.83-acre site at 7700 College Town Drive east of the California State University, Sacramento campus. Presently, a 34,000 square foot multi-story office building and parking lot are located on the property, however, the building is currently vacant due to age and will be subject to demolition to pave the way for future P3 development.

The preliminary development plan for the site will consist of a new 124-unit (353-bed) student housing project. The unit mix contemplates four-bedroom single occupancy units, two-bedroom double occupancy units, and studio units. The preliminary program indicates a student housing project size of approximately 150,000 gross square feet, including residential elements, support spaces such as lounges, multipurpose rooms, and administrative spaces. The project shall include approximately 150 parking spots.

However, before any agreements are finalized for the P3 development of housing on the site, all appropriate actions will be presented to the Board of Trustees for approval at future meetings.

Proposed External Financing

UEI has agreed in principle with the Foundation to acquire the land at a sale price of \$7,500,000, of which \$3,600,000 will be paid with UEI reserves and the remaining \$3,900,000 will be financed through an external loan from the Foundation, which is the owner of the property.

The key proposed terms of the loan from the Foundation are as follows:

- The amount of the note will be \$3.9 million.
- Term of the note will be four years after document closing.
- Note shall be fully amortized and payable monthly.
- Interest rate on the note will be 4.00% per annum.
- The note may be prepaid at any time, in whole or in part, without any prepayment penalty.
- The note will be secured by a Deed of Trust and assignment of rents on the subject property.

Following Board approval of the external financing, UEI anticipates escrow to close on the purchase and sale of the land.

Trustee Resolution and Recommended Action:

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of the California State University, that the request from University Enterprises, Inc. to obtain a loan in the amount of \$3,900,000 with the key terms as described herein is approved.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

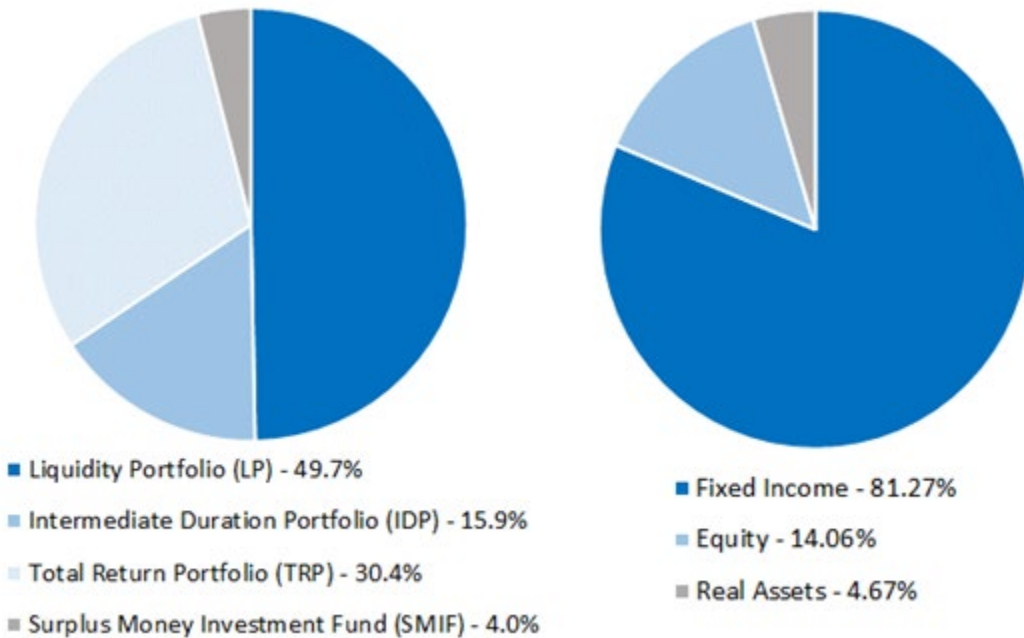
This item provides the annual investment report to the California State University Board of Trustees for the year ended June 30, 2023. The information in Attachment A provides the entire annual investment report regarding CSU investments as required by Education Code § 89726.

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 June 30, 2023 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 \$930 million 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
 June 30, 2023**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (LP)	\$3.920 billion	49.7%	2.18%
Intermediate Duration Portfolio (IDP)	\$1.256 billion	15.9%	0.35%
<u>Total Return Portfolio (TRP)</u>	<u>\$2.398 billion</u>	30.4%	7.95%
CSU Investment Portfolios	\$7.57 billion		
Surplus Money Investment Fund (SMIF)	\$0.314 billion	4.0%	2.13%
Total CSU Investments	\$7.89 billion	100%	



CSU Investment Performance

For detailed information on the investment performance and characteristics of the CSU investment portfolios and funds invested in SMIF 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 objectives are 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. 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)

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 sixty-five 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 Framework
Risk Tolerance	Risk Management
Expected Return	Monitoring and Control Procedures
Asset Allocation	
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 thirty 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 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 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 its statutory limit as a percent of CSU investments.

Since the TRP Inception date¹ through June 30, 2023, the TRP investment earnings were approximately \$292.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 4.32% annualized (net of fees) or a cumulative \$244.5 million, which was about 6.1 times higher than Liquidity Portfolio investment earnings.

In October 2023, the IAC approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 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.

¹ 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. 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.

Recent Actions/Next Steps

With the passage of AB 2422, effective January 1, 2023, up to sixty-five percent of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. Considering these legislative changes, in January of 2023 the IAC took two actions and in March of 2023 the Board of Trustees took one action. First, the IAC approved a recommendation to the Board of Trustees to revise the California State University Master Investment Policy. These recommended revisions were presented to and approved by the Board of Trustees at the March 2023 meeting. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP from January of 2023 to December of 2024.

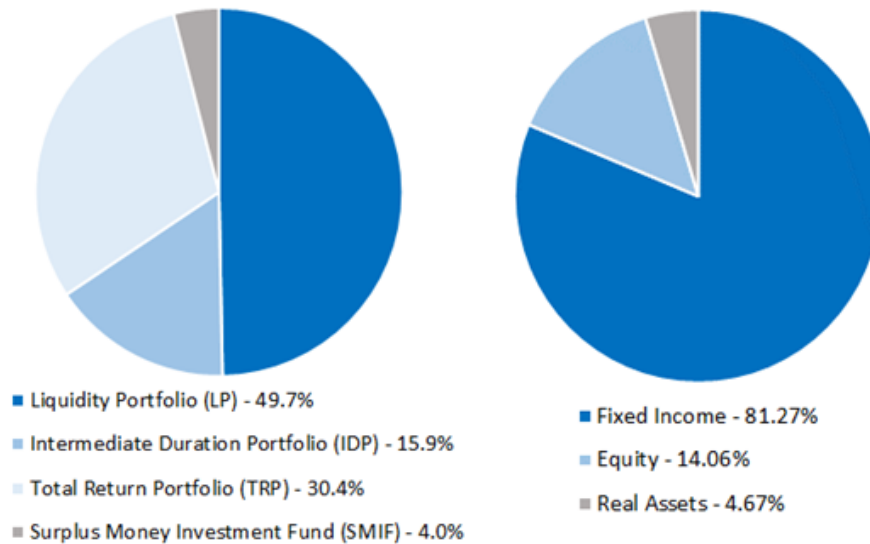
The next investment report to the board is scheduled for the March 2024 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending September 30, 2023.

CSU Annual Investment Report
For the Fiscal Year Ended June 30, 2023

CSU investments as of June 30, 2023, 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 \$930 million 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 June 30, 2023

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (LP)	\$3.920 billion	49.7%
Intermediate Duration Portfolio (IDP)	\$1.256 billion	15.9%
Total Return Portfolio (TRP)	\$2.398 billion	30.4%
Surplus Money Investment Fund (SMIF)	\$0.314 billion	4.0%
CSU Investments	\$7.89 billion	100%



For the year ending June 30, 2023, direct investment management fees¹, advisory, and custodial fees totaled just under \$4.2 million, or about 0.059 percent on CSU investments' average balance for the year ending June 30, 2023.

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.

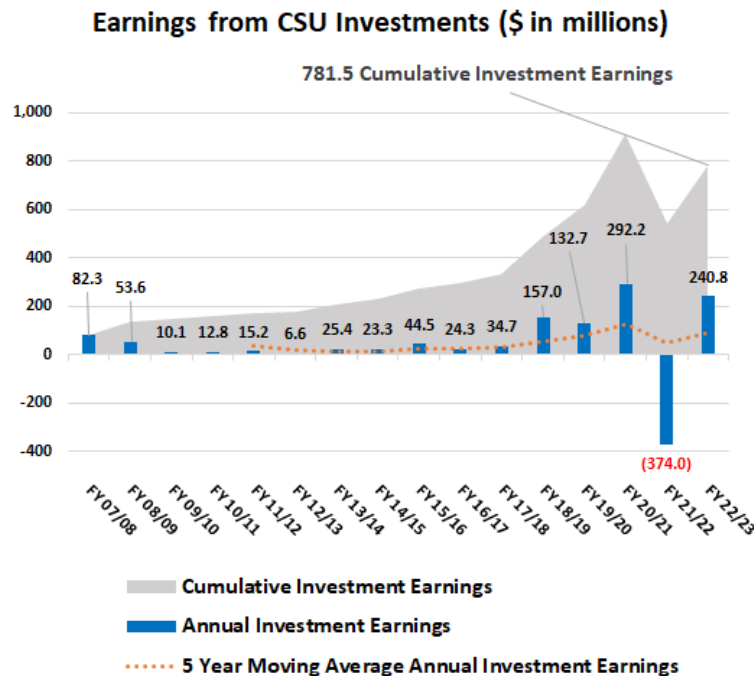
CSU Consolidated Investment Portfolio

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

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (LP)
1 Year Return	3.76%	7.95%	0.35%	2.18%
3 Year Annualized Return	1.39%	5.88%	N/A	0.07%
5 Year Annualized Return	2.20%	5.28%	N/A	1.31%
10 Year Annualized Return	1.51%	N/A	N/A	1.07%
Since Inception Return ³	1.54%	5.61%	-4.96%	1.26%

As of June 30, 2023, the TRP since inception investment earnings were approximately \$292.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio total return by 4.32 percent annualized (net of fees) or a cumulative \$244.5 million, which was about 6.1 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; 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>Benchmark⁴</u>
1 Year Return ⁵	2.18%	1.16%
3 Year Annualized Return	0.07%	-0.39%
5 Year Annualized Return	1.31%	1.15%
10 Year Annualized Return	1.07%	0.86%
Annualized Since Inception Return ⁶	1.26%	1.38%
Yield	5.04%	5.10%
Duration (Years)	1.07	1.41
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	53.6%	Certificates of Deposit	3.3%
U.S. Corporate Bonds	24.5%	Cash Equivalents	2.3%
Commercial Paper	8.2%	Agency MBS	2.3%
U.S. Government Agencies	5.7%	CA Municipal Obligations	0.1%

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

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

⁶ 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.

	CSU Intermediate Duration Portfolio	Benchmark⁷
3 Months Return ⁸	-0.32%	-0.61%
1 Year Return	0.35%	-0.07%
Annualized Since Inception Return	-4.96%	-4.94%
Yield	5.11%	4.93%
Duration (Years)	4.77	4.64
Average Credit Rating	A+	AA-

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

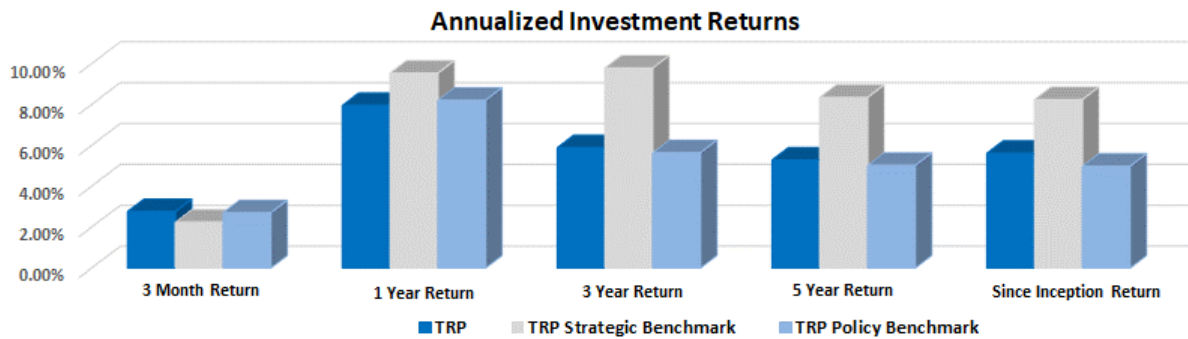
U.S. Corporate Bonds	57.4%	U.S. Government Agencies	1.6%
Agency MBS	27.5%	CA Municipal Obligations	1.4%
Treasuries	9.5%	Cash Equivalents	0.4%
Asset-Backed Securities	2.1%	Supranationals	0.1%

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.



	CSU Total Return Portfolio	Strategic Benchmark⁹	Policy Benchmark¹⁰
3 Months Return	2.76%	2.24%	2.70%
1 Year Return	7.95%	9.53%	8.21%
3 Year Annualized Return	5.88%	9.78%	5.64%
5 Year Annualized Return	5.28%	8.34%	5.02%
Annualized Since Inception Return ¹¹	5.61%	8.24%	4.98%

In October 2023, the CSU Investment Advisory Committee approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 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.

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 2.6% 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	46.2%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.4%	Actively Managed Mutual Funds	26% ¹²
Real Asset Mutual Funds	15.4%		

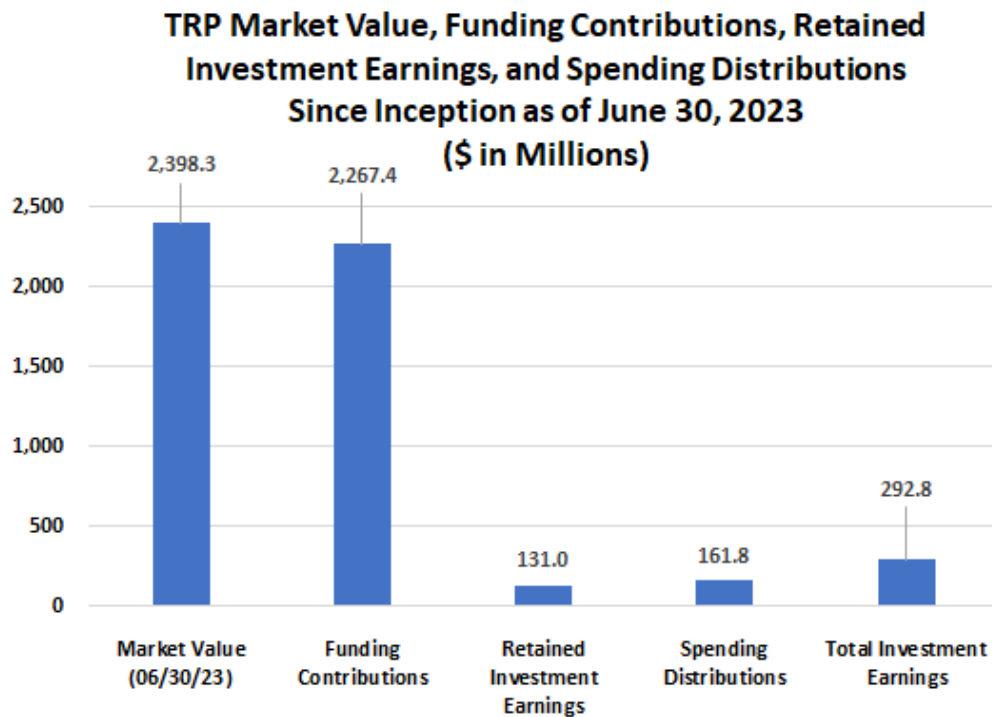
Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	518.1	21.60%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	117.7	4.91%	0.07%	0.43%
	Lord Abbett High Yield Fund	LHYOX	143.0	5.96%	0.60%	0.69%
	Aristotle Floating Rate Income Fund	PLFRX	71.3	2.97%	0.70%	0.77%
	Payden Emerging Markets Bond Fund	PYEIX	35.6	1.48%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	35.5	1.48%	0.70%	0.80%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	581.6	24.25%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	289.2	12.06%	0.04%	0.88%
	Driehaus Emerging Markets Growth Fund	DIEMX	142.9	5.96%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	71.6	2.98%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	23.7	0.99%	1.20%	1.01%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	198.7	8.29%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAx	61.5	2.57%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	107.9	4.50%	0.95%	0.97%
Cash			0.0	0.00%	NA	NA
Total			2,398.3	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 Median Fee Per Asset Class are weighted averages using the percent of the Total Return Portfolio shown in the table for each fund and their respective asset class.

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, 2023. 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 month as of 06/30/23	2.13%
Average (FYE 06/30/07 – 06/30/23)	1.12%

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

Annual Systemwide Report on Hate Incidents on Campus

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Cynthia Teniente-Matson
President
San José State University

Lynn Mahoney
President
San Francisco State University

Tomás D. Morales
President
California State University, San Bernardino

Melinda Latas
Director of Systemwide Clery and
Campus Safety Compliance

Summary

This item provides the calendar year 2022 annual report on hate violence incidents reported on California State University campuses pursuant to California Education Code § 67380(a)(5). The statute requires the California State University to report annually the number of reported incidents of criminal and non-criminal hate violence. Each campus must make the annual report available to the public and publish it on the campus website.

During the 2022 calendar year, there were thirteen reported hate crimes and six reported acts of hate violence.

Background

The CSU supports a safe educational and working environment that includes compliance with safety laws and regulations including the Jeanne Clery Disclosure of Campus Security and Crime Statistics Act (Clery Act) (20 U.S.C. § 1092(f)) and the federal Violence Against Women

Reauthorization Act of 2013 that amends the Clery Act under the Campus Sexual Violence Elimination Act provision (Campus SaVE Act). State laws and regulations include the Higher Education Act (California Education Code § 67380 *et seq.* and § 67390 *et seq.*).

Hate Incidents Reported for Calendar Year 2022

For the year ending December 31, 2022, thirteen reported hate crimes and six reports of noncriminal hate violence will be published on the California State University and 23 university web pages as required by California Education Code §67380(a)(5). The table below includes the number of hate incidents reported over the past five years.

Reported Hate Incidents on CSU Universities

<u>Year Ending</u> <u>December 31</u>	<u>Hate Crimes</u>	<u>Hate Violence</u>
2018	10	1
2019	5	4
2020	0	1
2021	7	0
2022	13	6

Reporting

These reports are collected from law enforcement and from Campus Security Authorities, as defined by Section 34 CFR 668.46. Campus Security Authorities are identified by each campus based on their roles and are provided with information about their responsibilities and mechanisms for reporting.

Actions to Prevent and Respond to Hate Incidents

Multiple divisions and departments on each of the 23 CSU universities work to reduce the incidence and prevalence of hate crimes and violence. The CSU will continue to sustain and expand efforts to prevent hate crimes and hate violence and respond with care and compassion when incidents occur focusing on three specific approaches: education and training, support, and communication.

Education and Training

Discrimination, Harassment and Retaliation Administrators and Title IX Coordinators and their respective teams provide training and outreach to promote equity and inclusion and ensure compliance with the CSU nondiscrimination policy, and Title IX regulations that prohibit sex and gender-based discrimination, harassment, retaliation, and violence. Residential life and housing operations also provide educational programming designed to combat discrimination, harassment, and retaliation, and promote welcoming communities. Many universities also provided bystander education to help prevent hate violence incidents and crimes.

Support

University multicultural and identity-based student centers, as well as offices of student life and of civic engagement, provide ongoing support for students.

Counseling and Psychological Services staff, Chief Diversity Officers, Dean of Students Office representatives, and members of campus-based critical incident response teams coordinate responses to reported hate violence incidents and promote healing, sense-making, and reconciliation after a reported incident has occurred and throughout investigation.

University police departments are often the first responders when an alleged hate crime is reported, and university police officers are committed to ensuring a safe and hate crime-free campus environment through student-focused and community-based policies, practices, and approaches. Each of the 23 University Police Departments publishes a policy on Hate Crimes that is designed to assist in identifying and handling crimes motivated by hate or other bias toward individuals and groups with legally defined protected characteristics, to define appropriate steps for assisting victims, and to provide a guide to conducting related investigations.

Communication

CSU employees are keenly aware that even the perception that a hate crime has taken place can have a significant detrimental impact on the campus community, and respond with care, compassion, and concern whenever an incident is reported. Most often, universities face violent and discriminatory acts against LGBTQ+ individuals and communities, incidents of anti-black violence, overt racism against Asian Americans/Pacific Islanders and Latinx individuals, and unfair targeting of individuals who are immigrants and/or undocumented. Recent attacks in Israel and the escalating violence in Israel and the Gaza Strip have also resulted in disturbing violent confrontations on universities both in the CSU and nationally.

When hate violence incidents do occur, CSU universities implement immediate strategic communication efforts guided by the university presidents to enhance awareness, highlight support services that are available, and strengthen the university community.

Reporting Definitions

California Penal Code §422.55 defines a hate crime as “*a criminal act committed, in whole or in part, because of one or more of the following actual or perceived characteristics of the victim:*

- (1) Disability.*
- (2) Gender.*
- (3) Nationality.*
- (4) Race or ethnicity.*
- (5) Religion.*
- (6) Sexual orientation.*
- (7) Association with a person or group with one or more of these actual or perceived characteristics.*

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Hate violence for reporting purposes is defined in California Education Code § 67380(c)(1) as *“any act of physical intimidation or physical harassment, physical force or physical violence, or the threat of physical force or physical violence, that is directed against any person or group of persons, or the property of any person or group of persons because of the ethnicity, race, national origin, religion, sex, sexual orientation, gender identity, gender expression, disability, or political or religious beliefs of that person or group.”*