

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:00 a.m., Tuesday, May 15, 2018
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
John Nilon, Vice Chair
Jane W. Carney
Adam Day
Hugo N. Morales
Jorge Reyes Salinas
Lateefah Simon

- Consent**
1. Approval of Minutes of the Meeting of March 20, 2018, *Action*
 2. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Dominguez Hills and California State University, Los Angeles, *Action*
 3. Establishing a Tuition Rate for Doctor of Audiology Programs, *Action*
- Discussion**
4. Implementation of Investment Authority for the California State University, *Information*
 5. 2018-2019 Operating Budget Update, *Information*

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

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

March 20, 2018

Members Present

Peter J. Taylor, Chair
John Nilon, Vice Chair
Jane W. Carney
Adam Day
Hugo N. Morales
Jorge Reyes Salinas
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter J. Taylor called the meeting to order.

Public Comment

Representatives of Students for Quality Education spoke against a tuition increase and commented on the effect that an increase would have on students. They also encouraged the Board of Trustees to join them in Sacramento on April 4 to secure funding for the California State University. Father William Connor of Long Beach shared his support for affordable higher education and urged the Board of Trustees to seek the additional funding needed from the state, instead of from students. Representatives of the California Faculty Association commented on tuition and student fees, food insecurity, and also invited the trustees to attend the April 4 advocacy event at the capitol. Other speaker comments included the need for student, faculty, administration, and trustees to work together in advocating for full funding from the state and for the state to commit to re-investing in affordable higher education as a priority.

Approval of Minutes

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The minutes of the January 30, 2018 meeting were approved as submitted.

Doctor of Audiology Tuition Rate

The new Doctor of Audiology program and its proposed tuition rate were presented as information. The proposed rate is \$7,371 per term, which is a total of \$81,081 for the four-year program. Approval will be requested at the May Board of Trustees meeting.

Following the presentation, trustees had clarifying questions about the costs of delivering the program, funding, and financial aid. They also asked about demand for the program and what CSU campuses plan to offer the program.

Status of the Sustainable Financial Model Task Force Report Recommendations

A status report of the Sustainable Financial Model task force report recommendations was provided.

Following the presentation trustees commented on the need for structural change in funding for the CSU, increasing summer term instruction across the system, and maximizing cross collaboration with the University of California and California Community Colleges to help advance recommendations. Trustee John Nilon requested an item, at the next Board of Trustees meeting, outlining the options available to the trustees to establish a structural model for sustainable funding for the CSU.

2018-2019 Operating Budget Update and Consideration of Expenditure and Revenue Options

Information about the 2018-2019 operating budget, Graduation Initiative use of funds, and options for narrowing the budget gap were presented.

Following the presentation trustees asked questions relating to how the Sustainable Financial Model task force recommendations are helping the CSU budget picture, how the money for Graduation Initiative was used, and possible effects of making changes to enrollment. They also inquired about State University Grant funding and the CSU Graduation Initiative 2025 Progress report. They offered some alternatives and requested additional options for addressing the funding gap.

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Dominguez Hills and California State University, Los Angeles

Presentation By

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. This includes 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 \$283,345,000 to provide financing for two campus projects:

- 1. California State University, Dominguez Hills Student Housing Phase 3**
- 2. California State University, Los Angeles Student Housing East**

The Board of Trustees is being asked to approve the resolutions related to these financings.

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.

1. California State University, Dominguez Hills, Student Housing Phase 3

The California State University, Dominguez Hills, Phase 3¹ project was presented to the Board of Trustees for approval in the 2017-18 Capital Outlay Program and for schematics in March 2018. The project, a 93,700 gross square foot dormitory-style residential hall will provide approximately 505 beds for students and 11 beds for live-in resident advisors. The residential portion of the facility will consist of two four-story residence hall buildings, with shared lounge space and stairways in the center. A smaller one-story commons building will include the front desk, administrative office space, a small convenience store (500 square feet), laundry facilities, and an event space that will open out to a sheltered courtyard.

The not-to-exceed par amount of the proposed bonds is \$57,650,000, based on a total budget of \$55,867,000 with a program reserve contribution of \$2.5 million and a \$2.7 million internal loan from the Affordable Student Housing Revolving Fund (ASHRF) loan program. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$6,983,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in September 2018 with completion expected in May 2020.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$57,650,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$3,822,623
Projected debt service coverage including the new project: Net revenue – All campus pledged revenue programs: ^{2, 3}	1.83
Net revenue – Campus housing program:	1.17

1. The project was originally included in the 2017-2018 Capital Outlay Program and other documentation as “Student Housing, Phase 1”. The phase number was changed to acknowledge existing campus housing buildings that are recognized as Phases 1 and 2.
2. Combines 2016-2017 information for all campus pledged revenue programs with 2021-2022 projections for the project.
3. Projected maximum annual debt service coverage ratios include estimated debt service of \$86,562 per year on the \$2.7 million loan the ASHRF.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.29 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 1.17 in fiscal year 2021-2022, the first full year of operations, which meets the CSU benchmark of 1.10 for the program. Combining the project projections for 2021-2022 with 2016-2017 actuals for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 1.83 which exceeds the CSU benchmark of 1.35.

2. California State University, Los Angeles Student Housing East

The California State University, Los Angeles Student Housing East (SHE) project is being presented to the Board of Trustees for approval of the amendment of the Capital Outlay program and schematics at the May 2018 meeting of the Committee on Campus Planning, Buildings and Grounds. The project includes construction of a new student housing facility containing 1,500 traditional double and triple occupancy residence units for freshman and sophomore housing. The project will also include a dining hall, gathering spaces, including study, fitness, lounge, and wellness; learning spaces, including community and multi-purpose rooms; living support spaces; and administrative spaces. The project site, currently parking lot 7, is located in the northeastern portion of campus.

The project, with 372,000 gross square feet, will include two eight-story towers and one seven-story residence hall tower arranged around an open central park space. The project includes an accessible promenade that bridges a 100-foot elevation change, combining an elevator and ramp structure connecting the site with upper campus.

A new 22,000 gross square foot dining facility primarily supporting SHE residents, will also be open to the rest of campus. The location of the dining facility on the northwestern side of the project will reinforce the connection between the existing housing to the north and this project. The dining facility will contain a general kitchen, food preparation space, and seating for 450 people. The project received support from the Housing Proposal Review Committee in April 2018.

The not-to-exceed par amount of the proposed bonds is \$225,695,000, based on a total budget of \$202,472,000 with a contribution of \$5.0 million from housing reserves. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$28,223,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in December 2018 with completion expected in March 2021.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$225,695,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$14,903,789
Projected debt service coverage including the new project:	
Net revenue – All campus pledged revenue programs: ¹	1.24
Net revenue –Campus housing program:	1.11

1. Combines 2016-2017 information for all campus pledged revenue programs with 2021-2022 projections for the project.

The not-to-exceed amount for the project, the maximum annual debt service, and the financial ratios above are based on an all-in interest cost of 5.32 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 1.11 in fiscal year 2021-2022, the first full year of operations, which is above the CSU benchmark of 1.10 for the program. Combining the project projections for 2021-2022 with 2016-2017 actuals for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 1.24, which is below the CSU benchmark of 1.35. However, the financial plan projects that the campus will exceed the benchmark within three years, with the campus debt service coverage ratio continuing to improve thereafter.

Trustee Resolutions and Recommendation

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

1. Authorize the sale and issuance of 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 \$283,345,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.
3. Incorporate by reference the Standing Orders of the Board as adopted on March 21, 2018 authorizing the Chancellor “to 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 for projects approved by the chancellor under delegated authority” for, among other things, projects with a value up to \$40 million and all new parking structures, regardless of cost, as the same may be amended from time to time.

Approval of the financing resolutions for these projects as described in this Agenda Item 2 of the Committee on Finance at the May 15-16, 2018, meeting of the CSU Board of Trustees is recommended for:

California State University, Dominguez Hills, Student Housing Phase 3

California State University, Los Angeles Student Housing East

COMMITTEE ON FINANCE

Establishing a Tuition Rate for Doctor of Audiology Programs

Presentation By

Ryan Storm
Assistant Vice Chancellor for Budget

Summary

This item recommends adoption of a California State University (CSU) Doctor of Audiology (AuD) tuition rate by the California State University Board of Trustees. The new tuition rate is recommended to implement the provisions of Assembly Bill (AB) 2317 (Chapter 267 of the Statutes of 2016), which authorized the CSU to offer AuD degree programs independent from partnerships with other institutions.

Background

Pursuant to Education Code § 89700, the CSU Board of Trustees has the authority to establish, adjust, and abolish systemwide tuition and fees. This agenda item recommends adoption of a tuition rate for new AuD programs that the chancellor may approve in response to recent authorizing legislation. AB 2317, which established Education Code § 66041, expanded the degree-granting authority of the CSU to include AuD degree programs. Prior to the passage of this legislation, the CSU could only offer AuD programs in joint partnership with the University of California (UC) or with California's private institutions of higher education. CSU AuD programs will focus on the preparation of audiologists to diagnose, manage, and treat a patient's hearing, balance, or ear problems.

The U.S. Bureau of Labor Statistics (BLS) forecasts that audiologists will be in high demand, with employment opportunities between 2016 and 2026 growing much faster than the average for all jobs nationally. Advancements in diagnosis and treatment for patients across their lifespan, routine neonatal hearing screening, early identification and diagnosis of hearing disorders, as well as advances in more appealing and effective hearing aid design may lead to a greater need and demand for audiologists. Audiologists work in healthcare facilities such as physicians' offices, audiology clinics, and hospitals, schools, and health and personal care stores. A 2016 BLS report cites an average mean salary of \$94,760 for audiologists practicing in California, one of the 10 highest audiology-wage states in the country.

There are currently only two AuD programs offered in California: the joint San Diego State University (SDSU) and University of California, San Diego (UCSD) program and one offered by University of the Pacific. Per Education Code § 66041.1(c), the CSU may charge AuD tuition no higher than the rate charged for students in state-supported UC AuD programs, including the joint SDSU-UCSD AuD program. The San Diego joint doctoral program is a four-year program with an estimated cost of \$81,082 for students who entered in fall 2017. The AuD program offered at University of the Pacific is a three-year program with a cost of \$123,390.

Education Code § 66041.1 stipulates that the CSU shall provide any startup and operation funding needed for AuD programs from within existing budgets and without diminishing the quality of program support offered to CSU undergraduate programs. State law further requires that enrollment in these programs shall not diminish enrollment growth in undergraduate CSU programs, and that funding of the programs shall not result in reduced undergraduate enrollments. As noted during the the March 2018 trustees' meeting, it is anticipated that campus staff and leadership efforts to initially develop these programs will be short in duration and absorbed within existing duties.

The proposed state-support AuD tuition rate supports specialized faculty and resources, curriculum development and delivery, doctoral advising and mentoring, program administration, facilities, equipment, library resources, and a small student-to-faculty ratio required in doctoral programs. Tuition also supports provisions to carry out professional mandates, national professional accreditation, and the creation of required "doctoral culture," typified by academic rigor, intellectual exchange, and a research-and-scholarship environment appropriate to a doctoral-granting institution.

Based on program-cost analysis conducted in consultation among the Chancellor's Office and CSU AuD campuses, the CSU Doctor of Audiology tuition rate for 2018-2019 is recommended to be assessed at \$7,371 per term for the four-year, 11-term program, or \$14,742 per academic year. Tuition for the summer term will be the same as for a fall or spring term. At that scheduled rate, the total tuition price for the four-year AuD program would be \$81,081. Spring 2019 is the earliest term by which an approved AuD program could begin instruction.

Conclusion

The tuition recommendation includes the following:

1. The tuition rate will be established as the CSU Doctor of Audiology Tuition for students enrolled in CSU AuD degree programs.
2. Students enrolled in AuD degree programs shall be subject to campus-based mandatory fees.
3. Students will be assessed the AuD tuition rate each term, irrespective of the units taken.

4. Any future proposals to adjust the CSU Doctor of Audiology tuition rate will be based on program costs and/or price changes for the joint SDSU-UCSD AuD program.
5. AuD degree programs are full-time study programs, planned for postbaccalaureate students who are not yet qualified to begin careers as audiologists. The proposed AuD tuition will fund program costs while keeping CSU doctoral programs in audiology as affordable as possible.

Recommendation

The following resolution is presented for approval:

RESOLVED, By the Board of Trustees of the California State University, that the CSU Doctor of Audiology Tuition is hereby established; and, be it further

RESOLVED, That the tuition rate approved for the 2018-2019 academic year and Summer 2019 shall be \$7,371 per semester campus term. Students will be assessed the Doctor of Audiology tuition rate of \$7,371 each term, irrespective of the number of units taken. Students enrolled in audiology degree programs also shall be subject to campus-based mandatory fees; and, be it further

RESOLVED, That recommended adjustments in the CSU Doctor of Audiology Tuition will be based on cost and/or price changes of the programs, and be it further

RESOLVED, That the chancellor is delegated authority to further adopt, amend, or repeal the CSU Doctor of Audiology Tuition rate if such action is required by state statute and/or the state budget act, and that such changes made by the chancellor are communicated promptly to the trustees.

COMMITTEE ON FINANCE

Implementation of Investment Authority for the California 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 provides an update on the implementation of the California State University's investment authority and the launch of the CSU Total Return Portfolio (TRP). The initial TRP investment of \$33.5 million was made on March 29, 2018.

Background

Most CSU funds are currently invested through the CSU Liquidity Portfolio (Systemwide Investment Fund-Trust – SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. All CSU funds under investment, including cash and securities, are held by US Bank, the custodian bank for CSU investments. For investment management purposes, the Liquidity Portfolio (SWIFT) is divided equally between two investment management firms, US Bancorp Asset Management and Wells Capital Management. Neither state general fund nor CSU auxiliary funds are included in CSU investments.

The California 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.

On January 1, 2017, legislation became effective granting the CSU new investment authority. To begin implementation of the investment authority, the Board of Trustees established the CSU Investment Advisory Committee (IAC) at its September 2017 meeting. The basic charge of the IAC is to oversee the CSU Total Return Portfolio (TRP) which is the portfolio of CSU investments being developed under the investment authority. With respect to the TRP, the IAC develops, periodically reviews, and amends as needed, specific policies for the TRP consistent with

established investment policy of the board and state law; reviews and recommends the retention or replacement of investment managers; monitors portfolio asset allocations; reviews rebalancing activities; and monitors performance to stated objectives. All actions of the IAC are in the form of recommendations to the Board of Trustees for approval or to staff for implementation under delegated authority.

At its November 2017 meeting, the Board of Trustees approved the new Master Investment Policy for the California State University (MIP), which updated and enhanced then-existing investment policy to effectively and prudently implement the investment authority and related investment goals of the CSU. The MIP provides a framework for the investment of CSU funds and establishes three investment portfolios. The three portfolios allow the CSU to segment portfolio funds necessary to be maintained in short-term investments for liquidity purposes from those available to invest over a longer time horizon in an effort to generate increased investment earnings over time and assist in the funding of CSU operating and capital needs. The portfolios are as follows:

Liquidity Portfolio (Systemwide Investment Fund—Trust or SWIFT)

Intermediate Duration Portfolio (IDP)

Total Return Portfolio (TRP)

Implementation of Investment Authority

Since late 2017, the IAC and staff have completed a significant amount of work in creating the TRP.

Investment Advisor

In December of 2017, an RFP process was conducted to select an investment advisory firm. Several members of the IAC served as members of the panel that interviewed finalists, and after careful consideration of the finalists, Meketa Investment Group was selected as the CSU's Investment Advisor. Meketa was founded in 1978 and works with 160 clients, advising on \$590 billion in assets. Meketa provides non-discretionary, independent investment advice to the IAC and staff with respect to investment policy, asset allocation, manager evaluation and selection, and performance reporting and analysis. Meketa also serves as a co-fiduciary on the TRP.

IAC Charter

In January of 2018, the IAC approved the California State University Investment Advisory Committee Charter (IAC Charter). The IAC Charter establishes and documents, for the benefit of the IAC and its members, the structure, functions, authority, duties, standards of care and guidelines for the operation of the IAC.

TRP Investment Beliefs Statement

In March of 2018, the IAC approved an Investment Beliefs statement, which summarizes the guiding principles that the members have all agreed upon for the TRP and serves as a reference in guiding the IAC to assist with decisions.

TRP Investment Policy

Also, in March of 2018, the IAC approved the TRP Investment Policy, which 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
- Spending Policy
- Time and Investment Horizon
- Risk Tolerance
- Expected Return
- Asset Allocation
- Benchmarks
- Investment Manager Selection
- Roles & Responsibilities
- Environmental, Social and Governance (ESG) Framework
- Risk Management
- Monitoring & Control Procedures

TRP Implementation Plan and Investment Manager Searches

The TRP implementation plan includes investment manager searches, evaluations and approved investment managers for each asset class in the TRP asset allocation. A complete roster of investment managers has been selected.

TRP Investment Schedule

The TRP investment schedule follows a dollar-cost averaging approach and provides regular monthly contributions to the TRP, with the goal of reaching the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. After June 30, 2019, the investment schedule will be re-assessed by the IAC and staff, as the TRP can be increased to as much as 30 percent of total CSU investments at that time. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Initial TRP Investment

The initial TRP investment of \$33.5 million was made on March 29, 2018. The purpose of the initial investment was to ensure transactions execution, asset allocation monitoring, performance reporting, custodial issues, and systemwide financial reporting requirements are all functioning properly prior to launching the full TRP portfolio at the end of June 2018. Thus far, everything is functioning very well.

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New Reporting Requirements

The legislation granting the investment authority requires quarterly investment reports to the Board of Trustees and an annual report to the legislature. The first investment report will be presented to the Board of Trustees November 2018 meeting and will be the annual report for the year ending June 30, 2019. The annual report to the board will also be in the form of an Action item approving the report to be sent to the legislature consistent with state law. Quarterly investment reports to the board will follow thereafter.

COMMITTEE ON FINANCE

2018-2019 Operating Budget Update

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The purpose for this item and subsequent presentation is to provide the California State University Board of Trustees with the latest developments by the state and the CSU on the trustees' budget request for 2018-2019.

Informational budget hearings were held in Sacramento by the senate and assembly, from February through the first week in May. The topics discussed were the operating budget request, Graduation Initiative 2025, admissions policies, enrollment, impaction, developmental education policies, faculty diversity, student housing and food insecurity, financial aid, and infrastructure. To date, no CSU-related action has been taken by either house. Additional information will be shared at the May 2018 meeting. The assembly and senate, respectively, typically take action on their budget plan in late May.

It is anticipated that the governor will release the May Revision on May 14. The May Revision reflects changes to the governor's January proposed budget for 2018-2019 based upon the latest economic forecasts and, consequently, could include revisions to state budget expenditure priorities, including the CSU. The May Revision will be released several days after this item is posted. Therefore, information on the May Revision will be shared at the May 2018 meeting.

Final state budget decisions by the governor, assembly, and senate typically occur in the first two weeks of June of each year.