AGENDA

COMMITTEE ON FINANCE

Meeting: **3:15 p.m., Tuesday, November 13, 2018**
Glenn S. Dumke Auditorium

John Nilon, Chair
Peter J. Taylor, Vice Chair
Jane W. Carney
Douglas Faigin
Emily Hinton
Jack McGrory
Hugo N. Morales
Lateefah Simon
Christopher Steinhauser

Consent

1. Approval of Minutes of the Meeting of September 11, 2018, *Action*
2. 2018-2019 Student Fee Report, *Information*
3. 2017 Systemwide Hate Violence Report, *Information*

Discussion

4. California State University Annual Investment Report, *Information*
5. Approval of the 2019-2020 Operating Budget Request, *Action*

MINUTES OF THE MEETING OF THE COMMITTEE ON FINANCE

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

September 11, 2018

Members Present

John Nilon, Chair
Peter J. Taylor, Vice Chair
Jane W. Carney
Douglas Faigin
Emily Hinton
Jack McGrory
Hugo N. Morales
Lateefah Simon
Christopher Steinhauser
Adam Day, Chair of the Board
Timothy P. White, Chancellor

Trustee John Nilon called the meeting to order.

Public Comment

Public speakers made comments related to consultant and executive pay. They also expressed the need to continue advocating for additional funding and to re-evaluate some of the local programs being funded.

Approval of Minutes

The minutes of the July 24, 2018 meeting of the Committee on Finance were approved as submitted.

Planning for the 2019-2020 Operating Budget

An overview of the CSU's total budget was shared. It is made up of the operating fund, enterprise and capital, and federal and state student aid. Nearly half of the funds are designated and cannot be re-directed for other expenses.

The preliminary 2019-2020 CSU Budget Plan was presented for trustee feedback. The proposal includes funding requests for Graduation Initiative 2025, enrollment growth, facilities, employee salaries, and mandatory costs. Additional one-time funding requests were also shared for consideration. In order to increase predictability and help with planning, the possibility of a multi-year budget plan and its potential benefits was introduced.

Following the presentation, the trustees asked questions about how to better address basic student needs, including possibly increasing the amount being requested. Trustee Romey Sabalius opined that, given the state's positive economic outlook, the request for facilities deferred maintenance should be much higher in order to make significant progress on backlog. Trustee Jack McGrory suggested a general obligation bond. Several trustees expressed support for a sustainable multi-year funding plan.

Feedback received on the preliminary plan will be used to craft the final plan that will be presented to the Board of Trustees in November 2018. Staff will continue to work on the draft multi-year plan and return to the Board at a future meeting for further discussion.

Trustee Nilon adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

2018-2019 Student Fee Report

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

As required by California State University Fee Policy, this information item presents the California State University Board of Trustees with the 2018-2019 annual campus fee report. The report provides total average tuition and mandatory fees for the CSU system, and the range of mandatory fees charged by campus.

2018-2019 CSU Student Fee Report

Total tuition and average systemwide campus-based mandatory fees increased between 2017-2018 and 2018-2019 by an average of $85 per student. When compared to peer institutions, a CSU education remains affordable. Those already low rates, coupled with the many institutional financial aid programs offered at the CSU, continue to make CSU an affordable option for students from all socio-economic backgrounds. Overall:

- Nearly 81 percent (380,000+) of all CSU students received nearly $4.3 billion in total financial assistance.
- 63 percent of all students have their tuition fully covered by grants or waivers.
- 54 percent of CSU baccalaureate recipients graduated with zero education loan debt.
- Of the 46 percent who graduated with debt, the average loan debt of $17,367 is lower than the California average of $22,785 and well below the national average of $28,650.

Pursuant to applicable provisions of state law, the Board of Trustees has authority over California State University tuition and fees. The trustees established the California State University Student Fee Policy in August 1996, which was a consolidation of state fee statute and Board of Trustee fee policy decisions.

Specific to this report, campus-based mandatory fees (Category II) are charged to all students who enroll at a particular CSU campus. The current fee policy, Executive Order 1102, addresses campus-based mandatory fees specifically; it delegates authority to the chancellor to establish these fees and further delegates to each campus president the authority to increase, decrease or abolish this type of fees. Also, each campus president is responsible for assuring that appropriate

and meaningful consultation occurs prior to adjusting any campus-based mandatory fee and prior to requesting that the chancellor establish a new mandatory fee. Appropriate and meaningful consultation occurs prior to adjusting an existing fee or requesting the establishment of a new fee and includes consultation with the campus fee advisory committee (note: a majority of committee members are students), the campus faculty senate, the campus student body association and other constituencies affected by any proposed change. A student referendum is encouraged by the fee policy in order to measure student support but alternative forms of consultation may be used by the president if the president determines that a referendum is not the best mechanism to achieve appropriate and meaningful consultation.

2018-2019 CSU Comparison Institution Tuition and Fees

The tables that follow outline the systemwide average tuition plus average campus-based mandatory fees at the CSU compared with other public institutions' tuition and mandatory fees.

The total of the CSU's *resident undergraduate* tuition and average campus-based fees is lower than those of the fifteen comparison institutions identified by the California Postsecondary Education Commission. The 2018-2019 comparison institution tuition and fee average is $11,569, and the CSU tuition and fee average is $7,303, or 37 percent below the comparison average. The following table lists the 2017-2018 tuition and average campus-based mandatory fee rates with a comparison to 2018-2019 rates:

2018-2019 Comparison Institution Academic Year Undergraduate Resident Tuition and Fees			
Campus	**2017-2018**	**2018-2019**	**Increase**
University of Connecticut (Storrs, CT)	$14,880	$15,730	$850
Rutgers University (New Brunswick, NJ)	14,638	14,974	337
Illinois State University (Normal, IL)	14,061	14,516	456
Wayne State University (Detroit, MI)	13,864	14,266	402
George Mason University (Fairfax, VA)	11,924	12,462	538
University of Maryland, Baltimore County	11,518	11,778	260
Comparison Average	**$11,233**	**$11,569**	**$336**
University of Colorado at Denver	11,258	11,395	137
Georgia State University at Atlanta	10,858	10,858	0
Arizona State University at Tempe	10,792	10,822	30
Cleveland State University	9,636	10,387	751
University of Texas at Arlington	9,538	10,082	544
State University of New York at Albany	9,550	9,816	266
University of Wisconsin at Milwaukee	9,565	9,588	23
North Carolina State University	9,058	9,101	43
University of Nevada at Reno	7,359	7,764	405
California State University	**$7,218**	**$7,303**	**$85**

The CSU has the lowest *resident graduate* tuition and fee rates among the 15 comparison institutions. The 2018-2019 comparison institution tuition and fee average is $13,800, and the CSU tuition and fee average is $8,737, or 37 percent below the comparison average. The following table compares the 2017-2018 tuition and fee rates with the 2018-2019 rates:

2018-2019 Comparison Institution Academic Year Graduate Resident Tuition and Fees			
Campus	**2017-2018**	**2018-2019**	**Increase**
Rutgers University (New Brunswick, NJ)	$18,984	$19,416	$432
University of Maryland, Baltimore County	18,072	18,624	552
Wayne State University (Detroit, MI)	17,163	17,661	498
University of Connecticut (Storrs, CT)	16,810	17,660	850
George Mason University (Fairfax, VA)	14,547	15,139	592
Cleveland State University	13,816	14,182	365
Comparison Average	**$13,399**	**$13,800**	**$401**
State University of New York at Albany	12,792	13,058	266
Illinois State University (Normal, IL)	11,798	12,185	387
Arizona State University at Tempe	11,938	12,134	196
University of Wisconsin at Milwaukee	11,861	11,884	23
University of Texas at Arlington	10,968	11,660	692
North Carolina State University	11,027	11,495	468
Georgia State University at Atlanta	11,488	11,488	0
University of Colorado at Denver	10,283	10,315	31
University of Nevada at Reno	9,444	10,107	664
California State University	**$8,652**	**$8,737**	**$85**

CSU has the second lowest *non-resident undergraduate* tuition and average campus-based mandatory fees of the CSU's public peer comparison institutions. CSU non-resident undergraduate tuition (which includes the systemwide tuition charge) and fees is $19,183 per academic year in 2018-2019. This is approximately 31 percent below the comparison average rate of $27,863.

2018-2019 Comparison Institution Academic Year Undergraduate Non-Resident Tuition and Fees			
Campus	**2017-2018**	**2018-2019**	**Increase**
University of Connecticut (Storrs, CT)	$36,948	$38,098	$1,150
George Mason University (Fairfax, VA)	34,370	35,922	1,552
University of Colorado at Denver	31,448	32,005	557
Rutgers University (New Brunswick, NJ)	30,579	31,282	704
Wayne State University (Detroit, MI)	30,094	30,880	786
Georgia State University at Atlanta	29,432	29,432	0
North Carolina State University	27,406	28,444	1,038
Arizona State University at Tempe	27,372	28,336	964
Comparison Average	**$26,915**	**$27,863**	**$948**
University of Maryland, Baltimore County	25,654	26,872	1,218
State University of New York at Albany	24,430	26,656	2,226
University of Texas at Arlington	24,738	26,120	1,382
Illinois State University (Normal, IL)	25,168	26,040	872
University of Nevada at Reno	21,551	22,236	685
University of Wisconsin at Milwaukee	20,845	20,867	23
California State University	**$19,098**	**$19,183**	**$85**
Cleveland State University	13,687	14,754	1,067

Campus-Based Mandatory Fees

Campus-based mandatory fees (Category II) are charged to all students who enroll at a particular CSU campus. In addition, campuses charge miscellaneous course fees (Category III) for some courses to provide materials or experiences that enhance basic course offerings. Campuses also charge fees for self-support programs (Category V), such as parking, housing, and student unions. As required by the CSU Fee Policy, this annual report focuses primarily on campus-based mandatory fees.

The table on the following page displays the 2018-2019 academic year campus-based mandatory fee rates by campus and by fee category.

2018-2019 Category II Campus-Based Mandatory Fee Rates								
	Health Facilities	Health Services	Instructionally Related Activities	Materials Services & Facilities	Student Success	Student Association	Student Center	**Total Campus-Based Mandatory Fees**
Bakersfield	$6	$317	$183	$62	$0	$397	$602	**$1,567**
Channel Islands	6	190	260	145	0	150	324	**1,075**
Chico	6	474	286	150	0	136	814	**1,866**
Dominguez Hills	6	150	10	5	560	135	334	**1,200**
East Bay	6	375	129	2	240	129	360	**1,241**
Fresno	6	226	264	46	0	69	234	**845**
Fullerton	6	168	76	74	382	156	282	**1,144**
Humboldt	36	576	674	345	0	117	185	**1,933**
Long Beach	10	150	50	10	346	124	366	**1,056**
Los Angeles	6	265	126	5	276	54	275	**1,007**
Cal Maritime	14	680	130	280	0	210	0	**1,314**
Monterey Bay	0	186	254	165	0	96	700	**1,401**
Northridge	6	120	30	5	232	192	566	**1,151**
Pomona	6	255	40	0	424	120	766	**1,611**
Sacramento	46	244	384	0	0	138	756	**1,568**
San Bernardino	27	261	162	15	180	123	412	**1,180**
San Diego	50	300	388	50	414	70	474	**1,746**
San Francisco	6	314	236	690	0	108	164	**1,518**
San Jose	68	364	0	32	654	192	744	**2,054**
San Luis Obispo	10	612	321	1,210	854	332	735	**4,074**
San Marcos	40	322	80	249	500	150	630	**1,971**
Sonoma	38	414	500	38	0	248	818	**2,056**
Stanislaus	22	400	326	284	0	130	168	**1,330**

The following table compares total campus-based mandatory fees by campus for the 2017-2018 and 2018-2019 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by $85 (5.8 percent). Increases in these fees occurred for various reasons. Some campuses have authorized annual incremental increases for certain fees that keep pace with inflation such as the California Consumer Price Index or Higher Education Price Index. A student success fee increase approved when the fee was originally authorized accounted for the increase at Dominguez Hills. Chico, East Bay, Humboldt, Los Angeles and San Luis Obispo increased health services fees to better fund rising health costs and provide increased services to students. Bakersfield, Monterey Bay and Sacramento increased student center fees to expand student unions and related activities.

Comparison: 2017-2018 and 2018-2019
Category II Campus-Based Mandatory Fee Rate
Totals by Campus

Campus	2017-2018	2018-2019	Increase
Bakersfield	$1,405	$1,567	$162
Channel Islands	1,075	1,075	0
Chico	1,606	1,866	260
Dominguez Hills	1,095	1,200	105
East Bay	1,092	1,241	149
Fresno	843	845	2
Fullerton	1,108	1,144	36
Humboldt	1,751	1,933	182
Long Beach	988	1,056	68
Los Angeles	897	1,007	110
Cal Maritime	1,314	1,314	0
Monterey Bay	1,301	1,401	100
Northridge	1,133	1,151	18
Pomona	1,597	1,611	14
Sacramento	1,462	1,568	106
San Bernardino	1,143	1,180	37
San Diego	1,718	1,746	28
San Francisco	1,512	1,518	6
San Jose	1,979	2,054	75
San Luis Obispo	3,691	4,074	383
San Marcos	1,965	1,971	6
Sonoma	1,982	2,056	74
Stanislaus	1,296	1,330	34
Average	**$1,476**	**$1,561**	**$85**

COMMITTEE ON FINANCE

2017 Systemwide Hate Violence Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Summary

This item provides an annual report of hate violence on campuses pursuant to Education Code §67380(a) (5). The statute requires that the number of arrests for, and reported incidents of, hate violence be reported to the CSU Board of Trustees, who "shall … make a report containing a compilation of that information available to the general public on the Internet Web site of each respective institution."

In the 2017 calendar year there were a total of four reported incidents of hate violence on four campuses. Two of these incidents constituted a non-criminal act of hate violence.

Background

The CSU seeks to maintain a safe educational and working environment, which includes compliance with safety laws and regulations. These include the federal Jeanne Clery Disclosure of Campus Security and Crime Statistics Act (Clery Act) (20 U.S.C. 1092(f)) and the Violence Against Women Reauthorization Act of 2013, which amends the Clery Act under the Campus Sexual Violence Elimination Act provision (Campus SaVE Act). State laws and regulations include the Higher Education Act (Education Code §§ 67380 *et seq.* and 67390 *et seq*.).

Hate crime is defined in Penal Code §422.55. Hate violence for reporting purposes is defined in 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*."

Conclusion

For the year ending December 31, 2017, four reported incidents of hate violence (two hate crimes and two incidents of non-criminal acts of hate violence) will be reported on the Cal State and 23 campus web pages, in accordance with Education Code §67380(a)(5).

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

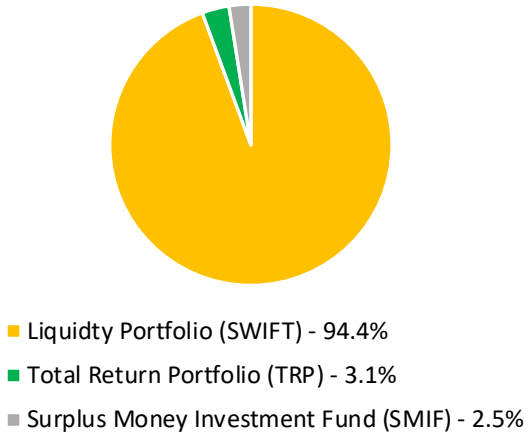
This item provides the annual investment report to the California State University Board of Trustees for the fiscal year ended June 30, 2018. The information in Attachment A will serve as the basis for an annual report to the California State Legislature and Department of Finance regarding CSU investments as required by Education Code 89726

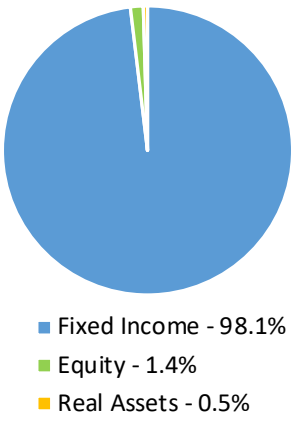
Background

Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of June 30, 2018 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), 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 $710 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, 2018

	Balance	% of CSU Investments	Twelve Month Returns
Liquidity Portfolio (SWIFT)	$3.83 billion	94.4%	0.85%
Total Return Portfolio (TRP)	$126 million	3.1%	3.01%[1]
Surplus Money Investment Fund (SMIF)	$101 million	2.5%	1.30%
CSU Investments	**$4.06 billion**	**100%**	





CSU Investment Portfolios

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

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

The Liquidity Portfolio is managed through contracts with two investment management firms, US Bancorp Asset Management and Wells Capital Management, each of whom provides investment management services for the program. Funds invested in the Liquidity 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.

[1] Initial investment in the TRP was made on April 1, 2018, thus return information for the TRP is only for the three months ended June 30, 2018.

CSU Total Return Portfolio (TRP)

By legislation effective January 1, 2017, the CSU investment authority was expanded 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 options.

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 is to be phased in at no more than $400 million as of June 2018, $600 million as of June 2019, and thirty percent of eligible investments thereafter. 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
- 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

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, 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 CSU investments at that time. The investment schedule may also be adjusted by the IAC at any time depending on market conditions. Consistent with state law and 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.

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.

New Reporting Requirements

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. Investment information in Attachment A will serve as the basis for the annual report to be sent to the California State Legislature and Department of Finance.

Next Steps

Following the November 2018 meeting of the Board of Trustees, staff will submit the annual report on CSU investments to the State Legislature and the Department of Finance. Staff will continue implementing the TRP investment schedule with oversight from the IAC. Staff will also begin working on developing the Intermediate Duration Portfolio, consistent with the CSU Master Investment Policy, with the goal of implementing this portfolio in the first half of 2019. The next investment report to the board is scheduled for the March 2019 meeting and will provide information on the fiscal quarter ending September 30, 2018.

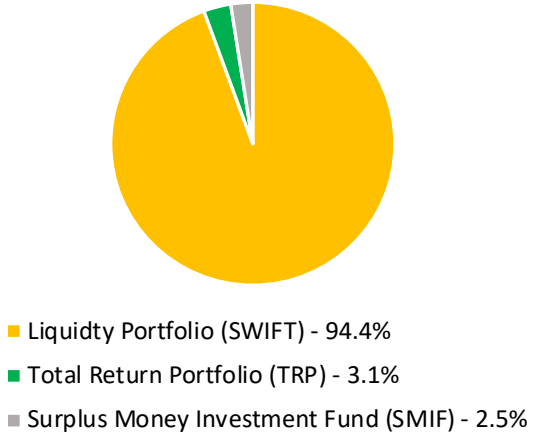
CSU Annual Investment Report

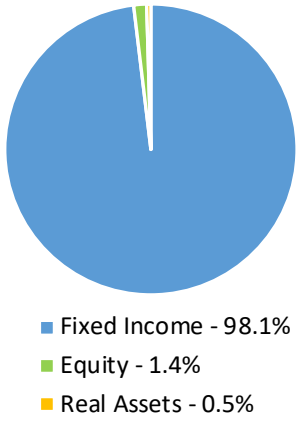
For the Fiscal Year Ended June 30, 2018

CSU investments as of June 30, 2018 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), 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 $710 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, 2018

	Balance	% of CSU Investments
Liquidity Portfolio (SWIFT)	$3.83 billion	94.4%
Total Return Portfolio (TRP)	$126 million	3.1%
Surplus Money Investment Fund (SMIF)	$101 million	2.5%
CSU Investments	**$4.06 billion**	**100%**





For the year ended June 30, 2018, direct investment management fees[1], advisory, and custodial fees totaled just under $2.1 million, or about 0.052 percent (5.2 basis points) on CSU investments total balance as of June 30, 2018.

[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 3.

CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)

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

	CSU Liquidity Portfolio	Benchmark[2]
1 Year Annualized Return[3]	0.85%	0.47%
3 Year Annualized Return	0.86%	0.53%
5 Year Annualized Return	0.83%	0.56%
Annualized Since Inception Return[4]	1.23%	1.49%
Yield	2.45%	2.40%
Duration (Years)	0.98	1.428
Average Credit Rating	AA-	Aaa/AA+

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

U.S. Government Agencies	30.36%	Asset-Backed Securities	7.52%
U.S. Corporate Bonds	29.40%	CD's and Cash Equivalents	5.71%
Treasuries	25.68%	Municipal Obligations	0.52%

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 Benchmark[5]	Policy Benchmark[6]
3 Months Return	3.01%	1.53%	1.02%
Annualized Since Inception Return[7]	3.01%	1.53%	1.02%

[2] Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.
[3] All Returns reported gross of fees and as total return, including income and gains (realized and unrealized).
[4] Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.
[5] The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.
[6] The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.
[7] TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	45.95%
Fixed Income Mutual Funds	39.03%
Real Asset Mutual Funds	15.02%

Values, Holdings & Fees (CSU Total Return Portfolio)

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBTIX	27.8	22%	0.040%	0.500%
	Vanguard Inflation-Protected Securities Fund	VIPIX	6.3	5%	0.070%	0.430%
	Lord Abbett High Yield Fund	LHYOX	7.6	6%	0.600%	0.730%
	Pacific Funds Floating Rate Income Fund	PLFRX	3.8	3%	0.710%	0.750%
	Vanguard Emerging Markets Government Bond Index Fund	VGAVX	3.8	3%	0.320%	0.880%
Equity						
	Vanguard Total Stock Market Index Fund	VITSX	30.2	24%	0.035%	0.690%
	Vanguard Developed Markets Index Fund	VTMNX	15.1	12%	0.060%	0.860%
	Vanguard Emerging Markets Stock Index Fund	VEMIX	12.6	10%	0.110%	1.190%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	8.9	7%	0.100%	0.910%
	Vanguard Energy Index Fund	VENAX	2.5	2%	0.100%	1.030%
	Vanguard Materials Index Fund	VMIAX	2.5	2%	0.100%	1.040%
	First State Global Listed Infrastructure Fund	FLIIX	5.0	4%	0.950%	1.000%
Cash			0.0	0%	NA	NA
Total			126.0	100.00%		

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 Yield[8]	
FYE 06/30/18	1.30%
Average (FYE 06/30/07 – FYE 06/30/18)	1.03%

[8] Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller's Office.

The California State University
OFFICE OF THE CHANCELLOR

Master Investment Policy

For The California State University

Approved on November 8, 2017
By The Board of Trustees of The California State University

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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")

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:

Portfolio	**Min – Target – Max**
Liquidity – Systemwide Investment Fund Trust ("SWIFT")	**5% - 20% - 100%**
Intermediate Duration Portfolio ("IDP")	**0% - 52% - 95%**
Total Return Portfolio ("TRP")	**0% - 28% - 30%**[1]

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, 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.

[1] Percentage allocations to the TRP are subject to annual phase-in restrictions through June 30, 2020 per state law.

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

COMMITTEE ON FINANCE

Approval of the 2019-2020 Operating Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This item seeks approval by the California State University Board of Trustees of the 2019-2020 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2019-2020 CSU Operating Budget Request, which contains historical detail as well as prospective information, for the Board of Trustees' consideration.

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. To meet consequent deadlines of the Department of Finance, it is necessary to adopt the proposed 2019-2020 CSU Operating Budget Request at the November CSU Board of Trustees meeting.

At its September 2018 meeting, the Board of Trustees reviewed a preliminary plan for purposes of crafting the CSU's operating budget request to the state. That preliminary plan included consideration of past and forecasted information regarding the state's economy and tax revenue as well as past and planned funding of the CSU. Additionally, comments from the Board of Trustees on the preliminary plan have been considered and incorporated into the proposed request. With that history and context, the focus of this item will be the details of the proposed 2019-2020 CSU Operating Budget Request.

The executive summary in Attachment A is the official presentation of the operating budget request and, if approved, will be distributed to the governor, legislators, and other policy makers in the capitol. It can be accessed, along with additional supplemental detail, at www.calstate.edu/budget

Proposed 2019-2020 CSU Operating Budget Priorities and Request

The proposed operating budget request prioritizes certain areas of recurring expenditures to continue the CSU's commitment to Graduation Initiative 2025, increases access to the university, increases compensation for faculty and staff, attends to the highest priority academic infrastructure and deferred maintenance needs, and funds mandatory cost obligations.

A five percent enrollment growth for 2019-2020 is one of many critical elements included in this request. Over the next 15 years, the Public Policy Institute of California (PPIC) estimates that the state's public and private institutions of higher education will produce 3.1 million bachelor's degrees, while the projected need is closer to 4.2 million, leaving a gap of 1.1 million degrees. Of the 1.1 million degrees, the PPIC calculates that the CSU will need to graduate an additional 481,000 students to fulfill its role to meet workplace demand. The CSU will partially meet workplace demand by increasing access and completion outcomes through Graduation Initiative 2025. However, growing enrollment by three to five percent per year over the next decade, combined with predictable state funding, is also necessary to meet increasing student demand for a CSU education and to meet California's future workforce needs.

The baseline CSU operating budget totals $6.8 billion. As shown in the below table and in Attachment A, the 2019-2020 Operating Budget Request proposes a base increase of an additional $554.3 million. The CSU's highest priority is to advocate for $456.0 million in new general fund from the state. An additional $98.3 million in new tuition revenue would also be available from a five percent increase in full-time equivalent students (FTES) of approximately 18,207. With such an investment, the state will be in a better position to meet the overall economic and workforce needs of the future.

Proposed Incremental Expenditures:		
• Graduation Initiative 2025	$75.0	million
• Employee Salaries	147.8	million
• Full-Time Equivalent Student Growth: 18,207 FTES	206.1	million
• Facilities and Infrastructure Needs	80.0	million
• Mandatory Costs	45.4	million
Total Incremental Expenditures	**$554.3**	**million**

Anticipated Revenue		
• Tuition from Enrollment Growth	$98.3	million
• **Board of Trustees Additional Request**	**456.0**	**million**
Total Anticipated Revenue	**$554.3**	**million**

The proposed operating budget request also includes two one-time funding requests. The CSU seeks an additional $250 million of one-time funding to further address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. Also, the CSU requests $15 million in one-time state funds to continue looking for sustainable solutions for students and pilot a variety of emergency housing programs systemwide. There is also a need to increase prevention, interventions and destigmatizing campaigns for basic needs, including outreach regarding mental health.

Potential Opportunities to Address Operating Budget Revenue Needs

The CSU's highest priority is to continue to advocate for and pursue increased state funding to cover the full operating budget request. The CSU will work collaboratively with stakeholders and partners across the system including trustees, students, faculty, staff, union leaders, alumni, business partners and friends to make the case in Sacramento for the level of new funding that supports our stated priorities, all leading to greater student success. With the historic gains made in four-year and six-year graduation rates, the aggressive targets set out in Graduation Initiative 2025, and the state focused on these same goals, arguments for increased state funding are strong. While additional state funding is the highest priority and the best option for the university, the state allocation will not be known until a final budget agreement is reached in June 2019.

At this stage, it is not known if the CSU will ultimately be successful in this effort regarding the state appropriation. Consequently, all options must remain open for as long as appropriate. As a regular and routine business matter, the CSU will follow state statute and prepare for, and discuss with, California State Student Association leadership a written tuition proposal that will align with the rate of inflation.

At this point, the CSU does not anticipate a need to raise tuition rates next year, but the CSU must reserve the right to keep the option open for any unforeseen state budget or economic circumstances. Also, the CSU must ensure that the university has the resources it needs to maintain the quality of educational and supportive services as well as students' authentic access to the university.

If funding is not secured for the operating budget request through these other options, priority areas of the operating budget would be reduced or eliminated, and campuses would have to redirect funding from existing programs, services and priorities like the Graduation Initiative to fund mandatory cost obligations and finalized employee salary commitments. Fewer course sections would be available to students, average unit load would go down, not up, and ultimately it could take longer for students to graduate.

Each year, inflation and other price increases affect each campus' bottom line. For the most part, annual operating budget requests address these types of increases on salaries and benefits through the mandatory costs category described above. However, in recent years, campuses have not received annual funding increases to cover inflationary costs in areas such as communication, information technology, contractual services, library subscriptions and instructional equipment. It is anticipated that these costs will increase for 2019-2020. Campus leadership regularly unearth and create ways of covering inflationary costs without additional resources and they deserve credit for being both efficient with their resources and effective in their outcomes.

Above and beyond efforts to address regular inflationary pressures, the CSU will continue to pursue cost avoidance strategies and administrative efficiencies to be good stewards of state and tuition resources as well as address as many unfunded cost increases as possible. Campuses and the Chancellor's Office make decisions annually to redistribute budgets to cover increased costs, pursue and implement efficiencies across the system, and reallocate from under-utilized programs to the most pressing needs of the campus and system.

Conclusion

The budget cycle is just beginning. As a result, there are no funding assumptions from the state and it is not known if the state will partially, fully, or not provide the necessary resources to properly invest in operating budget priorities. The CSU will work throughout the spring with its partners to advocate for full funding by the state of the trustees' budget priorities.

This is an action item presenting final recommendations for the CSU 2019-2020 Operating Budget Request to the governor and legislature. It is the CSU's goal that the state fully fund the budget plan so that the CSU can focus on the transformational goals of Graduation Initiative 2025 while continuing to invest in enrollment growth, faculty and staff salary increases, and important infrastructure needs.

Recommendation

The following resolution is presented for approval:

> **RESOLVED,** that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their increased budget support; and be it further
>
> **RESOLVED**, that the Board of Trustees understands there are numerous competing interests for budgetary support given the fiscal constraints and competing policy priorities under which California continues to operate; and be it further

RESOLVED, that the future of California rests on CSU's ability to provide a high-quality, affordable, and accessible education to hundreds of thousands of students; and be it further

RESOLVED, by the Board of Trustees that the proposed CSU 2019-2020 Operating Budget Request is approved as submitted by the chancellor; and be it further

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

RESOLVED, that copies of this resolution be transmitted to the governor, to the director of the Department of Finance, and to the legislature.

The California State University

Attachment A

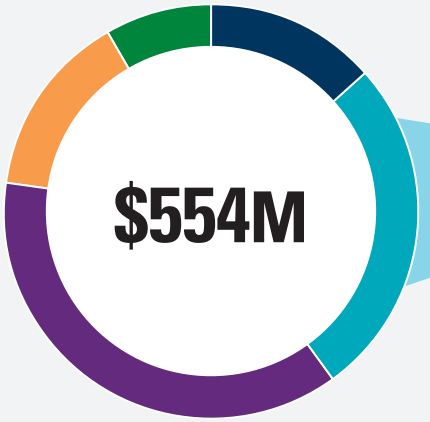
2019–20 OPERATING BUDGET

www.calstate.edu/budget

DRAFT FOR CSU BOARD OF TRUSTEES CONSIDERATION

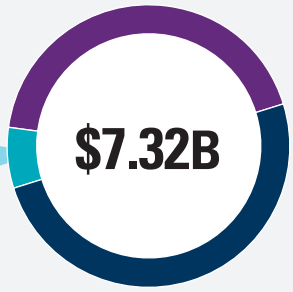
FACTS AND FIGURES

2019-20 REQUEST



- Graduation Initiative 2025 **$75M**
- Compensation Increases **$148M**
- Five Percent Increase in Enrollment **$206M**
- Academic Facilities and Infrastructure **$80M**
- Mandatory Cost Increases **$45M**

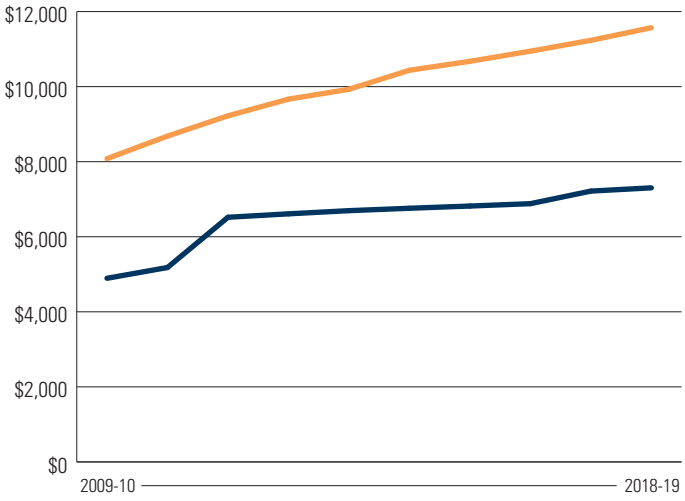
2019-20 PROPOSED OPERATING BUDGET



- Tuition and Fees **$3.12B**
- General Fund **$3.65B**
- 2019-20 Proposed Increase **$554M**

CSU TUITION AND FEES VS. COMPARISON INSTITUTIONS

(Based on Average Resident Undergrad)



2018-19 Comparison:
CSU Average = $7,303
Comparison Institutions Average = $11,569

CSU is $4,266 less than our Comparison Institutions.

- CSU Average
- Comparison Institutions Average

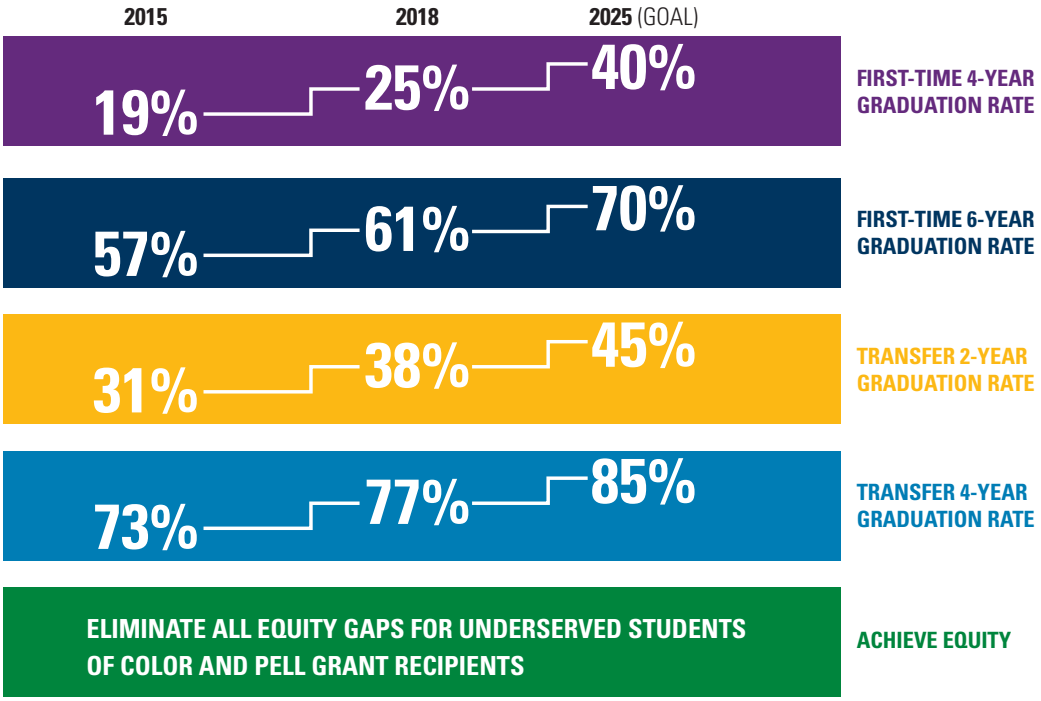
CSU'S OWN STATE UNIVERSITY GRANT PROGRAM AWARDED OVER $700 MILLION TO OVER 138,000 STUDENTS WITH SIGNIFICANT FINANCIAL NEED.

80%
OF ALL CSU STUDENTS RECEIVED FINANCIAL AID

63%
OF ALL CSU UNDERGRADUATES PAID $0 TUITION

49%
OF ALL CSU UNDERGRADUATES RECEIVED A FEDERAL PELL GRANT

GRADUATION INITIATIVE 2025



$554M
2019-20 NEW REQUEST

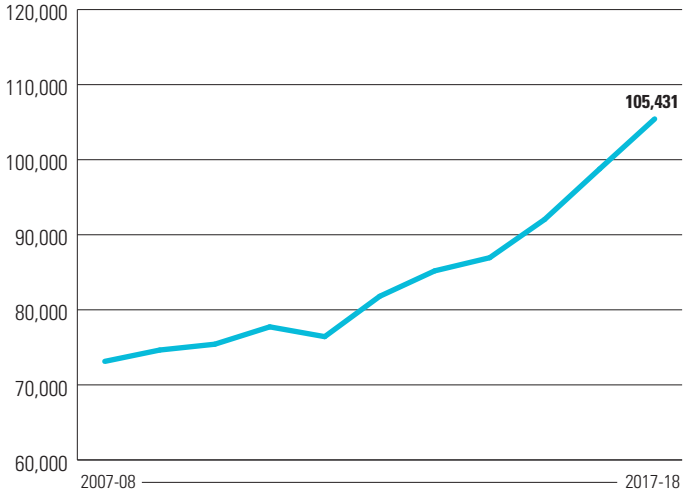
$6.77B
CURRENT OPERATING BUDGET

125,920
2017-18 GRADUATES

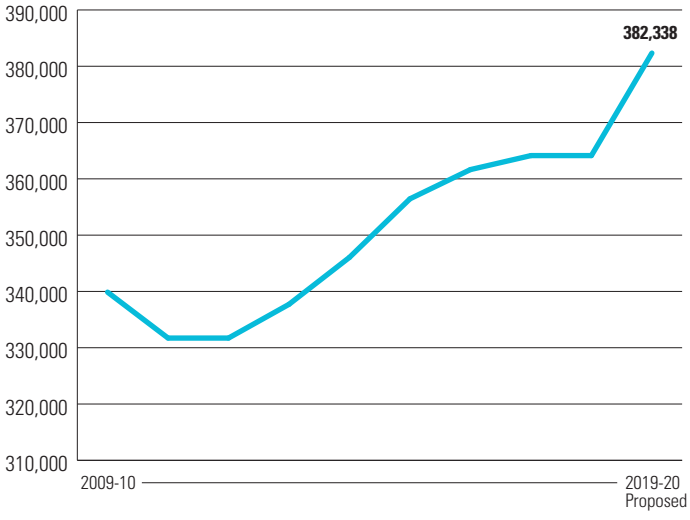
484,297
STUDENTS IN FALL 2017

NEARLY HALF
OF THE STATE'S BACHELOR'S DEGREES ARE AWARDED BY THE CSU

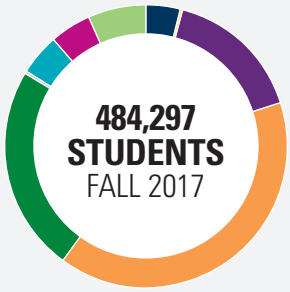
CSU IS AWARDING MORE BACHELOR'S DEGREES THAN EVER



RESIDENT FTES ENROLLMENT TARGETS



THE CSU SERVES A DIVERSE STUDENT POPULATION



- African American 19,810 **4.1%**
- American Indian 1,188 **0.2%**
- Asian American 76,363 **15.8%**
- Latino 194,237 **40.1%**
- White 114,029 **23.5%**
- Pacific Islander 1,283 **0.3%**
- Two or More Races 22,524 **4.7%**
- Unknown 22,954 **4.7%**
- Non Resident Alien 31,909 **6.6%**

WHO DO WE SERVE?

94%
OF ALL ENROLLED STUDENTS ARE FROM CALIFORNIA

32%
OF UNDERGRADUATES ARE THE FIRST IN THEIR FAMILIES TO ATTEND COLLEGE

44%
OF UNDERGRADUATES ARE TRADITIONALLY UNDERSERVED STUDENTS OF COLOR

93%
OF NEW UNDERGRADUATE TRANSFERS ARE FROM CALIFORNIA COMMUNITY COLLEGES

CHANCELLOR'S MESSAGE

California has always been a state of possibilities and potential, fueled by people whose faith in the future remains remarkably resilient.

Indeed, people have always been California's greatest resource. We are a society of inquirers, of innovators and idealists, who collectively recognized decades ago that a college degree was the key to a brighter future. Our state's investment in the master plan for higher education transformed California because it transformed the lives of millions of Californians; gratefully, I am one of them.

The result of that vision is an economy among the mightiest in the world. Technology and business flourish because of our educated workforce. Agriculture, construction, health care, financial services, manufacturing, hospitality and so much more – all benefit from the extraordinary educational opportunities made available to Californians from all walks of life.

That key to California's bright future is equally valid today – but only if it remains affordable. The California State University remains firmly committed to opening the doors of opportunity to all qualified Californians. Such a mission, however, requires a connected commitment from the state to provide necessary financial support. Indeed, the best way to keep California moving forward is through a robust investment in the CSU.

With that investment, the CSU will:

- Elevate student success via Graduation Initiative 2025, removing barriers to achievement and implementing innovative approaches to learning and teaching;
- Compensate our employees fairly, ensuring the best and brightest academic minds and crucial staff members remain in California, educating our next generation of achievers;
- Focus on maintaining affordability while enhancing our offerings and outreach;
- Expand access through enrollment growth, ensuring that more Californians are able to enroll in the CSU and earn a degree; and
- Renew and repair our aging facilities and infrastructure to provide the best and safest environment for students, faculty and staff.

Increasingly, California has become a beacon to the world. With the state's steadfast financial support of the CSU, we can continue to keep that ideal alive and thriving. We stand ready to welcome the inquisitive, the innovative, the creative, the hopeful and the dreamers who have made California a truly golden state. We ask you to join us in making that future possible.

Timothy P. White
Chancellor
The California State University

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The California State University system begins 2018-19 better positioned to help students succeed. The CSU received an increase of $323.9 million from the state, which includes $197.3 million in permanent base funding and $126.6 million in one-time funding. Our $6.77 billion operating fund budget for the current year includes $3.65 billion in state general fund and $3.12 billion in tuition and fee revenue, as shown in Table 1.

TABLE 1: OPERATING BUDGET & INFRASTRUCTURE

	2017-18 Past Year	2018-19 Current Year	2019-20 Budget Year	2019-20 Increase
General Fund, Operations	$3,109,314,000	$3,309,085,000	$3,685,120,000	$376,035,000
General Fund, Academic Facilities and Infrastructure	340,560,000	340,560,000	420,560,000	80,000,000
Tuition and Other Fee Revenue	3,275,294,000	3,118,104,000	3,216,413,000	98,309,000
TOTAL OPERATING BUDGET AND INFRASTRUCTURE	**$6,725,168,000**	**$6,767,749,000**	**$7,322,093,000**	**$554,344,000**

The operating fund budget is focused on fulfilling CSU's core mission: to serve students with a high-quality, affordable and accessible education. As shown in Table 2, the CSU spends over 75 percent of its budget, $5.1 billion, on instruction, academic support, student services and financial aid. All of these activities promote student success, enrich the academic experience and ensure that each graduate is ready to succeed in the workforce.

TABLE 2: EXPENDITURES BY PROGRAM AREA

	2017-18 Past Year	2018-19 Current Year	2019-20 Budget Year
Instruction	$2,657,499,000	$2,773,224,000	$2,773,224,000
Research	21,093,000	17,749,000	17,749,000
Public Service	20,558,000	15,414,000	15,414,000
Academic Support	702,709,000	688,150,000	688,150,000
Student Services	728,972,000	718,429,000	718,429,000
Institutional Support	838,450,000	870,888,000	870,888,000
Operation and Maintenance of Plant	1,012,719,000	943,668,000	943,668,000
Student Grants and Scholarships	743,168,000	740,227,000	740,227,000
New Expenditures	--	--	554,344,000
TOTAL EXPENDITURES	**$6,725,168,000**	**$6,767,749,000**	**$7,322,093,000**

With increased state support, the CSU continues to be one of the best investments for the state of California:

- Graduated 125,920 students in 2017-18, 6,646 more than 2016-17;
- 484,297 students enrolled in Fall 2017;
- Increased average salaries by 3.6 percent per year for faculty and 3.2 percent per year for staff from 2014-15 through 2018-19;
- Increased average unit load by offering an additional 3,200 course sections or 90,000 new seats in classrooms across the system, allowing students to reduce their time to degree;
- Reduced the equity gap for underserved students of color by 2.5 percentage points since 2016;
- Opened or expanded food pantries or food distribution systems on every campus, while continuing to raise awareness about student well-being, housing and food insecurity;
- Added more than 1,000 online course sections over the past three years; and
- Plans to hire at least 180 net new tenure-track faculty systemwide in 2018-19.

The CSU also continues to be efficient with its resources and prides itself on being a good fiscal steward:

- Partnered with the University of California on CalUsource, a single procurement system for both universities. The CSU will save $5 million per year just from its first purchase through CalUsource.
- Implemented strategies to reduce electricity and water usage while also reducing costs.
  - At San Marcos, electricity consumption was reduced by more than five percent by sealing air conditioning ducts.
  - A public-private partnership for battery energy storage at Long Beach allowed the campus to save at least $51,400 annually.
  - An innovative project at Stanislaus uses reclaimed rainwater to help cool campus facilities before being reused for irrigation, saving an average of one million gallons of water per year.
- Partnered with the University of California and investor-owned utilities to leverage more than $30 million in incentive funding to complete over $128 million worth of energy efficiency projects. This has reduced systemwide energy use intensity by 16 percent since 2005-06.

As the CSU continues to grow, we remain focused on improving our academic and student services, our campus facilities and the overall experience of our nearly half a million students.

The following pages outline the CSU Operating Budget Request for 2019-20.

2019-20 OPERATING BUDGET PLAN

The CSU proposes a $7.3 billion operating budget for 2019-20, with $4.1 billion from the state general fund and $3.2 billion from tuition and fee revenue. As shown in Table 1 on page 2, this budget plan is an increase of $554.3 million over the 2018-19 operating budget. This budget plan includes significant investments to the CSU so we can continue to serve as the key to California's prosperous economy, now ranked as the fifth largest in the world.

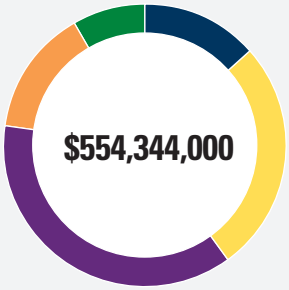
Table 3 outlines the sources and uses of funds that make up the $554.3 million increase.

TABLE 3: SOURCES AND USES OF FUNDS

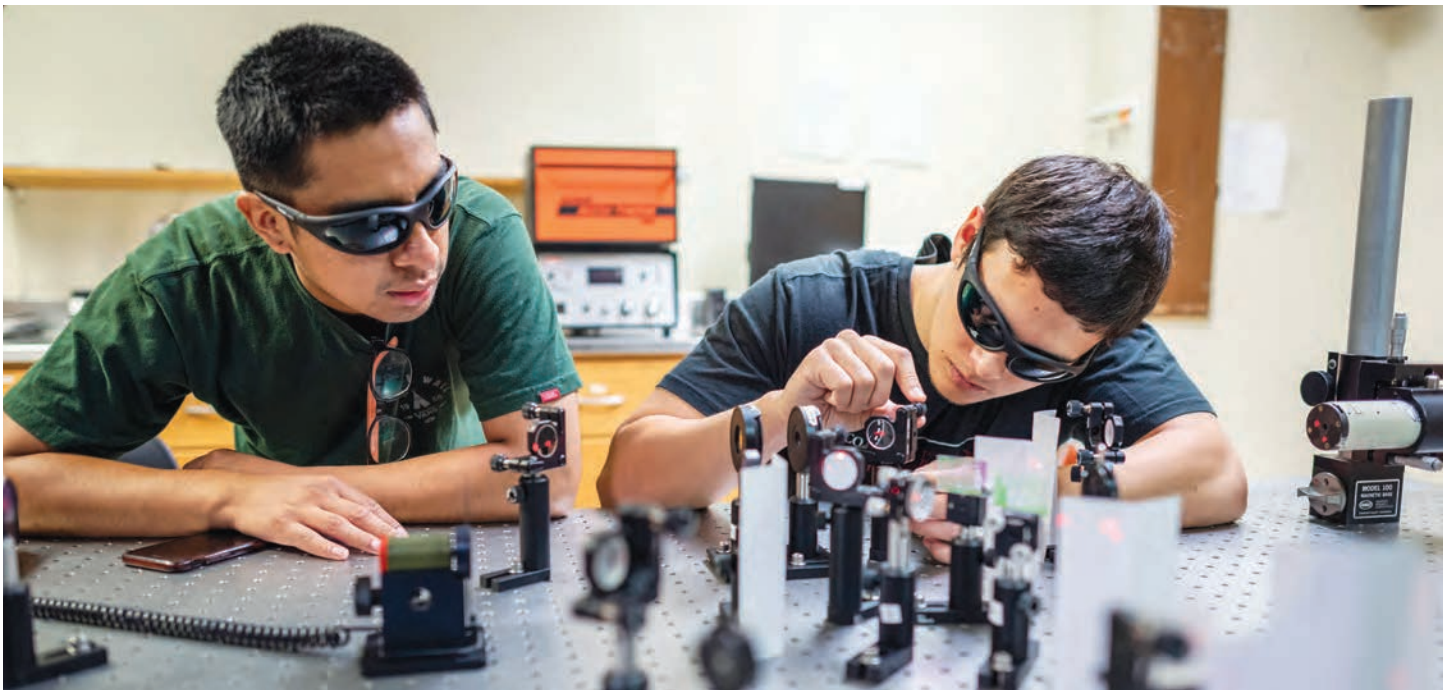
SOURCES OF FUNDS		
General Fund Increase		**$456,035,000**
Operating Budget	$376,035,000	
Academic Facilities and Infrastructure	80,000,000	
Tuition from 5% Enrollment Growth		**98,309,000**
(18,207 Full-Time Equivalent Students' Revenue)		
TOTAL NEW SOURCES		**$554,344,000**

USES OF FUNDS		
Graduation Initiative 2025		**$75,000,000**
Compensation Increases		**147,785,000**
Five Percent Increase in Resident Enrollment		**206,140,000**
Academic Facilities and Infrastructure		**80,000,000**
Mandatory Cost Increases		**45,419,000**
Health Benefits	$7,304,000	
Retirement	26,536,000	
Maintenance of New Facilities	4,748,000	
Minimum Wage Increase	6,831,000	
TOTAL NEW USES		**$554,344,000**

USE OF FUNDS



- Graduation Initiative 2025 **13.5%**
- Compensation Increases **26.7%**
- Five Percent Increase in Resident Enrollment **37.2%**
- Academic Facilities and Infrastructure **14.4%**
- Mandatory Cost Increases **8.2%**



Graduation Initiative 2025: $75 million

As Graduation Initiative 2025 enters its third year, the CSU expects to use $75 million of the 2019-20 operating budget request to meet the ambitious goals adopted by each campus. Launched in 2016, this initiative aims to raise the graduation rates for first-time and transfer students and eliminate equity gaps for underserved students of color and Pell grant recipients.

Four-Year Rates:

Systemwide, the four-year graduation rates for first-time students improved by two percentage points compared to last year and by six percentage points over the last three years. Since 2015, nearly all campuses have increased their four-year graduation rate:

- 2,939 additional students completed their degrees in four years.
- San Diego and Long Beach both improved their four-year graduation rate by double-digits.
- Pomona, San Bernardino, East Bay, Humboldt and Sacramento saw above average increases in their four-year rate.
- The CSU is on track to meet its systemwide goal of 40 percent in 2025.

Equity:

For the first time, equity gaps are beginning to close. Students' ability to earn a degree should not be determined by their background or family income but by their willingness to put in the work required to accomplish their educational goals. Equity gaps are shrinking while enrolling a greater percentage of underserved students of color and Pell grant recipients. These enrollment trends underscore the need to explicitly focus on closing equity gaps at every level of the university.

The increases in graduation rates shown in Table 4 represent all-time highs in each category. Additionally, the number of bachelor's degrees awarded reached an all-time high with 105,431 in 2018, 6,660 more than 2017 and 13,387 more compared to 2016. They also represent the dedication of CSU faculty, intentional action by campus leaders and a systemwide focus on student success. Continuous state funding for Graduation Initiative 2025 is critical to maintain momentum. Campuses will continue to use these funds to offer more courses, hire additional faculty and to advance innovative student success practices.

An investment by the state in Graduation Initiative 2025 in 2019-20 will immediately benefit our students. Students who earn their degree one term earlier save approximately $14,000 in tuition, fees, housing and other costs of attendance, and reduce the need for additional student loan debt. Reducing time to degree means that graduates enter the workforce or graduate school sooner, furthering their potential to earn more over their lifetimes to improve their lives and the lives of their families.

Predictable, sufficient investment in Graduation Initiative 2025 means that the CSU can continue to fund innovative strategies to address student success with focus on these six areas:

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

These efforts ensure that all students have the opportunity to earn a degree, empowering current and future generations of Californians. More information about specific systemwide and campus priorities can be found at calstate.edu/graduationinitiative

TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE PROGRESS

		2016	2017	2018	2025 Goal
GRADUATION RATES					
First-time Students	4-Year	21%	23%	25%	40%
	6-Year	59%	59%	61%	70%
Transfer	2-Year	33%	35%	38%	45%
	4-Year	74%	75%	77%	85%
EQUITY GAPS					
Underserved Students of Color		12	12.2	10.5	0
Pell Grant Recipients		10	10.6	9.5	0

Compensation Increases: $147.8 million

The CSU Board of Trustees recognizes compensation for faculty, staff and management as a key element of the university's success. Continued investment in competitive salaries is critical for the CSU to fulfill its primary mission of access to an affordable and high-quality education. A competitive compensation package is essential to the CSU's ability to recruit and retain the best and brightest faculty, staff and management employees.

This budget plan calls for $147.8 million to fund a 2019-20 compensation pool based on current and pending employee contracts and commitments.

Five Percent Increase in Resident Enrollment: $206.1 million

The CSU aims for bold increases in enrollment to meet student demand for a CSU education and the needs of California's future workforce. The CSU plans to increase resident enrollment by 18,207 full-time equivalent students (FTES). Using the marginal cost rate, which is the cost of education per FTES, the funding required to support 18,207 new FTES in 2019-20 is $206.1 million.

2018-19 Resident FTES Base	**364,131**
Proposed Growth (5%)	18,207
2019-20 Total Resident FTES	**382,338**
Marginal Cost Rate per FTES	11,322
Total Cost of Enrollment Growth	**$206,140,000**

Increased funding for enrollment means increased capacity to educate students without sacrificing quality. Through Graduation Initiative 2025, we have hired hundreds more faculty, offered thousands more course sections, increased the average unit load per student and awarded more bachelor's degrees annually. Accommodating increased enrollment happens through face-to-face instruction and through a growing number of sections offered in fully on-line and hybrid courses. CSU's Fully Online Courses project added more than 1,000 course sections over the past three years as the number of undergraduate students participating in fully online or hybrid programs at the CSU has increased by 25 percent. Additionally, Cal State Online Complete will be launched to meet the needs of students who started college but never obtained a degree – this online option will help them complete their education at the CSU.

The CSU is implementing a redirection policy beginning with the fall 2019 application cycle to ensure that all first-time and transfer applicants who meet minimum CSU eligibility requirements are offered admission to at least one CSU campus. While the 1965 Master Plan recommends the CSU accept the top 33 percent of high school graduates, the number of CSU-eligible high school students is actually 41 percent, according to a study commissioned by the Governor's Office of Planning and Research. The new redirection policy provides CSU-eligible undergraduate applicants, who are waitlisted or denied admission due to either campus or program impaction, an opportunity to be redirected to and offered admission by a non-impacted campus. This aligns with the admissions guarantee in place for transfer applicants who have an Associate Degree for Transfer (ADT). This policy change, coupled with additional enrollment funding, could result in significantly more first-time and transfer students enrolled at the CSU in the 2019-20 academic year.

The Public Policy Institute of California (PPIC) estimates that over the next 15 years, the state's public and private institutions of higher education will produce 3.1 million bachelor's degrees, while the projected need is closer to 4.2 million, leaving a gap of 1.1 million degrees. Of the 1.1 million degree gap, the PPIC calculates the CSU will need to graduate an additional 481,000 students to meet its share of the gap. The CSU will partially meet workforce demand by increasing access and completion outcomes through Graduation Initiative 2025. A funded enrollment increase of three to five percent per year over the next decade is necessary to meet increasing student demand for a CSU education and to meet California's future workforce needs.

Academic Facilities and Infrastructure: $80 million

The CSU proposes using $80 million of the $554.3 million request to fund academic facilities and infrastructure projects. Ten years after the Great Recession, the CSU has made progress to recondition, refurbish and revitalize its critical utility infrastructure. However, the enormity of the facilities and infrastructure needs demands a greater response to ensure the CSU can appropriately serve its students. In support of the request for permanent base funding, the CSU Five-Year Capital Plan identifies the priority needs of each of the 23 campuses and their off-campus centers.

The plan identifies renewal/replacement needs of existing buildings and new facilities to accommodate growth and improve student access.

The Board of Trustees annually approves categories and criteria for capital outlay priority setting. The priorities are consistent with the state's priorities of critical infrastructure, life safety projects, renovation/modernization of existing facilities and new facilities to increase capacity to serve the existing and projected enrollment. The Five-Year Plan requires over $10 billion to address our academic infrastructure and facilities needs. The $80 million in the 2019-20 budget request will help fund or finance approximately $1.2 billion of the $10 billion in priority projects identified by the campuses. For more information on specific projects and priorities, see the CSU Five-Year Capital Plan.

Mandatory Cost Increases: $45.4 million

Mandatory costs are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase independent of the state budget condition. These costs include increases for employee health and retirement benefits, state minimum wage cost increases, and the operations and maintenance of newly constructed facilities. The 2019-20 operating budget request includes $45.4 million for increases in mandatory cost obligations.

Health Benefits	$7,304,000
Retirement Benefits	26,536,000
Maintenance of New Facilities	4,748,000
Minimum Wage Increase	6,831,000
TOTAL	**$45,419,000**

Health Benefits

Permanent base budget costs associated with January 2019 employer-paid health care premium increases are over $7.3 million. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU is governed by California Government Code section 22871 that defines the employer-paid contribution rates.

Retirement Benefits (above state-funded)

Beginning with the 2014-15 fiscal year, a limit was placed on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. While the state's obligation to adjust retirement funding continues (Government Code section 20814), the salary base applied to the incremental rate change is set to the CSU 2013-14 pensionable payroll level as reported by the State Controller's Office. The $26.5 million included here represents the 2017-18, 2018-19 and projected 2019-20 unfunded retirement cost for annual CalPERS employer-paid rate adjustments that must be funded by the CSU.

Maintenance of New Facilities

The CSU is scheduled to open 404,052 square feet of new facilities in 2019-20. The cost to fund regular maintenance of these facilities is $11.75 per square foot, for a total of $4.7 million in 2019-20. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape and administrative support.

Minimum Wage Increase

In January 2019, the California minimum wage will increase from $11/hour to $12/hour. The estimated annualized cost of the increase on CSU campuses is over $6.8 million. Further, the California minimum wage will increase in each subsequent year until January 2022 when it reaches $15/hour.

ONE-TIME REQUESTS

The CSU seeks $265 million in one-time funding from the state, in addition to the permanent funding increases included in the 2019-20 Operating Budget request.

Basic Needs Partnerships: $15 million

The CSU requests $15 million in one-time state funds for Basic Needs Partnerships. The CSU began a systemwide initiative in 2015 to provide a framework for the CSU's 23 campuses to take a more coordinated approach to developing programs and strategies that support students experiencing food and housing insecurity and overall student health and safety challenges. CSU leaders across the system have committed to enhancing and developing resources for students experiencing challenges meeting their basic needs. These strategies include increasing CalFresh outreach and application assistance, on-campus food distribution programs, and new and renewed partnerships with non-profit and governmental entities that provide direct services to students. Every student who attends CSU should be afforded the opportunity to focus on their studies and not find themselves otherwise preoccupied with hunger or homelessness.

The CSU received a $2.5 million one-time state appropriation in 2017-18 and $1.5 million in 2018-19 to address student hunger. Awards were distributed to campuses to expand existing efforts to fight student hunger, raise awareness of services currently offered on campus, and develop practices and procedures to provide additional assistance to students in need. The CSU continues to work to destigmatize the topic of basic needs so more students in crisis can comfortably turn to a campuswide support system for help. Through ongoing training and engagement, faculty and staff will be better positioned to support on-campus efforts and refer students to appropriate resources on- and off-campus.

The CSU will continue to identify sustainable solutions for students and pilot a variety of emergency housing programs systemwide. There is also a need to increase prevention, interventions and destigmatizing campaigns for basic needs, including outreach regarding mental health.

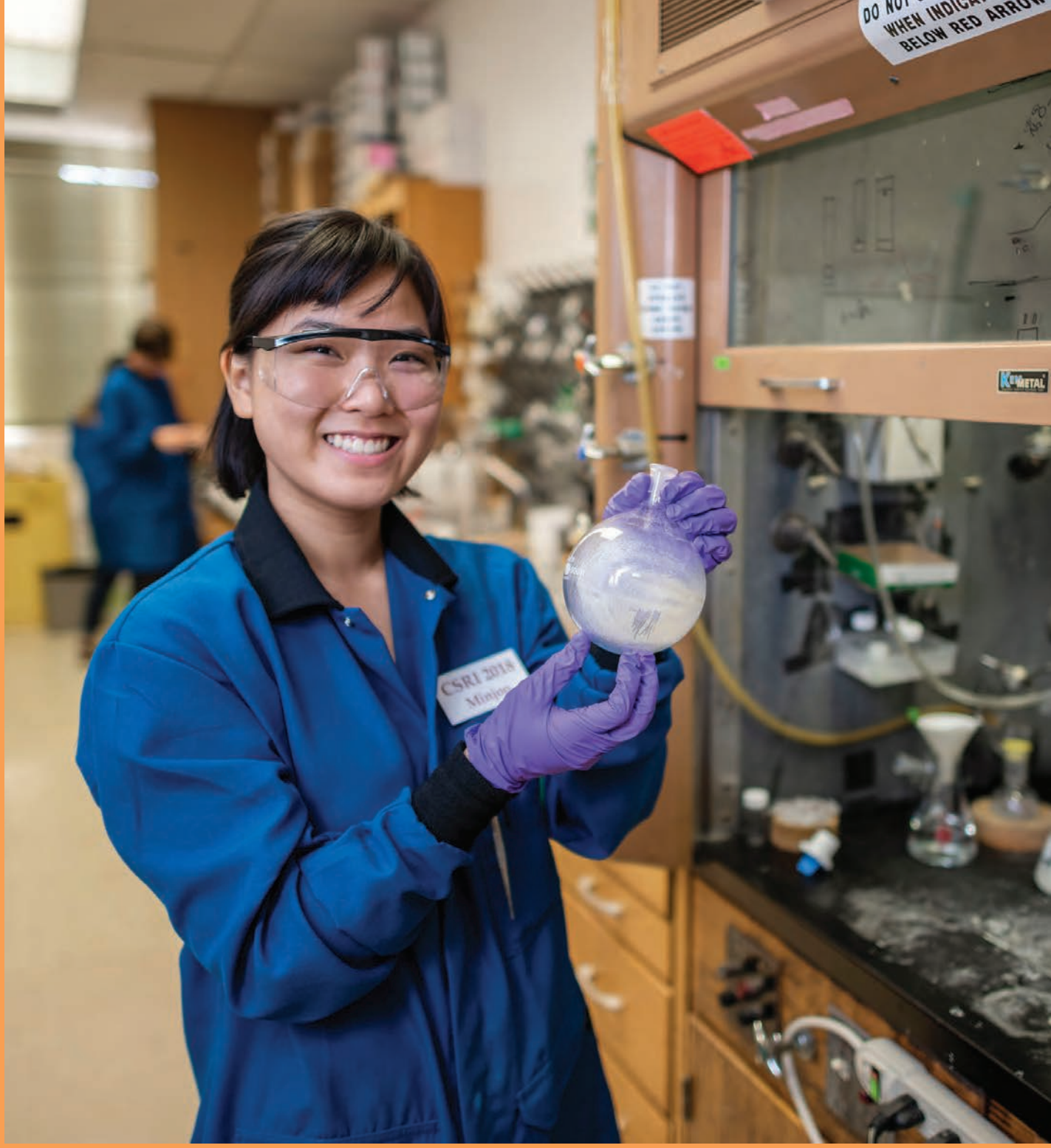
Deferred Maintenance Backlog: $250 million

The CSU seeks an additional $250 million of one-time funding to further address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. Over 56 percent of the academic buildings (in gross square feet) are at least 40 years old. Maintenance costs are increasing each year as heating and air conditioning systems become less efficient, equipment is outdated, and custom replacement parts are needed to keep equipment operational. Increased funding is a key element in our plan to address our aging facilities. The previous support from the state for deferred maintenance was used to cofund projects across the system to stretch our limited resources.

As an example, over the last year, the CSU cofunded the reassessment of facility renewal needs with the campuses to confirm the accuracy of the renewal backlog and improve the level of detail in the building deficiencies. The reassessment determined that the renewal backlog was $3.7 billion. The requested funds will address critical deficiencies throughout the 23 campuses to continue essential operations, reduce the likelihood of catastrophic failures and meet current code requirements to operate safe facilities. Major building systems that have exceeded the expected service life will be modernized to enable campuses to operate utilities more effectively, improve heating and air conditioning systems efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions, and extend the useful life of existing facilities. Utility and infrastructure systems such as centralized heating and cooling, electrical distribution and domestic water production are examples of maintained infrastructure between campus buildings that have been added to the renewal backlog.

The one-time funding will be spent on projects on a pay-as-you-go basis.

CSU FINANCIAL AID



Students attending the CSU should be focused squarely on their college education and experience, not whether they can pay tuition and fees or afford to attend the next semester. That's why the CSU strives to keep costs to a minimum by offering institutional aid programs in addition to federal and state grant and loan programs.

In 2016-17, 80 percent of the CSU's total student population received some form of financial aid and 63 percent of all undergraduate students paid $0 in systemwide tuition. CSU systemwide tuition is one of the lowest in the nation, at $5,742 per year for a resident undergraduate student. These programs help mitigate the cost of attendance for our lowest income students and keep student debt as low as possible. In fact, CSU bachelor's degree recipients have lower average debt ($16,625) than California ($22,744) and national ($28,350) averages.

State University Grant Program

To further the CSU's mission to provide an affordable, high-quality education to all students, the CSU created the State University Grant (SUG) program in 1982-83 to assist students with the greatest financial need. Each year, the CSU awards need-based grants to eligible California residents and DREAM applicants who enroll at CSU campuses in undergraduate, post-baccalaureate, credential and graduate programs. Financial need is determined by the expected family contribution (EFC) based on the FAFSA application.

The SUG program has grown considerably since its inception, from $4.0 million in 1982-83 to $701.2 million in 2017-18. Over 138,000 students received a SUG award in 2017-18.

As tuition and enrollment increased while state investment in the CSU decreased, the CSU expanded the SUG program to help keep student costs to a minimum. Currently, about 11 percent of the total CSU operating budget is dedicated to financial aid for students with the greatest need. The SUG program remains one of the largest commitments in the CSU operating budget.

Tuition Waivers

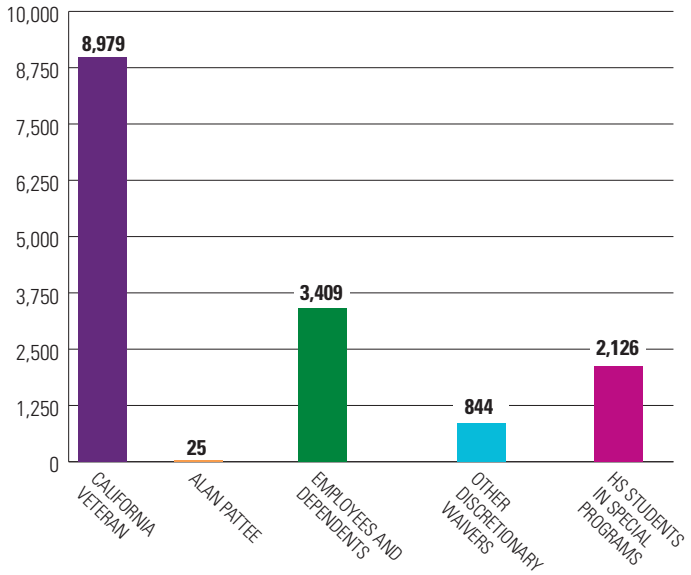
State law mandates five systemwide tuition waiver programs, with the newest program created in September 2018 for foster youth:

- California Veterans Waiver for children of disabled/deceased veterans (Education Code section 66025.3);
- Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code section 68120);
- Current or former foster youth (Education Code section 66025.3);
- California residents who were dependents of victims killed in the September 11, 2001 terrorist attacks (Education Code section 68121); and
- Student trustees (Education Code section 66602).

The CSU also offers systemwide tuition waivers for employees and their dependents pursuant to collective bargaining agreements, executive orders and CSU policy. Other discretionary tuition and fee waiver programs have been established by the CSU Board of Trustees and California statute for programs such as high school students participating in special programs, California residents age 60 or older, or certain study abroad students.

In 2017-18, 15,383 tuition waivers were granted to CSU students, totaling approximately $76.2 million in waived tuition. The state has not provided any General Fund support for any CSU tuition waiver program since 1992-93.

2017-18 SYSTEMWIDE TUITION WAIVERS



23 California State University Campuses

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