

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:45 a.m., Wednesday, July 24, 2024
Glenn S. Dumke Auditorium

Julia I. Lopez, Chair
Jonathan Molina Mancio, Vice Chair
Larry L. Adamson
Douglas Faigin
Mark Ghilarducci
Leslie Gilbert-Lurie
Jack McGrory
Anna Ortiz-Morfit
Christopher Steinhauser
Darlene Yee-Melichar

- Consent**
1. Approval of Minutes, *Action*
 2. Approval to Amend Prior Authorization to Issue Debt for a Student Housing Project at California State Polytechnic University, Humboldt, *Action*
 3. Concept Approval for a Public-Private Partnership Housing Project through an Auxiliary at California State University, Sacramento, *Action*
 4. Concept Approval for a Public-Private Partnership Tennis Facility at California State University, Dominguez Hills, *Action*
- Discussion**
5. 2024-2025 Final Budget, *Information*
 6. Planning for the 2025-2026 Operating Budget, *Information*

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

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

May 21, 2024

Members Present

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

Wenda Fong, Chair of the Board
Mildred García, Chancellor

Trustee Julia Lopez chaired and called the meeting to order.

Public Comment

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

Approval of the Consent Agenda

The minutes of the January 31, 2024, meeting of the Committee on Finance were approved as submitted.

Item 2, Approval to Issue Debt for the California Polytechnic State University, San Luis Obispo Football Center was approved as submitted (RFIN 05-24-04).

Discussion Agenda

The committee had two items on the discussion agenda.

Item 3, California State University Quarterly Investment Report, Information

A report on the California State University quarterly investments for the quarter ending December 31, 2023, was made. As of December 31, 2023, approximately \$8.1 billion are invested by the CSU: \$3.9 billion in the liquidity portfolio, \$1.3 billion in the intermediation portfolio, \$2.6 billion in the total return portfolio, and \$292 million in the state of California surplus money investment fund. It was noted that auxiliary organization investments are not included in the report, as each auxiliary organization has its own legal and governance structure, investment policies, and fiduciary responsibility for management of its investment assets.

It was shared that the CSU has received various queries around investments in defense and aerospace, particularly related to Israel. The CSU has no direct ownership of stocks or bonds in companies located in Israel but does hold \$3.2 million in indirect investments through mutual funds in the total return portfolio, where the CSU does not control individual selections. CSU investments in aerospace and defense companies total \$51.4 million and includes \$20.8 billion of direct ownership in corporate bonds through the liquidity and intermediate duration portfolios and \$30.6 million in mutual funds in the total return portfolio. Furthermore, the Board of Trustees master investment policy acknowledges the importance considering the potential risks and value that environmental, social and governance (ESG) factors may have on CSU investments and incorporates its consideration into the investment decision processes of the CSU.

Trustee Jose Antonio Vargas suggested that a short explanation video be created that could be shared via social media or other popular formats. He was informed that the information is available for viewing on the calstate.edu website and can be broken out by broad categories and by campus.

Trustee Larry Adamson raised the point that the category of defense and aerospace is very broad. He was informed that it is not possible to drill down further into specific types of defense and aerospace investments because there are multiple factors which cannot be appropriately calculated.

In regard to the auxiliary organizations not being bound by the CSU investment policy, Trustee Lillian Kimbell asked how they report investments to the Board of Trustees. Robert Eaton responded that much of that information is provided to the Board of Trustees in two reports, their annual audit report and annual donor report. More detailed lists of investment holdings by auxiliary organizations are not currently compiled and would need to be requested from each auxiliary. Trustee Kimbell further asked if this is something that could be made a requirement. Mr. Eaton responded that each auxiliary organization has its own separate governance board, but the CSU Board of Trustees can request it be made a requirement.

Trustee Gilbert-Lurie expressed concern that Israel was the only country being called out. She was informed that information concerning investments related to Israel were presented because of the numerous inquiries specific to Israel.

Trustees Jack Clarke and Douglas Faigin expressed support for Chancellor Mildred Garcia's statement regarding the CSU's position on investments and protestors. Trustees Kimbell and Leslie Gilbert-Lurie commented about the complexity and potential effects for the CSU of singling out or limiting investments in one specific country or in one specific field.

Item 4, 2024-2025 Operating Budget Update, Information

An update on the latest developments in the state budget and possible effects on the California State University (CSU) system was provided. The Governor's May Revision budget proposal estimates the state will have a \$27.6 billion deficit for the 2024-2025 budget cycle and \$28.4 billion deficit for 2025-2026. Specific to the CSU and its students, the administration proposes reductions to the Middle-Class Scholarship program, the Golden State Teacher Grant program, and the Learning-Aligned Employment program. Ryan Storm walked through detailed calculations of one-time and ongoing funding proposed for the CSU. The CSU faces significant budget challenges in the coming years, including ongoing and one-time state funding reductions, deferred maintenance, and unfunded liabilities. He also reviewed the budget planning implications, challenges, and potential actions ahead. Cuts to funding will significantly impact costs for campuses and limit the advancement of CSU budget priorities. Due to the fiscally challenged times, the university is planning and implementing several strategies to align its anticipated revenues with its costs.

Speakers discussed the impact of these challenges on university operations and proposed strategies for reducing costs and enhancing revenue, such as consolidating functions among universities and implementing long-term planning. The conversation also touched on the potential impact of budget cuts on the institution.

Trustee Lopez commented that much is still uncertain and unknown in regard to the state's final budget. She added that it is important to look ahead and try to position the university in a way that minimizes the adverse consequences of reductions on the CSU operating budget, as well as limit impacts to students that may be affected by reductions in financial aid.

Several comments were made around the use of reserves to bridge funding in the short-term. Trustee Lopez added that this option will not be sustainable over a long period of time.

Trustee Lopez concluded the business of the Committee on Finance.

COMMITTEE ON FINANCE

Approval to Amend Prior Authorization to Issue Debt for a Student Housing Project at California State Polytechnic University, Humboldt

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury and Risk Management

Summary

This item requests that the California State University Board of Trustees amend its prior authorization for the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, from a previous authorized not-to-exceed amount of \$79,315,000 to an aggregate amount not-to-exceed \$7,025,000 in connection with the campus's revised financing plan to provide financing for a campus project:

California State Polytechnic University, Humboldt Student Housing Project--Revision

Background

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

California State Polytechnic University, Humboldt Student Housing Project

The California State Polytechnic University, Humboldt Student Housing Project, also referred to as Craftsman (the “Project”) was presented to the Board of Trustees Committee on Finance in the May 21-24, 2023, meeting. At the meeting, the Board of Trustees approved the issuance of long-term SRB and related debt instruments to be supported by campus housing program revenues in a not-to-exceed amount of \$79,315,000. This approval was based on a total project budget of \$221.7 million with additional funding of \$124.7 million from the 2021-2022 State appropriation for the polytechnic transition and grant funding of \$27.1 million awarded from the State’s Higher Education Student Housing Grant Program. As part of the approval, additional net financing costs, such as capitalized interest and cost of issuance were estimated at \$9.4 million.

The campus has reevaluated the financing plan for the project and, in an effort to decrease financial risk to its housing program, the campus seeks approval to change its funding plan to delay the issuance of long-term SRB and related debt instruments to be supported by campus housing program revenues and replace that component of the Project funding with additional funding of \$64.5 million from the 2021-2022 State appropriation for the polytechnic transition. This \$64.5 million will be shifted from an approximately \$101 million allocation of funding for the polytechnic transition that was earmarked for a separate housing, dining, and health center project (HDH). In July 2023, the Board of Trustees approved the financing of the HDH project using Systemwide Revenue Bonds tied to one-time funds provided by the state in the 2021-2022 budget to transition the campus to a polytechnic university. The HDH project will be constructed at a later date with additional funding from long-term SRB and related debt instruments supported by campus housing program revenues to be brought to the Board of Trustees for financing approval at that time.

The Project site was acquired by the campus from the Cal Poly Humboldt Foundation in June 2023 with funding from CP issued under the Board of Trustees’ original May 2023 authorization, thus the need to retain \$7,025,000 of the original not-to-exceed amount. The Project is presently under construction as planned and is on schedule for final completion in Spring 2026.

The revised not-to-exceed principal amount for the Craftsman project is \$7,025,000, inclusive of additional net financing costs, such as capitalized interest and cost of issuance. This not-to-exceed authorization replaces the \$79,315,000 approved by the Board of Trustees in May 2023.

In coordination with CSU’s Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing a resolution to be distributed to the Board prior to this meeting that amends the prior approvals for the Project described in this agenda. The proposed resolution will achieve the following:

1. Amend the resolutions adopted in May 2023 to reduce from \$79,315,000 to \$7,025,000 the not-to-exceed aggregate principal amount of the Trustees of the California State University

Systemwide Revenue Bonds, and/or related Systemwide Revenue Bond Anticipation Notes, and/or related debt instruments authorized to be sold and issued for the Project, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks.

Approval of the financing resolution for this project as described in this Agenda Item 2 of the Committee on Finance at the July 22-24, 2024, meeting of the CSU Board of Trustees is recommended for:

California State Polytechnic University, Humboldt Student Housing Project--Revision

COMMITTEE ON FINANCE

Concept Approval of a Public-Private Partnership Housing Project through an Auxiliary at California State University, Sacramento

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Luke Wood
President
California State University, Sacramento

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

Summary

California State University, Sacramento requests conceptual approval from the CSU Board of Trustees to pursue a plan, through University Enterprises, Inc. (“UEI”), a CSU auxiliary organization in good standing, to construct a new student apartment housing complex on auxiliary-owned land adjacent to the university.

Background

In 2017 the university, through UEI, developed an off-campus, 1,100-bed upper-division student apartment housing project, commonly known as Hornet Commons, located on the southern edge of the university on real property owned by UEI. The development was delivered through a public-private partnership with a developer—Greystar—under a long-term ground lease structure. The Hornet Commons project has been a success and UEI hopes to continue building on this relationship with Greystar to develop another similar project on a site acquired by UEI in late 2023 that is adjacent to the Hornet Commons project.

In January 2023, an independent market analysis by Brailsford & Dunlavey confirmed demand for 621 beds of additional student housing apartments serving upper-division students. The proposed development would accommodate 56% of the total demand identified, thus presenting

an opportunity for the university, through UEI, to continue to increase its student housing offering through the development of a well-located parcel adjacent to the campus boundaries.

Project Description

The development will be a 353-bed apartment-style housing complex comprised of single-occupancy studios, double-occupancy two-bedroom units, and single-occupancy four-bedroom units on a 2.8-acre site (the “Project”) located east of the Hornet Commons development. Currently situated on the site is a vacant 47-year-old, two-story office building that will be demolished in the coming months to pave way for construction of the Project.

The Project will be offered to upper-division students and is not expected to impact the occupancy of on-campus housing offerings, serving as an option for students who live in university-owned housing during their first or second year to continue living within the campus community instead of living elsewhere in the off-campus market.

In March 2024, the campus received support from the Land Development Review Committee for the Project concept.

Budget and Financing

UEI anticipates leasing the development site under a long-term ground lease agreement with Greystar of a duration that would align with the current ground lease in effect with Hornet Commons. No campus or auxiliary funds will be committed to the proposed Project and the developer will be responsible for the related financing, construction, and management of the property during the term of the lease. The ground lease will be structured to ensure that UEI receives ground-lease rent based upon fair market value of the site, at minimum.

Educational Benefits

The Project would create a housing continuum, complimentary to the core campus housing supporting first- and second-year students. This new housing community will support academic success and graduation initiatives and bring students closer to the academic resources of the campus. The Project will also strengthen connections to the university within the upper division and transfer student populations. Students who reside in campus housing experience enhanced faculty and peer interactions, which are linked to better learning outcomes and academic success.

Approval of the Final Development Plan

Per Board of Trustees policy, as the Project moves forward, all related master plan revisions, amendments of the capital outlay program, proposed schematic plans, financial plans, and proposed key business points of the finalized development plan will be presented at future meetings for final approval by the Board of Trustees prior to execution of any commitments for development and use of the property.

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public/private partnership for a student-housing development on auxiliary-owned land adjacent to the California State University, Sacramento campus;
2. Authorize the chancellor, the university, and UEI to enter into negotiations for agreements as necessary to develop a final plan for the public/private partnership as explained in Agenda Item 3 of the July 22-24, 2024 meeting on the Committee on Finance;
3. Authorize the chancellor, the university, and UEI to enter into a due diligence access and option agreement which provides the developer with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and secure all necessary permits during the option period;
4. Will consider the following additional action items relating to the final plan:
 - a) Approval of a development and financial plan negotiated by the university, UEI, and the developer with the advice of the chancellor; and
 - b) Approval of an amendment to the Non-State Capital Outlay Program.

COMMITTEE ON FINANCE

Concept Approval of a Public-Private Partnership Tennis Facility at California State University, Dominguez Hills

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Thomas A. Parham
President
California State University, Dominguez Hills

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

Summary

This item requests conceptual approval to pursue a public-private partnership with the Southern California Tennis Association (SCTA) to develop a tennis sports complex at California State University, Dominguez Hills. If the concept is approved, the proposed partnership project will return to the Board of Trustees at a future meeting for final approval of the real property development agreement.

Background

SCTA is a non-profit entity over 100 years old, chartered with growing and managing all things tennis in Southern California. SCTA is one of the 17 sections of the United States Tennis Association, the national governing body for the sport of tennis. SCTA has public university relationship experience based upon a 30-plus year relationship with UCLA, and is committed to a holistic approach to achieving diversity and inclusion in all aspects of the tennis community.

SCTA desires to leverage its historical accomplishments and rich heritage of tennis in Southern California to undertake the development, improvement, and construction of tennis courts and facilities on the CSUDH campus for use by SCTA.

Project Description

The project proposes improving the existing 12 tennis courts, constructing an additional 17 tennis courts, and constructing a new tennis facility on a five-acre site within the university's southern core (the "Project"). The site consists of 12 courts north of the softball and baseball fields and the campus's south entrance on Toro Center Drive. The Project will include a 10,000-square-foot building housing the SCTA headquarters with staff working spaces, a classroom, a conference room, open office seating, locker rooms, and offices for shared use. The Project will include site work and grading to transform and expand the existing courts into usable assets.

The Project will be for tennis, academic, and ancillary uses for SCTA and CSUDH. It will enhance the sports complex for use by students and the community and improve health and wellness. CSUDH and SCTA desire to re-establish and elevate the stature of CSUDH's tennis program.

Financing

The campus anticipates entering into a ground lease with SCTA at fair market value rent based on an appraisal of the site. SCTA will be responsible for financing, constructing, operating, and maintaining the facility in good condition during the term of the lease. The real property development agreement is envisioned as an initial 25-year ground lease term with two 10-year extension options. The campus also anticipates that SCTA will fund improvements to the campus' existing tennis courts and provide the campus access to the new tennis courts and the complex for university use. SCTA will also be responsible for costs associated with the environmental and entitlement processes by CSU requirements. No campus funds will be committed to the Project. The site development will revert to the CSUDH campus upon termination of the lease.

Educational Benefits

The partnership will enhance CSUDH's mission of a socially just, equitable, and inclusive model urban university, cultivating a community that will provide the physical and social infrastructure necessary to support a sense of belonging and well-being for all students, faculty, staff, and the community at large.

In alignment with the campus master and strategic plans, the Project seeks to not only grow tennis in Southern California but, equally as necessary, to build a more diverse tennis community that is ethnically/racially diverse, economically diverse, and age diverse, without limitations. The Project will seamlessly support the five pillars of the Campus Strategic Plan: Thriving Students, Thriving Educators, Equitable Access, Culture of Care, and Pillar of the Community.

The Project supports and transforms CSUDH's urban core aesthetic to appeal to current and future students. The new facility would be the gold standard and the largest on any college or university campus in the United States.

Approval of the Final Development Plan

Per Board of Trustee policy, as the Project moves forward, all related master plan revisions, amendments of the capital outlay program, proposed schematic plans, financial plans, proposed key business points of the finalized development plan, agreements regarding operating conditions, and mutual use, and the required environmental documents will be presented at future meetings for final approval by the Board of Trustees before executing any commitments for the development and use of the property.

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-private partnership with the Southern California Tennis Association to develop tennis courts and a facility.
2. Authorize the chancellor and the university to enter into negotiations for agreements necessary to develop the final plan for the public-private partnership as explained in Agenda Item 4 of the July 22-24, 2024, meeting of the Committee of Finance.
3. Authorize the chancellor and campus to enter into a due diligence access and option agreement, which provides the Southern California Tennis Association with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following future action items relating to the final plan:
 - a. Review of project environmental mitigation measures that will include traffic, sound, aesthetics, etc. to consider the certification of the required California Environmental Quality Act documentation;
 - b. Approval of a developer agreement;
 - c. Approval of any amendments to the campus master plan as they pertain to the project and long-term campus land use;
 - d. Approval of an amendment to the Capital Outlay Program;
 - e. Approval of schematic design.

COMMITTEE ON FINANCE

2024-2025 Final Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

This agenda item summarizes final budget-related decisions made by the State of California for the 2024-2025 fiscal year and their effect on the California State University (CSU) operating budget.

Background

CSU Actions Taken in 2023-2024 to Mitigate Budget Challenges

To mitigate the budget challenges, CSU universities have implemented several cost reduction strategies coupled with the use of designated balances and reserves and a focus on increasing enrollment. Some of these strategies are reductions in staffing, consolidated programs, reductions in courses to reflect student demand, and restrictions on non-essential purchases and travel. Altogether, the universities used these and other strategies to address the estimated \$138 million budget gap in 2023-2024.

May Revision Proposals

Due to the announcement of the governor's May Revision proposal after the release of the Board of Trustees May meeting agenda, the May Committee on Finance agenda did not contain information on the May Revision. That information is shared now to provide the appropriate background and context for the state's final budget act.

As anticipated, the governor's May Revision reported a drop in anticipated state general fund tax revenue by an additional \$10.5 billion resulting in an overall state budget shortfall of

approximately \$44.9 billion for the 2024-2025 budget cycle. However, after accounting for the early legislative action package that included \$17.3 billion of budget solutions, the remaining budget problem was approximately \$27.6 billion.

Having to narrow the \$27.6 billion gap, the governor's May Revision included many cost-saving proposals, including several proposals for the CSU for 2024-2025. As in January, the governor's administration continued to propose the deferral of 2024-2025 compact funding to 2025-2026 (a 5% increase to the CSU's ongoing state funding or approximately \$240 million). Also continuing from the January proposal, the CSU would be expected to spend an equivalent amount (\$240 million) of one-time funds to advance compact-related goals in 2024-2025. The May Revision also included a \$75 million one-time reduction to the CSU's operating budget. Additionally, the May Revision proposed \$5.5 million ongoing increase for recently signed legislation to cover the estimated costs of expanded tuition and fee waivers for Medal of Honor recipients, children of Medal of Honor recipients, and dependents of service-injured veterans attending the CSU.

Atypical of past practice, the May Revision included proposals for 2025-2026, which is the year after the budget year. The governor's proposals would:

- Reimburse the CSU for the \$240 million in one-time funds expended in 2024-2025.
- Provide ongoing funding in 2025-2026 for the deferred year 3 of the compact (\$240 million ongoing to the CSU's operating budget).
- Provide ongoing funding in 2025-2026 for year 4 of the compact (\$252 million ongoing to the CSU's operating budget).
- Reduce the CSU's ongoing appropriation by an unallocated 7.95% in 2025-2026, consistent with 7.95% reductions proposed for state departments and agencies in 2024-2025.

The net result of this complicated 2025-2026 proposal would be a net 2% increase (approximately \$97 million) in ongoing state funds.

Legislative Proposals

After the May Revision, the state legislature advanced their priorities and proposals for the CSU.

On June 10, 2024, the state legislature adopted a bicameral budget agreement that contained proposals consistent and different than the May Revision.

The proposals that are consistent with the May Revision are: (1) approval of the \$75 million one-time reduction in 2024-2025, (2) an ongoing \$5.5 million for medal of honor tuition and fee waivers and (3) an ongoing reduction of 7.95% in 2025-2026.

The proposals that are different from the May Revision are: (1) provide \$240 million ongoing in 2024-2025 for year 3 of the compact, thus, nullifying the proposed deferral and one-time compact funding proposed by the governor's administration and (2) provide ongoing funding in 2026-2027 for the deferred year 4 of the compact (\$252 million ongoing to the CSU's operating budget).

An intent of the legislature's proposals for the CSU was to provide CSU funding like the proposed May Revision albeit with an emphasis on providing as much ongoing funding as the legislature deemed possible in 2024-2025.

The CSU and the Final Budget Agreement

On June 22, 2024, the governor, senate president pro tempore, and assembly speaker reached a three-party consensus on the 2024-2025 state budget. The governor signed three pieces of legislation enacting the budget decisions affecting the CSU and students: Assembly Bill 107, Senate Bill 108, and Senate Bill 155.

The final budget included ongoing compact funding of \$240 million for 2024-2025 as well as a \$75 million one-time reduction to the CSU operating budget. For 2024-2025, net new CSU funding is \$165 million in support of the CSU 2024-2025 Operating Budget Plan. Consequently, we anticipate costs will not align with revenues with a resulting systemwide budget gap of approximately \$218 million as we begin 2024-2025.

As reflected in both the May Revision and the 2-party legislative budget proposal, the final budget agreement includes the stated intent (not law) for a 7.95% reduction to the CSU's baseline budget in 2025-2026. This is estimated at -\$397 million ongoing. It is important to note that this is a signal for the future, not an inevitability. Initial proposals by state leaders for the 2025-2026 cycle will not begin until January 2025 with several revenue updates and expenditure decisions slated for a year from now.

Also, the final budget includes the state's intent (not law) that deferrals of ongoing compact funding would occur in both 2025-2026 and 2026-2027 until 2026-2027 and 2027-2028, respectively. In addition to ongoing support in those missed years, state leaders signaled one-time funding in 2026-2027 and 2027-2028. Final decisions on these state intentions are distant.

Other items adopted in the Budget Act of 2024 are (1) the ongoing \$5.5 million for medal of honor tuition and fee waivers and (2) \$5 million one-time for planning for up to two sites where additional certificate or degree programs could be offered to support state or local workforce needs.

2024-2025 Budget Situation

The board adopted a multi-year tuition increase in September 2023 and it is estimated that the increase in place for 2024-2025 will generate approximately \$148 million of new incremental revenue to the CSU's operating fund. Also, the state's Budget Act of 2024 included a net increase of \$165 million to CSU's operating fund for 2024-2025 (i.e., \$240 million ongoing increase less \$75 million one-time reduction). These two revenue sources together are less than anticipated a year ago when the board considered its priorities and adopted the 2024-2025 Operating Budget Plan. Consequently, this will prevent the delivery of added resources to the university to adequately address all CSU budget priorities, including staff and faculty compensation costs. Consequently, we anticipate costs will not align with revenues with a resulting systemwide budget gap of approximately \$218 million as we begin 2024-2025. This means that the CSU will continue to encounter many fiscal challenges in 2024-2025 as it did in 2023-2024.

In 2024-2025, it is anticipated the universities will implement several cost reduction strategies, use designated balances and reserves, and focus on increasing enrollment like in 2023-2024.

Of the three main challenges mentioned—funding gap, compensation, and enrollment—system and university leaders will have to continue or further amend programmatic and financial plans to address the budget gap. Each university leadership team faces its own set of unique fiscal challenges as well as its own university-specific aspirational goals that require regular planning and adjusting.

Conclusion

As the state developed and eventually enacted its budget for the 2024-2025 fiscal year, the state's fiscal picture progressively worsened. At the final state budget, the state anticipates a \$2 billion operating deficit in 2025-2026 but \$14 billion and \$18 billion operating deficits in 2026-2027 and 2027-2028, respectively. For context, there is a range of one to 8% budget deficits for the budget year through budget year plus two.

Despite the state budget deficit, the legislature proposed, and the governor's administration agreed to a \$240.2 million ongoing increase to the CSU, which would fulfill the multi-year compact commitment to provide a 5% state general fund increase to the CSU for 2024-2025. However, factoring in all added resources and anticipated expenditures, it is estimated that the CSU will experience an estimated \$218 million budget gap as it begins 2024-2025.

The CSU is appreciative that, despite revenue declines in the state's general fund, the final Budget Act of 2024 continues to honor the multi-year commitment to increase base funding for the CSU. While the additional state general fund, coupled with new tuition revenue will not fully cover the CSU's projected operating costs in 2024-2025, it will allow the university to cover a sizable portion, but not all our ongoing obligations and goals.

As a result, several strategies utilized in 2023-2024 to narrow a \$138 million budget gap will again be utilized in 2024-2025. Examples include program consolidation, course and class size changes, curtailing hiring, eliminating positions, voluntary separation and early retirement programs. It is anticipated that one-time designated balances and reserves will be utilized again in 2024-2025. Also, student recruitment and retention activities are underway that will help raise additional revenue.

These fiscal challenges will be difficult and undoubtedly will include unpopular but necessary decisions throughout the CSU. The CSU will face these challenges head-on as we have over the recent past and it is anticipated that the universities will maintain positive financial positions.

COMMITTEE ON FINANCE

Planning for the 2025-2026 Operating Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The purpose of this item is to provide the CSU Board of Trustees with preliminary assumptions and an initial framework for developing the board's budget priorities for the 2025-2026 Operating Budget Plan. This discussion will shape the final budget proposal to be considered by the board for approval in September before submitting the plan to the governor and legislature.

Potential for Difficult 2025-2026 and Beyond

State leaders included in the Budget Act of 2024 and related documents their intent to implement a mix of reductions and deferrals to the CSU operating budget in 2025-2026 and beyond. State leaders expressed their intent to reduce the CSU's general fund appropriation by 7.95%, or approximately \$397 million ongoing in 2025-2026. Also, state leaders shared their intent to take the compact-envisioned \$252 million ongoing for 2025-2026 and defer that investment until 2026-2027. That pattern would repeat for 2026-2027 with a deferral of \$264 million ongoing until 2027-28. To recompense for the missed ongoing support in those years, state leaders signaled one-time funding of \$252 million in 2026-2027 and \$264 million in 2027-28.

While this news from the state is discouraging, the situation could improve in the coming months. The state's tax revenue structure is heavily dependent on personal income taxes and, more specifically, capital gains taxes. In the past, tax revenue from these sources significantly surpassed (or fell short of) forecasts by many billions of dollars. Due to the variability of these revenue sources, it remains possible that state revenue could exceed forecasts in 2025-2026 and beyond, which could afford state leaders the opportunity to reconsider their original intentions for CSU in those years.

Identify Priorities for the 2025-2026 Operating Budget Plan

The state’s and the CSU’s current budget conditions provide important context for constructing the 2025-2026 budget plan. We are entering 2024-2025 with several unfunded costs that create significant budgetary pressures for our universities. The additional tuition revenue from the board-approved multi-year tuition increase provides critical resources to allow the university to advance some of the most important budget priorities. State funding is a critical and necessary addition to the CSU’s operating budget plan.

Again, the final budget act for 2024-2025 included legislative and gubernatorial intent to reduce the CSU’s general fund appropriation by approximately \$397 million ongoing in 2025-2026. If this intention were to become law, in practical terms, the compact would not be funded and this would be very detrimental to the university’s finances. The compact has been a critical safety net to provide foundational, predictable, and more sustainable funding for our shared commitments to access, equity, and student success and to help protect the university from economic fluctuations for the past three years and over the next two years. Unfortunately, due to fiscal difficulties, the compact’s goal of providing 5% state general fund annual increases is in jeopardy for 2025-2026 and 2026-2027. If the compact commitment is not fulfilled, many of the board’s budget priorities will not be funded.

Expenditure Priorities

Despite the fiscal headwinds just described, the CSU has several budget priorities that are critical to the university and contribute to the mission and values of student achievement. Those priorities should be regularly identified and quantified for all CSU stakeholders including state leaders. It is early in the budget development process and appropriate for the board to discuss these CSU priorities (and others) for the 2025-2026 Operating Budget Plan. Each of these budget priorities contributes to the whole and is important to student success. The table below shows some of the priorities the board has articulated in the past and some new considerations. The list of expenditure priorities will be further developed and available at the September meeting.

	Priority	Base Funding (in millions)
Essential Priorities	• Graduation Initiative / Student Success	\$390
	• Faculty and Staff Compensation	\$5,643
	• Strategic Resident Enrollment Growth	N/A
	• Title IX and Native American Graves Protection and Repatriation Act Compliance Activities	\$40
	• Student Basic Needs and Mental Health	\$95
	• Connecting Academic Programs to Careers	N/A

Priority	Base Funding (in millions)
	N/A
	\$440
Unavoidable	\$760
Priorities	\$777
	\$250
	\$115
	\$179
	N/A
Reductions / Reprioritization	N/A

Multi-University Collaboration: This is an effort with Deloitte Consulting to identify shared services opportunities among universities; and, in some cases funding, such as systemwide funding to supplement university new student recruitment and retention efforts.

Enrollment Target & Budget Reallocation Plan: This plan shifts enrollment targets and related funding among universities in 2024-2025 through 2026-2027. The shift is from universities significantly below enrollment targets to those universities meeting or exceeding their state-funded resident targets. The purpose is to better align enrollment and related resources across the universities.

CSU Academic Master Plan and Campus Academic Plans: Through the regular addition, extension and removal of degree program projections as well as approval, modification, suspension and discontinuation of degree programs by the universities, the Chancellor’s Office and the trustees highlight the connection between academic planning and universities’ work toward financial sustainability and addressing enrollment opportunities and challenges.

Regulatory Relief: Renewed effort to free up resources currently dedicated to state and federal requirements.

Consequences if Expenditure Priorities Not Funded

If additional funding is not available for each of these expenditure priorities, there will be negative consequences. Below are some examples of potential consequences. Some combination of the following could occur.

- The CSU could be challenged in advancing strategies and services that would limit progress in closing student equity gaps and hinder students on their path to graduation.
- If more funding cannot be dedicated to the State University Grant (SUG), recipients of these grants could either: experience a funding gap between the grant amount and the new rate of tuition or fewer eligible new students could receive a SUG as they begin their academic careers. This would affect college affordability and access for many students.
- Required operational costs such as health care, insurance, utility, mandates, and inflationary increases are unavoidable and would require reprioritization from the instructional or student support areas of the universities.
- Negotiated and pending salary increases, cost-share options on employee benefits, and additional rounds of employee reductions could all be considered.
- Maintenance backlogs would persist and grow in our critical capital areas. Additionally, plans for new or modernized innovative academic facilities would be delayed for current and prospective students.

Revenue Sources / Funding Plan

At this stage, it is important for the board to provide input on fiscal policy priorities for the approaching year. To ensure these new, incremental priorities are properly supported, it would require new revenue from a mix of potential sources. The potential, major revenue sources of the preliminary budget plan are: (1) tuition due to the scheduled rate increase, (2) tuition due to strategic resident enrollment growth, (3) reductions / reprioritization (4) state general fund consistent with the compact commitment, and (5) additional state general fund above prior commitment levels. These revenue sources will be further developed and available at the September meeting.