

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 1:10 p.m., Tuesday, September 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. California Polytechnic State University, San Luis Obispo Approval to Issue Debt for an Auxiliary Acquisition of a Housing Project, *Action*
  3. California State University Quarterly Investment Report, *Information*
- Discussion**
4. Approval of the 2025-2026 Operating Budget Request, *Action*
  5. Overview of California State University Debt and Impact on 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**

**July 24, 2024**

**Members Present**

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

Jack B. Clarke, Jr., Chair of the Board  
Mildred García, Chancellor

Trustee Jonathan Molina Mancio 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.

**Consent Agenda**

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

Item 2, Approval to Amend Prior Authorization to Issue Debt for a Student Housing Project at California State Polytechnic University, Humboldt was approved as submitted (RFIN 07-24-05).

Item 3, Concept Approval for a Public-Private Partnership Housing Project through an Auxiliary at California State University, Sacramento was approved as submitted (RFIN 07-24-06).

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Item 4, Concept Approval for a Public-Private Partnership Housing Project through an Auxiliary at California State University, Sacramento was approved as submitted (RFIN 07-24-07).

### **Discussion Agenda**

The committee had two items on the discussion agenda.

### **Item 5, 2024-2025 Final Budget, Information**

Assistant Vice Chancellor for Budget Ryan Storm reported on the final CSU budget for fiscal year 2024-2025. It was reported that the Budget Act of 2024 includes a \$240 million base budget increase for CSU operations, a \$75 million one-time budget reduction, and no funding for critical capital renewal. This leaves an approximate \$218 million budget gap for CSU for fiscal year 2024-2025 and will require the universities to reprioritize their spending potentially impacting academic offerings and support services to students.

The presentation included a refresher on the designated balances and reserves policy and an update. In 2024-2025, \$114 million in reserves for economic uncertainty were used to narrow the funding budget gap. As of June 30, 2024, the balance of \$2.4 billion in designated balances and reserves is made up of: \$1.25 billion designated for short term obligations such as program development, open contracts, financial aid obligations, and other immediate one-time costs; \$30 million designated for catastrophic events--for costs not covered by insurance; \$316 million designated to new capital projects, repair of current buildings, and equipment acquisition; and \$777 million of reserves for economic uncertainty that are not obligated for a specific purpose.

Following the presentation the trustees raised several comments and questions. Trustee Yee-Melichar asked what the long-term strategies are for financial sustainability and what new strategies are being explored to mitigate the impact of these budget cuts and funding shortfalls from the state. Executive Vice Chancellor and Chief Financial Officer Steve Relyea responded that key strategies include both sides of the ledger - looking at every element of our cost structure and all the other ways that we can diversify and increase our revenue. He provided examples of cost savings strategies, including: the proposal to integrate Cal Maritime Academy with Cal Poly San Luis Obispo; the efforts being explored by the multi-university collaboration initiative and through the use third party partnerships to find ways of driving down costs; and the academic program review process to look for ways to eliminate redundancy and duplication in offerings. On the revenue side, strategies include continue to build on joint advocacy efforts with our union partners, students, and alumni that were successful this budget cycle and looking at how investment earnings on our reserves can be maximized to address critical capital needs. Trustee Adamson suggested considering philanthropy and endowed chairs to raise money to offset ongoing expenses of the university similar to what private universities do.

Trustee Steinhauser commented on the use of reserves noting that \$114 million in one-time balances and reserves were used to close the \$138 million funding gap for 2023-2024. He emphasized that of the \$2.4 billion shown as designated balances and reserves, \$1.7 million are already committed for designated purposes and only \$777 million being held for economic uncertainty are not obligated or restricted. Mr. Storm confirmed that indeed, \$1.7 million in reserves are already committed to things like open contracts which may span multiple fiscal years as well as funds held temporarily for summer term financial aid. Trustee Adamson added that perhaps the terminology being used should be changed to call the amount being held for economic uncertainty the reserve and the rest of the amount committals and obligations.

Trustee Clarke spoke of the hard challenges ahead and expressed support for the campus presidents and the difficult decisions they will have to make. Trustee Guajardo requested a future report on the impacts of the proposed strategies on students, staff, and faculty. Mr. Relyea agreed to do so and added that he would work with Human Resources to do a thoughtful analysis on how those strategies may impact staff and faculty recruitment retention.

#### **Item 6, Planning for the 2025-2026 Operating Budget, Information**

Preliminary budget priorities and key considerations for fiscal year 2025-2026 were shared with the trustees for their feedback and discussion. State leaders have expressed their intent to reduce state general fund support of the university by \$397 million ongoing for fiscal year 2025-2026 and are proposing a deferred investment plan for funds not provided, in the following fiscal years. CSU staff forecast an operating funding gap of \$428 million in fiscal year 2025-2026 if no additional expenditures are added. However, the gap could be as high as \$1 billion if unavoidable and essential priority expenditures are included. Unavoidable ongoing expenditure priorities presented include the State University Grant, health insurance premium increases and required operational costs, and total \$181 million. Essential priorities presented include student access, enrollment, student success/graduation initiative, compensation pool, Title IX and NAGPRA programs, and academic facilities and infrastructure, which would create hundreds of millions of dollars of additional costs.

Following the presentation the trustees commented on the funding challenges and expressed concern about the uncertainty of receiving additional funds from the state. They raised the need to consider the situation from different perspectives, prioritizing student success and quantifying the money that goes back to the state for their investment in the CSU. Trustee Gilbert-Lurie asked how trustees can be most helpful and Mr. Relyea responded that by providing their thoughtful input on whether the listed priorities are appropriate or if something was missed and should be included. Trustee Arambula appreciated the clear explanation of the intentions behind the recommended priorities and seeing what it would lead to in terms of an overall funding gap.

Trustee Molina Mancio concluded the business of the Committee on Finance.

## **COMMITTEE ON FINANCE**

### **California Polytechnic State University, San Luis Obispo Approval to Issue Debt for an Auxiliary Acquisition of a Housing Project**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

This item requests the California State University Board of Trustees to authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, in an aggregate principal amount not-to-exceed \$46,190,000 to provide financing for an auxiliary capital project:

### **California Polytechnic State University, San Luis Obispo - Cal Poly Corporation Harvest Lofts Faculty and Staff Housing Acquisition**

#### **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

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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 Polytechnic State University, San Luis Obispo - Cal Poly Corporation Harvest Lofts Faculty and Staff Housing Acquisition**

Cal Poly Corporation (the "Corporation"), a recognized auxiliary organization in good standing at California Polytechnic State University, San Luis Obispo, proposes to acquire a privately developed and newly constructed apartment complex, commonly known as the Harvest Lofts (the "Project").

The Project is located approximately four miles south of the main campus on a 1.92 acre. It is made up of six three-story apartment buildings, with a total of 120 studio and one-bedroom apartments.

The Project will provide a structured and organized approach to help address housing challenges for incoming faculty and staff, enhance recruitment efforts by offering reliable temporary housing solutions, and add to a portfolio of housing at Cal Poly providing flexible alternatives to new and existing faculty and staff.

The acquisition price of \$44,000,000 is supported by a fair market value appraisal conducted in August 2024. On August 13, 2024, the Corporation's board of directors adopted a resolution approving the financing of the Project through the CSU's SRB program.

The not-to-exceed principal amount of the proposed bonds is \$46,190,000, based on a total acquisition cost of \$44,000,000 and additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$2,190,000), that are expected to be funded from bond proceeds. The escrow closing for the acquisition is expected to occur in late September or October 2024.

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	\$46,190,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$3,161,543
Projected debt service coverage <sup>1</sup> :	
Cal Poly Corporation:	2.08
Campus aggregate:	1.49

<sup>1</sup> Based on campus projections in 2026-2027, the first full year of project operations and expected full debt service.

The not-to-exceed principal amount for the project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.66%, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The financial plan projects the Corporation’s net revenue debt service coverage to be 2.08 in fiscal year 2026-2027, the first full year of debt service repayment for the Corporation, which is better than the CSU benchmark of 1.10 for an auxiliary debt program. Combining the 2026-2027 projections for the Corporation and 2026-2027 projections for all campus pledged revenue programs yields a campus net revenue debt service coverage for the first full year of operations of 1.49, which is better than the CSU campus benchmark of 1.35.

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

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate amount not-to-exceed \$46,190,000 and certain actions relating thereto.

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2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for this project as described in this Agenda Item 2 of the Committee on Finance at the September 22-25, 2024, meeting of the CSU Board of Trustees is recommended for:

**California Polytechnic State University - Cal Poly Corporation Harvest Lofts Faculty and Staff Housing Acquisition**



## **COMMITTEE ON FINANCE**

### **California State University Quarterly Investment Report**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

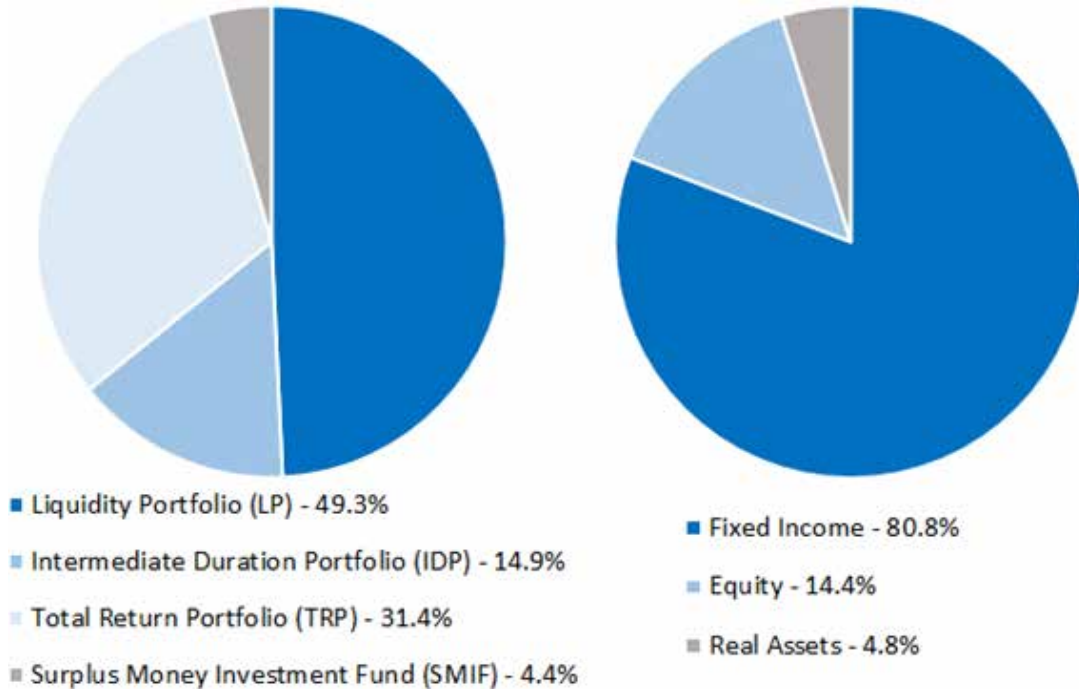
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended March 31, 2024. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

#### **Background**

The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of March 31, 2024, consisted of investments in the Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the state in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in the figures reported. In addition, this report does not include approximately \$1.38 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**CSU Investments – Balances, Allocations, and Returns  
 March 31, 2024**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (LP)	\$4.288 billion	49.3%	4.65%
Intermediate Duration Portfolio (IDP)	\$1.300 billion	14.9%	3.24%
<u>Total Return Portfolio (TRP)</u>	<u>\$2.734 billion</u>	31.4%	12.85%
<b>CSU Investment Portfolios</b>	<b>\$8.32 billion</b>		
Surplus Money Investment Fund (SMIF)	\$0.386 billion	4.4%	3.49%
<b>Total CSU Investments</b>	<b>\$8.71 billion</b>	<b>100%</b>	



**CSU Investment Performance**

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

### **CSU Liquidity Portfolio (LP)**

The purpose of the LP is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives are safety of principal and liquidity.

The LP is managed through contracts with two investment management firms, BlackRock Financial Management and Payden & Rygel, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the LP for investment management purposes, additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the state and the LP investment policy. Consistent with state law, the LP is restricted to high quality, fixed income securities.

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

The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. The IDP is managed through contracts with three investment management firms, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management, each of whom provides investment management services for the program. While the custodian, US Bank, holds the funds invested in the IDP, for investment management purposes, additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the state and the IDP investment policy. Consistent with state law, the IDP is restricted to high quality, fixed income securities.

### **CSU Total Return Portfolio (TRP)**

The purpose of the TRP is to provide the opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level.

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings, and may not be more than 65% of eligible CSU investments. The CSU Investment Advisory Committee (IAC), established by the Board of Trustees in September 2017, oversees the TRP and focuses on key issues such as investment policy, asset allocation, investment manager oversight, and investment performance.

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The TRP investment policy provides a framework for the investment of portfolio funds in the TRP and includes the following key elements as further described in the TRP Investment Policy:

Investment Objectives	Investment Manager Selection
Spending Policy	Roles & Responsibilities
Time and Investment Horizon	Environmental, Social and Governance Framework
Risk Tolerance	Risk Management
Expected Return	Monitoring and Control Procedures
Asset Allocation	
Benchmarks	

With the passage of AB 2422, effective January 1, 2023, up to 65% of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. Considering these legislative changes, in January of 2023 the IAC took two actions and in March of 2023 the Board of Trustees took one action. First, the IAC approved a recommendation to the Board of Trustees to revise the CSU Master Investment Policy. These recommended revisions were presented to and approved by the Board of Trustees at the March 2023 meeting. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP from January of 2023 to December of 2024. At present, \$835 million of the additional \$1.25 billion has been invested in the TRP. The investment schedule may also be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed its statutory limit as a percent of CSU investments.

Since the TRP Inception date<sup>1</sup> through March 31, 2024, the TRP investment earnings were approximately \$530.9 million. During this period, the TRP total return exceeded the LP total return by 4.73% annualized (net of fees) or a cumulative \$388.1 million, which was about 3.7 times higher than LP investment earnings.

In October 2023, the IAC approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional earnings from the TRP shall be used only for capital outlay or maintenance and shall not be used for ongoing operations.

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

### **Surplus Money Investment Fund (SMIF)**

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. To facilitate certain expenditures, the CSU maintains modest amounts of funds with the state. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

### **Reporting Requirements**

California Education Code § 89726 requires quarterly investment reports to the Board of Trustees and an annual report to the State Legislature and the Department of Finance.

### **Recent Actions/Next Steps**

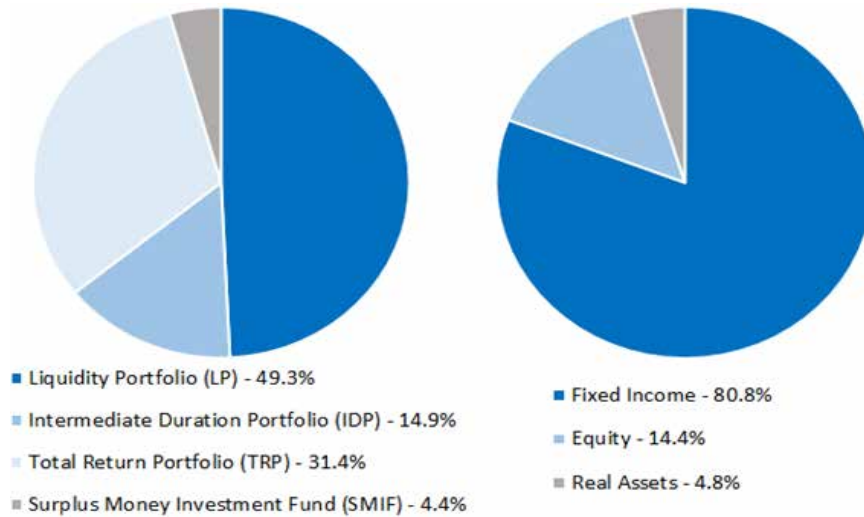
The next investment report to the Board of Trustees is scheduled for the November 2024 meeting and will provide information on the CSU Annual Investment Report for the fiscal year ending June 30, 2024.

**CSU Quarterly Investment Report  
 For the Fiscal Quarter Ended March 31, 2024**

California State University investments as of March 31, 2024, consisted of investments in the CSU Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.38 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**Balances and Allocations as of March 31, 2024**

	<u>Balance</u>	<u>% of CSU Investments</u>
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Surplus Money Investment Fund (SMIF)	\$0.386 billion	4.4%
<b>CSU Investments</b>	<b>\$8.71 billion</b>	<b>100%</b>



For the nine months ending March 31, 2024, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just over \$3.2 million, or about 0.041% on CSU investments' average balance for the nine months ending March 31, 2024.

<sup>1</sup> Direct investment management fees exclude TRP mutual fund investment management fees. TRP mutual fund investment management fees are included as mutual fund expenses and reported as a percent of total fund assets. See TRP Fund Expense Ratio (Fee) in the table on page 6.

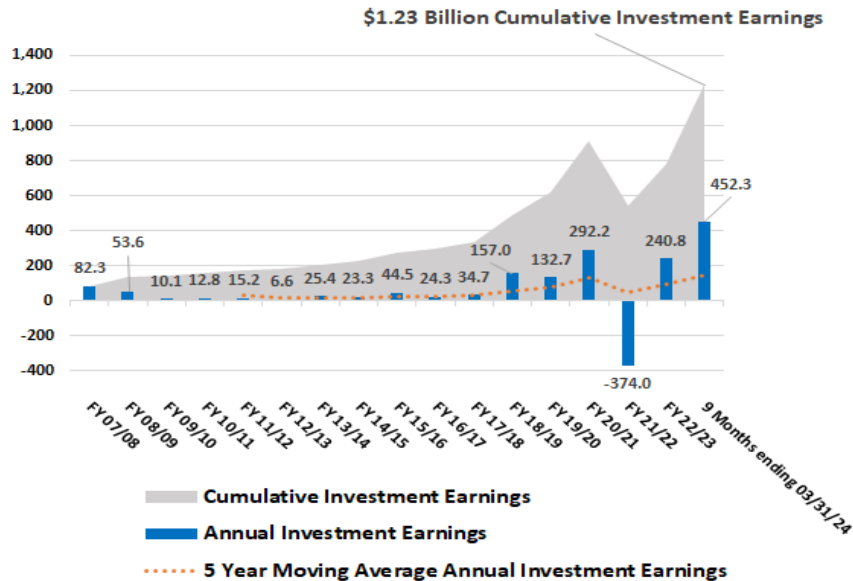
### CSU Consolidated Investment Portfolio

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

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (LP)
1 Year Return	7.08%	12.85%	3.24%	4.65%
3 Year Annualized Return	1.79%	3.06%	N/A	1.33%
5 Year Annualized Return	2.92%	6.52%	N/A	1.71%
10 Year Annualized Return	2.04%	N/A	N/A	1.42%
Since Inception Return <sup>3</sup>	1.82%	6.55%	-2.13%	1.45%

As of March 31, 2024, the TRP since inception investment earnings were approximately \$530.9 million. During this period, the TRP total return exceeded the LP total return by 4.73% annualized (net of fees) or a cumulative \$388.1 million, which was about 3.7 times higher than LP investment earnings.

### *Investment Earnings from CSU Investments Support Campus Operations and Student Experience* Earnings from CSU Investments (\$ in millions)



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

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

**CSU Liquidity Portfolio (LP)**

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

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark<sup>4</sup></u>
1 Year Return <sup>5</sup>	4.65%	3.68%
3 Year Annualized Return	1.33%	0.79%
5 Year Annualized Return	1.71%	1.43%
10 Year Annualized Return	1.42%	1.19%
Annualized Since Inception Return <sup>6</sup>	1.45%	1.54%
Yield	4.05%	4.89%
Duration (Years)	0.98	1.44
Average Credit Rating	AA-	AA+

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

Treasuries	47.7%	Certificates of Deposit	2.3%
U.S. Corporate Bonds	23.1%	Cash Equivalents	1.8%
Commercial Paper	17.6%	Agency MBS	1.4%
U.S. Government Agencies	6.0%	CA Municipal Obligations	0.1%

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

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

<sup>6</sup> Inception Date for the LP was July 1, 2007.



**CSU Intermediate Duration Portfolio (IDP)**

The purpose of the IDP is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives are safety of principal, liquidity, and return. Consistent with state law, the portfolio is restricted to high quality, fixed income securities.

	<b>CSU Intermediate Duration Portfolio</b>	<b>Benchmark<sup>7</sup></b>
3 Months Return <sup>8</sup>	-0.18%	-0.35%
1 Year Return	3.24%	2.72%
Annualized Since Inception Return <sup>9</sup>	-2.13%	-2.19%
Yield	5.07%	4.92%
Duration (Years)	4.71	4.59
Average Credit Rating	A+	AA-

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

U.S. Corporate Bonds	54.77%	U.S. Government Agencies	1.37%
Agency MBS	29.77%	CA Municipal Obligations	1.24%
Treasuries	10.11%	Cash Equivalents	0.37%
Asset-Backed Securities	2.29%	Supranationals	0.08%

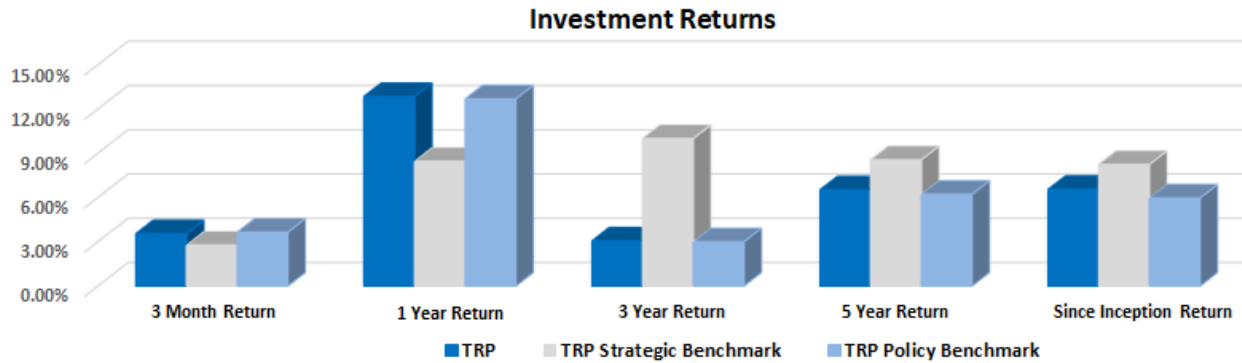
**CSU Total Return Portfolio (TRP)**

The purpose of the TRP is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. 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.

<sup>7</sup> Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

<sup>8</sup> IDP Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>9</sup> Inception Date for the IDP was October 1, 2021.



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>10</sup></b>	<b>Policy Benchmark<sup>11</sup></b>
3 Months Return	3.55%	2.78%	3.65%
1 Year Return	12.85%	8.46%	12.69%
3 Year Annualized Return	3.06%	10.00%	3.00%
5 Year Annualized Return	6.52%	8.56%	6.22%
Annualized Since Inception Return <sup>12</sup>	6.55%	8.24%	5.97%

In October 2023, the CSU Investment Advisory Committee approved the fifth annual TRP distribution to the system of approximately \$56 million, bringing total TRP distributions to the system since inception to \$218 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with Education Code § 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.

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

Equity Mutual Funds	46.0%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.9%	Actively Managed Mutual Funds	26% <sup>13</sup>
Real Asset Mutual Funds	15.1%		

<sup>10</sup> The TRP Strategic Benchmark is inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.8% per annum.

<sup>11</sup> The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

<sup>12</sup> TRP Inception Date was April 1, 2018.

<sup>13</sup> The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan. The total TRP Fund Expense Ratio and total Median Fee Per Asset Class are weighted averages using the percent of the TRP shown in the table for each fund and their respective asset class.

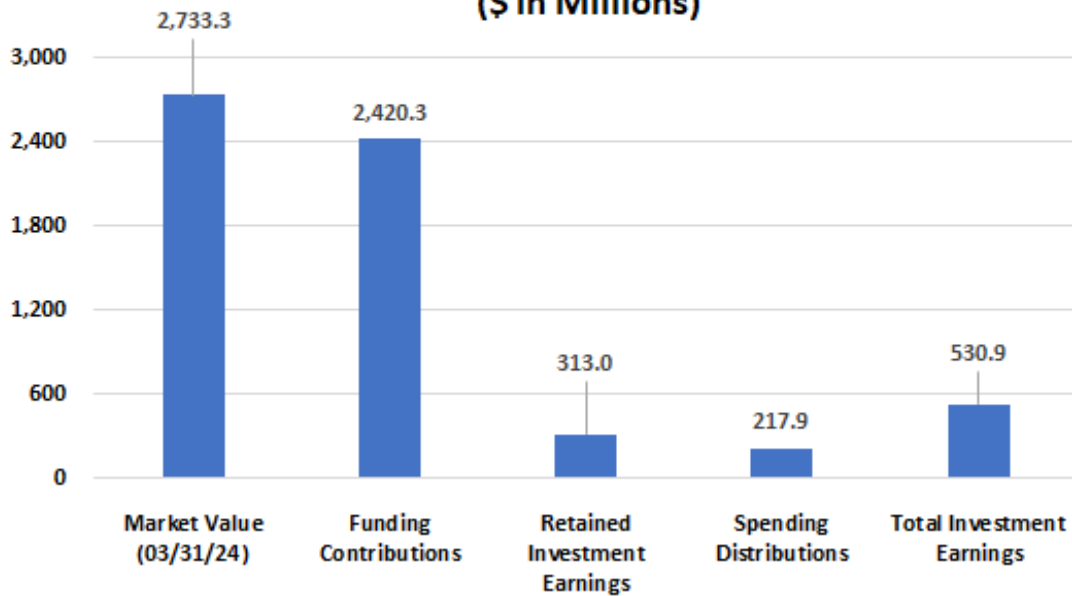
**Values, Holdings & Fees (CSU Total Return Portfolio)**

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	598.6	21.90%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	136.0	4.98%	0.07%	0.44%
	American Century High Income Fund	NPHIX	147.4	5.39%	0.58%	0.78%
	Polen Opportunistic High Yield	DDJIX	16.3	0.60%	0.79%	0.78%
	Aristotle Floating Rate Income Fund	PLFRX	82.1	3.00%	0.70%	0.76%
	Payden Emerging Markets Bond Fund	PYEIX	40.8	1.49%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	41.0	1.50%	0.70%	0.80%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	657.2	24.04%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	326.7	11.95%	0.04%	0.89%
	Driehaus Emerging Markets Growth Fund	DIEMX	163.9	6.00%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	81.9	3.00%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	27.4	1.00%	1.20%	1.01%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	193.0	7.06%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAX	110.0	4.02%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	111.1	4.06%	0.95%	0.97%
<b>Cash</b>			0.0	0.00%	NA	NA
<b>Total</b>			<b>2,733.3</b>	<b>100%</b>	<b>0.24%</b>	<b>0.74%</b>

***TRP Annual Spending Distributions Assist Campuses to Meet Deferred Maintenance & Capital Outlay Needs***

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of March 31, 2024. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.

**TRP Market Value, Funding Contributions, Retained Investment Earnings, and Spending Distributions Since Inception as of March 31, 2024 (\$ in Millions)**



**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<sup>14</sup>**

Trailing 12 month as of March 31, 2024	3.49%
Average (FYE June 30, 2007 – March 31, 2024)	1.23%

<sup>14</sup> Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.

## **COMMITTEE ON FINANCE**

### **Approval of the 2025-2026 Operating Budget Request**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Ryan Storm  
Assistant Vice Chancellor  
Budget Planning and Advocacy

Ellen Neufeldt  
President  
California State University, San Marcos

Cynthia Teniente-Matson  
President  
San Jose State University

#### **Summary**

This item recommends approval of the 2025-2026 CSU Operating Budget Request (Request) by the Board of Trustees. Figure 1 is a high-level summary of the recommended Request.

#### **Potential for Difficult Revenue Situation in 2025-2026**

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. Most immediately, state leaders expressed their intent to reduce the CSU's general fund appropriation by 7.95%, or approximately \$397 million ongoing in 2025-2026. For background, the Budget Act of 2024 already reduced most other state departmental operating budgets by 7.95% in 2024-2025 with the state's plan providing the CSU and the University of California (UC) a one-year grace period to plan and implement reductions before the state implements the 7.95% reduction.

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New tuition revenue will provide the CSU additional funding that will slightly mitigate the state's planned reduction. The tuition rate increase, already adopted by the trustees in 2023, would generate approximately \$164 million of new, ongoing revenue. In addition, if the CSU were to increase resident enrollment by 1%, this would generate approximately \$24 million of new, ongoing revenue. The two new tuition revenue sources would only offset about half of the state's proposed reduction, resulting in a net loss of revenue in 2025-2026 of approximately \$209 million ongoing as depicted in Figure 1.

While the state's intent is discouraging, the situation could improve to some degree in the coming months. In the past, state tax revenue could significantly fluctuate from forecasts by many billions of dollars. Due to this variability, it remains possible that state revenue could exceed forecasts in 2025-2026. However, even if the state's revenue situation were to improve, state leaders are obligated to first consider statutorily or constitutionally required repayments to K-14 education or may choose to invest in other state activities before considering withdrawing planned reductions to CSU and UC. In other words, there is a limited potential for a marked improvement in this situation.

### **The Expenditure Priorities of the 2025-2026 Operating Budget Request Reflect the CSU's Values and Priorities**

An organization's budget reflects its values. This is the case at the CSU. As briefly shown in the "For Trustee Approval" column in Figure 1, the 2025-2026 Operating Budget Request includes new, aspirational investments/essential priorities that complement current funding levels and the many values and priorities of the university. Also, the Request contains necessary investments in required operational costs/unavoidable priorities that are important for the long-term financial sustainability of the university. If these investments are appropriately resourced, the CSU and the state will be in a better position to meet the overall economic and future workforce needs of California.

**FIGURE 1      2025-2026 OPERATING BUDGET REQUEST (in millions)**

	<b>For Trustee Approval</b>	<b>Limited Budget If State Reduction</b>
<b>REVENUE</b>		
Tuition Rate Increase (Gross)	\$164	\$164
Tuition from Enrollment Growth (1%)	24	
State General Fund	-397	-397
<b>Subtotal, Revenue</b>	<b>-\$209</b>	<b>-\$233</b>
<b>UNAVOIDABLE PRIORITIES</b>		
State University Grant - Tuition Rate Increase	\$55	\$55
Health Premiums	60	60
Maintenance of New Facilities	7	7
Liability & Property Insurance Premiums	10	10
Utilities	32	32
<b>ESSENTIAL PRIORITIES</b>		
Student Success / Graduation Initiative	20	
Beyond Completion	2	
Student Access & Enrollment	56	
State University Grant - Enrollment Increase	8	
Faculty & Staff Compensation Pool	296	
Title IX and NAGPRA Compliance Programs	10	
Student Basic Needs & Mental Health	5	
Facilitating Artificial Intelligence (AI) Optimization	7	
Debt Service on Academic Facilities & Infrastructure	25	
<b>Subtotal, Priorities</b>	<b>\$593</b>	<b>\$164</b>
<b>Budget Gap / Reprioritization</b>	<b>-\$802</b>	<b>-\$397</b>

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However, the “Limited Budget If State Reduction” column in Figure 1 suggests that if the state were to adopt a \$397 million ongoing reduction, many essential budget priorities could not be funded and a significant budget gap would occur requiring a reprioritization away from the classroom and student services to unavoidable priorities and cost increases.

The Request notes a significant budget gap between the unavoidable and essential priorities and available revenue for 2025-2026. At this early stage in the budget cycle, it is important to highlight the budget priorities that will advance many aspects of the university’s work. As we move along the budget cycle timeline, the state, the system, and each of the universities will explore many options and make many decisions that will narrow and eventually bridge the budget gaps noted today. Examples of those options include:

- The state partially or fully withdraws plans to permanently reduce CSU funding.
- The state restores compact funding.
- The CSU foregoes many or all new essential budget priorities.
- The CSU reprioritizes resources from current programs and services to unavoidable budget priorities.
- The CSU makes permanent budget reductions to current programs and services.
- The CSU utilizes one-time designated balances and reserves to bridge to 2026-2027 until permanent reductions can be implemented.

### **Draft 2025-2026 Operating Budget Request**

The above information serves as a brief overview of the current revenue circumstances and the several budget priorities critical to the university that contribute to the mission and values of student achievement.

Attachment A to this agenda item is a draft of the 2025-2026 Operating Budget Request and provides additional detail for the Board of Trustees’ consideration. For example, Attachment A describes each unavoidable and essential priority included in Figure 1. To complement the description of each priority, the consequences are included if the priority is not funded in 2025-2026. If the trustees adopt the Request as summarized in Figure 1 and as further detailed in Attachment A, the Chancellor’s Office will publish the 2025-2026 Operating Budget Request shortly after the conclusion of the September 2024 meeting and share the Request with state leaders.



## **Recommendation**

The following resolution is recommended for approval:

### **Approval of the 2025-2026 Operating Budget Request**

**RESOLVED**, that the future of California rests on the California State University's ability to provide a high-quality, affordable, and accessible education to over 450,000 students each year; and be it further

**RESOLVED**, by the Board of Trustees of the California State University that the 2025-2026 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 the chancellor promptly communicate any changes to the trustees; and be it further

**RESOLVED**, that the chancellor transmit copies of this resolution and the 2025-2026 CSU Operating Budget Request publication as soon as practical to the governor, to the director of the Department of Finance, and to the legislature.

## 2025-26 OPERATING BUDGET REQUEST

### EXECUTIVE SUMMARY

**The California State University's (CSU) primary budget goals this year are to avoid cuts and restore the state compact funding.** The CSU's budget situation is dire, with our primary goals this year centered on avoiding a harmful 7.95% ongoing cut to base funding, which equates to approximately -\$397 million, and preventing the deferral of compact funding, totaling \$252.3 million. These budgetary measures would have severe consequences for students, staff and faculty across all CSU universities, forcing difficult decisions that could lead to larger class sizes, reduced course offerings, diminished student services, layoffs and hiring freezes. The quality of education and university life would be significantly compromised, undermining our core mission. A -\$397 million cut is equivalent to the funding needed to educate and support more than 36,000 full-time equivalent students.

The proposed 7.95% cut and deferred funding would also jeopardize critical long-term investments in academic programs, student support services and infrastructure, creating substantial uncertainty for universities as they attempt to plan for future needs. Our efforts this year will focus on advocating against these cuts and ensuring that the necessary funding is secured to sustain high-quality educational opportunities and overall student success.

**Funding cuts and deferrals compromise student success.** Our universities are already facing significant cost pressures due to unfunded mandates, rising operational expenses and underfunded compensation increases from 2023-24 and 2024-25. The proposed state cuts for 2025-26 would exacerbate these challenges, forcing universities to make additional difficult choices that could undermine long-term goals. Securing adequate funding is essential to maintaining the high standards of education and support services that our students deserve.

**Compact funding provides some financial stability to meet CSU goals and initiatives.** The CSU's multi-year tuition plan offers some predictability in revenue, which is crucial for addressing the budgetary shortfall. However, this alone is not enough. The additional revenue from tuition increases was carefully planned to complement the state's compact funding to ensure that the CSU can advance the most critical budget priorities without sacrificing quality or access.

Further complicating the budget landscape are emerging fiscal constraints, including the need for significant investments to implement Title IX and anti-Discrimination, Harassment, and Retaliation (DHR) program recommendations, support enrollment initiatives, close equity gaps, improve compensation and achieve a more sustainable financial model. These are essential expenditures that only add to the financial strain the CSU is currently experiencing.

While the multi-year compact with Governor Newsom's administration has provided essential financial support, the current economic and state budget climate presents uncertainties. Market volatility, inflation and heightened interest rates contribute to an unpredictable financial outlook, making the CSU's advocacy efforts more crucial today. However, we remain optimistic about our partnership with the administration and

the legislature. By working together, we can navigate these challenges and secure the necessary funding to avoid harmful cuts. Through continued collaboration, we can ensure that the CSU remains a beacon of accessible, high-quality education, providing the best outcomes for every CSU student and for California's communities and workforce. This united effort will not only protect our universities but also strengthen our shared commitment to fostering equity, student success and economic mobility across the state.

**FUNDING PRIORITY: AVOID CUTS & CONTINUE THE COMPACT  
 2025-26 BUDGET PRIORITIES**

The CSU proposes a \$9.2 billion operating budget for 2025-26. This budget requests an increase of \$593 million over 2024-25.

A 7.95% budget cut, amounting to -\$397 million, coupled with a \$252.3 million deferral of compact funding would significantly underfund the CSU’s essential priorities and unavoidable expenditures for 2025-26. The impact on students would be particularly severe, as these cuts would jeopardize vital services that support their academic success and overall well-being.

The CSU faces \$163.6 million in unavoidable expenditures for the upcoming fiscal year, including necessary increases in financial aid, healthcare premiums, liability and property insurance, utilities and maintenance of new facilities. These are not discretionary costs.

Moreover, the reduction in funding would severely constrain the university’s ability to support programs crucial to student access, equity and retention. These include initiatives under the Graduation Initiative, basic needs and mental health services, as well as financial aid enhancements, all of which directly contribute to student success. The compounding effect of these financial pressures would hinder the CSU’s ability to provide an affordable, high-quality education to all students and would undermine the very mission of the university.

<b>EXPENDITURE PLAN (MILLIONS)</b>	<b>BASE</b>	<b>INCREASE</b>	<b>%</b>
<b>Unavoidable Expenditures</b>			
Financial Aid: State University Grant – Tuition Rate Increase	\$760	\$54.6	7%
Health Premiums	777	60.3	8%
Maintenance of New Facilities		7.0	
Liability and Property Insurance Premiums	115	10.0	9%
Utilities	132	31.7	24%
<b>Essential Expenditures</b>			
Student Success / Graduation Initiative	400	20.0	5%
Beyond Completion		2.0	
Student Access and Enrollment		56.1	
Financial Aid: State University Grant – Enrollment Increase		8.0	
Faculty and Staff Compensation Pool	5,819	295.8	5%
Title IX and NAGPRA Compliance Programs	40	10.5	26%
Student Basic Needs and Mental Health	95	5.0	5%
Facilitating Artificial Intelligence Optimization		7.0	
Debt Service on Academic Facilities and Infrastructure	440	25.0	6%
<b>TOTAL</b>	<b>\$8,578</b>	<b>\$593.0</b>	<b>6.9%</b>

**UNAVOIDABLE EXPENDITURES****(MILLIONS)**

Financial Aid: State University Grant – Tuition Rate Increase	\$54.6
Health Premiums	60.3
Maintenance of New Facilities	7.0
Liability and Property Insurance Premiums	10.0
Utilities	31.7
<b>TOTAL</b>	<b>\$163.6</b>

**FINANCIAL AID**

The State University Grant (SUG) program is the CSU's primary institutional aid, providing need-based awards to eligible students. The budget plan includes an additional \$54.6 million for SUG due to a tuition increase, ensuring students with the greatest financial need are not impacted by the tuition increase scheduled for 2025-26. The SUG program has grown significantly, from \$4 million in 1982-83 to a projected \$822 million in 2025-26, with 9% of the CSU's total operating budget dedicated to this aid.

In 2022-23, the CSU provided over \$1 billion in institutional aid, including \$716 million for SUG. Additional student support came from the state Cal Grant program (\$754 million), the Middle-Class Scholarship Program (\$419 million) and the federal Pell Grant program (\$997 million). These aid programs help reduce attendance costs, allow nearly two-thirds of CSU bachelor's degree recipients to graduate with zero loan debt, and keep remaining CSU student debt lower than state and national averages. In 2022-23, CSU graduates had an average debt of \$17,346.

**HEALTH PREMIUMS**

Permanent base budget costs associated with January 2025 employer-paid health care premium increases are \$60.3 million, reflecting an 8% increase in costs. 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, which defines the employer-paid contribution rates.

**MAINTENANCE OF NEW FACILITIES**

The CSU is scheduled to open 296,528 square feet of new facilities in 2025-26. The cost to fund regular maintenance of these facilities is \$23.60 per square foot, for an additional \$7 million in 2025-26. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape and administrative support.

**LIABILITY AND PROPERTY INSURANCE PREMIUMS**

The CSU estimates a \$10 million increase, equivalent to a 9% increase, related to property and liability coverage. Insurance premiums continue to rise across the country and more so for California public entities. Without the additional funding, the CSU must redirect existing resources to cover the increase to this required operating cost.

**UTILITIES**

CSU utility cost increases are \$31.7 million, equivalent to a 24% increase, as utility rates continue to climb. This increase reflects changes in both electric and natural gas rates. If the additional budget request is not met, universities must redirect existing resources to pay for the increased utility costs.

**ESSENTIAL EXPENDITURES****(MILLIONS)**

Student Success / Graduation Initiative	\$20.0
Beyond Completion	2.0
Student Access and Enrollment	56.1
Financial Aid: State University Grant – Enrollment Increase	8.0
Faculty and Staff Compensation Pool	295.8
Title IX and NAGPRA Compliance Programs	10.5
Student Basic Needs and Mental Health	5.0
Facilitating Artificial Intelligence Optimization	7.0
Debt Service on Academic Facilities and Infrastructure	25.0
<b>TOTAL</b>	<b>\$429.4</b>

**STUDENT SUCCESS / GRADUATION INITIATIVE**

Graduation Initiative 2025 aims to ensure that all students, regardless of their background, have the opportunity to graduate in a timely manner and contribute to California’s workforce. The initiative has successfully led to the graduation of over 150,000 additional students, and completion rates have reached all-time highs for students across various demographics.

As the year 2025 approaches, and after a decade of focused systemwide work and lessons learned, the CSU finds itself at an inflection point. Increasing retention and graduation rates while eliminating equity gaps remain the CSU’s imperative, and it is a consequential and opportune moment to remake, rebrand and reshape the Graduation Initiative.

**CSU SYSTEMWIDE GRADUATION INITIATIVE PROGRESS**

		2016	2017	2018	2019	2020	2021	2022	2023	2025 Goal	
<b>GRADUATION RATES</b>	<b>First-Time Students</b>	4-Year	21%	23%	25%	27%	31%	33%	35%	35%	40%
		6-Year	59%	59%	61%	62%	62%	63%	62%	62%	70%
	<b>Transfer Students</b>	2-Year	33%	35%	38%	40%	44%	44%	40%	41%	45%
		4-Year	74%	75%	77%	77%	79%	80%	80%	79%	85%
<b>EQUITY GAPS (in percentage points)</b>	<b>Underserved Students of Color</b>	12.0	12.2	10.5	11.1	10.5	12.4	12.0	13.4	0.0	
	<b>Pell Grant Recipients</b>	10.0	10.6	9.5	10.2	9.2	10.2	11.0	12.3	0.0	

**Current Funding Allocation.** To date, \$400 million has been strategically invested in several key areas, including academic preparation, enrollment management, student engagement and well-being, financial aid, data-driven decision making and the removal of administrative barriers. In 2022, the CSU and the Newsom administration established a five-year compact focusing on shared goals, such as closing equity gaps,

promoting student success and enhancing workforce preparedness. Graduation Initiative 2025 remains central to achieving these goals, with a commitment to maintaining high-quality, affordable education for students across California.

**Consequences of Funding Cuts.** If existing funding is reduced, the CSU would face significant challenges in reversing declines in retention and enrollment, especially among underserved students. Graduation Initiative 2025 has been pivotal in launching strategies to eliminate equity gaps, such as reenrollment campaigns, expanded credit opportunities, digital degree planners and programs supporting Black student success. A reduction in funding would severely undermine these efforts, eroding years of progress and negatively impacting student outcomes, the CSU's mission and California's skilled workforce. Cuts would particularly affect the most vulnerable students, limiting their access to academic support tools, advising, counseling and engagement programs. The efforts to promote Black student success, including the newly established CSU Statewide Central Office for the Advancement of Black Excellence, would be jeopardized by the lack of financial support. Overall, reduced funding would have a lasting detrimental effect on student success, equity outcomes and the CSU's ability to serve as a critical engine for California's economy.

**Funding Request.** Despite the successes of the past decade, the evolving needs of today's students, particularly those from underserved communities, demand a more comprehensive approach to student success. The CSU aims to serve as a national model in educating and supporting America's new majority, including first-generation students, students of color, low-income students and adults seeking new opportunities. To meet these needs, the CSU requires an additional \$20 million to implement a reimagined approach to student success. This includes funding to support efforts to increase persistence, close educational opportunity gaps, and continue raising graduation rates, all within a framework of transparency and accountability across the 23 universities.

**Implications of Not Receiving Additional Funding.** The CSU has made noteworthy progress in expanding access and improving graduation rates, but the work is far from complete. The pandemic has exacerbated challenges for the most underserved students, and addressing their needs requires continued innovation and scaling of effective practices. Without an additional \$20 million in state funding, the CSU would struggle to advance its goals or maintain the progress made in closing equity gaps. The lack of resources would hinder the development of a systemwide framework to ensure alignment and transparency, putting at risk the CSU's ability to prepare students for successful careers or further education.

## BEYOND COMPLETION

A new initiative, tentatively called the Beyond Completion Project, will first measure and then improve the CSU's effectiveness at placing CSU graduates into fulfilling and impactful careers in fields of their choosing or into graduate school. The initiative will deepen the CSU's relationship and alignment with industry partners and benefit California's workforce by strengthening the pipeline of career-ready graduates to fill critical positions in growing fields.

**Current Funding Allocation.** While the CSU does not currently have dedicated funding for the Beyond Completion Project, its 23 universities provide career services to students and recent graduates, including career exploration, assessment, expos, cover letter and resume development, interview preparation, and internship and employment opportunities.

**Consequences of Funding Cuts.** If existing funding is reduced, the universities would likely consider reducing staff that provide career services to students. This would contradict the logical need to expand career services because of the Graduation Initiative's success in increasing the number of CSU graduates entering the workforce.

**Funding Request.** \$2 million is requested for this new initiative.

**Implications of Not Receiving Additional Funding.** The Graduation Initiative has successfully led to an additional 150,000 graduates since its 2015 launch, firmly establishing a college-completion culture that will yield many tens of thousands of additional graduates in the coming years. The uptick in the number of recent and prospective alumni strongly suggests that additional resources would help connect more students and recent alumni with their chosen career fields. Absent this additional funding, the CSU's effectiveness in ensuring economic mobility for its graduates and powering California's workforce would be limited.

### STUDENT ACCESS AND ENROLLMENT

To accommodate more students at the CSU, the governor and the CSU committed in the compact agreement to grow enrollment by approximately 3,515 resident, undergraduate, full-time equivalent students (FTES) in 2025-26.

**Current Funding Allocation.** Over the past ten years, the CSU has invested \$564 million to increase student enrollment and access, increasing the CSU resident target by almost 45,000 FTES (13%). Each year, the CSU strategically allocates new enrollment funding to universities with high student demand, enabling them to expand seats in academic programs that support California's high-demand career fields. Additionally, the CSU has implemented an Enrollment Target & Budget Reallocation Plan that shifts enrollment targets and related funding among universities. In 2024-25 through 2026-27, enrollment at universities significantly below target will be shifted to those universities meeting or exceeding their state-funded resident targets to better allocate enrollment and related resources across the universities.

**Consequences of Funding Cuts.** A -\$397 million cut is equivalent to the funding needed to educate and support more than 36,000 full-time equivalent students. If funding is reduced, direct instruction, academic support, student services, institutional support and plant operations necessary to support enrollment – all of which are critical to the CSU's core mission – will be impacted. Larger class sizes and reduced course offerings would be an increasing burden to students and their ability to graduate. Enrollment reductions and increasing time to degree would significantly hamper the growth needed to meet California's future workforce needs.

**Funding Request.** Using the marginal cost rate, which is the average cost of education per FTES, the funding required to increase resident undergraduate enrollment by 1% – or 3,515 resident FTES – is approximately \$56.1 million. To the extent the requested \$56.1 million is received for student access and enrollment, the plan includes an increase to the State University Grant program of \$8 million, which is equal to one-third of the estimated new tuition revenue associated with the 1% enrollment growth.



<b>2024-25 Resident FTES Target</b>	<b>390,598</b>
Proposed Growth	3,515
<b>2025-26 Total Resident FTES</b>	<b>394,113</b>
Marginal Cost Rate per FTES	\$15,966
<b>Total Cost of Enrollment Growth</b>	<b>\$56,120,000</b>
<b>State's Share of Marginal Cost Rate</b>	<b>\$10,983</b>

**Implications of Not Receiving Additional Funding.** Without the requested 2025-26 funding, our ability to accommodate additional enrollment and increase student capacity while maintaining educational quality will be compromised. This outcome would contradict the governor's and CSU's commitment to grow enrollment. Without increased investment from the state, the CSU cannot meet its obligations to the people of California or provide a high-quality and accessible education to all students.

### FACULTY AND STAFF COMPENSATION POOL

The faculty and staff compensation pool funding is flexible, allowing for various compensation elements such as salary and benefit changes across entire bargaining units. Through mutual agreements between the CSU and its bargaining units, this funding can address specific market needs, salary structures or job framework issues. The exact form of compensation will be determined by agreements between the CSU and each bargaining unit. Contingent agreements for roughly 25% of the CSU's workforce are already in place for 2025-26 with a cost of more than \$70 million.

**Current Funding Allocation.** The CSU invests more than \$5.9 billion annually in its faculty, staff and management. Unfortunately, the CSU did not receive sufficient funding in the Budget Act of 2023 or 2024 to cover all necessary compensation priorities, so our universities were required to cover \$290 million of ongoing expenses through other reductions and the use of one-time funding sources.

**Consequences of Funding Cuts.** It is anticipated that our universities would be required to redirect tens of millions of dollars from existing priorities to cover current costs. Consequently, because compensation and benefits are roughly 75% of the CSU's systemwide costs, a funding cut would lead to larger class sizes, reduced course offerings, diminished student services, layoffs or hiring freezes. In addition, the contingent bargaining agreement increases for 2025-26 would be impacted.

**Funding Request.** This budget request includes \$295.8 million to fund 2025-26 compensation increases for all employee groups. The compensation pool is subject to collective bargaining and contingent on the state providing the funding to support this priority.

**Implications of Not Receiving Additional Funding.** With continuing high inflation rates, there is pressure during the collective bargaining process to provide CSU employees with a general salary increase in 2025-26 that is at least commensurate with these high rates. Additionally, employee retention and recruitment would be hampered if the CSU cannot maintain at least some compensation parity with the job market. A more definitive estimate of compensation costs will be known at the conclusion of the collective bargaining process. The CSU's commitment to fair and competitive employee compensation requires budgetary tradeoffs, which could result in other operating budget priorities receiving only some or none of the new funding.

### TITLE IX AND NAGPRA COMPLIANCE PROGRAMS

In 2022-23, the CSU underwent a comprehensive review of its Title IX and anti-Discrimination, Harassment and Retaliation (DHR) programs, revealing significant weaknesses in its systems for handling complaints. In response, the CSU implemented substantial changes in 2023-24, including the creation of a systemwide Office of Civil Rights Programming & Services, increased staffing with new directors and civil rights attorneys, and the establishment of uniform standards for tracking investigations. New systemwide policies were adopted to prevent improper activity by employees, and training programs were expanded to foster a culture of respect and enact trauma-informed practices. With the funding allocation, the CSU revised its nondiscrimination policy and committed to further policy development, prevention education, and a shift toward care-centered practices in handling Title IX and DHR issues. However, additional funding is urgently needed to continue building out these critical systems and implement changes as recommended. Without these resources, the CSU will face harsh trade-offs, including cutting classes and student supports, which would undermine the university's core mission and harm students.

The federal Native American Graves Protection and Repatriation Act (NAGPRA) and the California Native American Graves Protection and Repatriation Act (CalNAGPRA) were enacted to resolve and restore the rights of Native American, Alaska Native and Native Hawaiian lineal descendants and tribes to the ancestral remains, associated burial objects, sacred objects and objects of cultural patrimony held in institutions like the CSU. A July 2023 audit report of the CSU's legal compliance revealed that more than half of the 21 universities with collections have not repatriated any ancestral remains or cultural items and more than half do not know the extent of their collections. The audit report identified 15 universities as needing full-time repatriation coordinators with some universities requiring additional staffing resources based on collection size.

**Current Funding Allocation.** \$15.9 million has been allocated to hire additional personnel for comprehensive oversight of Civil Rights Offices across the 23-university system, aligning with recommendations from both the California State Auditor and Cozen O'Connor. This funding was the first of a multi-year effort to support systemwide and university Title IX and anti-DHR programs at levels appropriate to implement the recommendations. This investment is foundational to ensuring prompt and fair resolutions in civil rights cases and for developing resources to prevent harmful behaviors.

An additional \$4.3 million was allocated to support university compliance with federal and state repatriation laws, including, but not limited to, hiring and training staff, supporting university committees, engaging in tribal consultation and fulfilling tribal requests.

**Consequences of Funding Cuts.** Reducing funding for civil rights programs would severely hinder the CSU's ability to meet Title IX obligations, prevent discrimination and support affected individuals. It would also require reprioritization away from the classroom and student services to fund these unavoidable expenses and cost increases. Given its status as the largest and most diverse higher education institution in the U.S., it is crucial for the CSU to ensure a safe environment free from discrimination and harassment for its students and employees.

Reducing funding for federal and state repatriation would further delay efforts to restore the rights of Native American, Alaska Native and Native Hawaiian lineal descendants and tribes to ancestral remains, associated burial objects, sacred objects and objects of cultural patrimony.

**Funding Request.** The 2025-26 operating budget request seeks nearly \$6 million in additional funds as part of a multi-year strategy to build essential infrastructure supporting civil rights programs across the CSU system. This includes addressing staffing shortages in university civil rights offices, providing support for respondents and covering operational needs like mandatory training and prevention programming.

The request also seeks \$4.5 million in additional funds to further expand repatriation activities.

**Implications of Not Receiving Additional Funding.** Failure to secure the requested 2025-26 funding would compromise the CSU's ability to adequately staff and maintain systems necessary to effectively address Title IX and DHR and NAGPRA repatriation. Both the California State Auditor and Cozen O'Connor assessments have highlighted ongoing improvements needed in these areas, underscoring the importance of sustained investment in civil rights offices and programs. The state Joint Legislative Audit Committee similarly has highlighted improvements needed for legal compliance with NAGPRA requirements.

### STUDENT BASIC NEEDS AND MENTAL HEALTH

Student basic needs remain a priority investment as the CSU takes a holistic approach to students' well-being both inside and outside the classroom. While the primary mission of the CSU is educational in nature, students cannot be fully engaged in or out of the classroom if they do not receive appropriate support services. Critical to student success at the CSU, the basic needs effort supports CSU students on their path to graduation.

**Current Funding Allocation.** State budget allocations have enabled significant enhancements in basic needs and mental health infrastructure across CSU universities. Over 50 new positions were created, including faculty counselors and case managers, reducing wait times and increasing the number of students served. For example, CSU Monterey Bay implemented the "Let's Talk" program, which offers drop-in counseling in strategic university locations, improving access for students less likely to seek mental health services. Sonoma State added refrigeration to its food pantry, allowing the distribution of perishable items like eggs and dairy. Cal Poly Pomona established the CARE Center, centralizing housing, financial, food, clothing assistance, advocacy and case management services in one location. These efforts have been particularly beneficial for underserved populations, including undocumented, Latinx and Black students.

**Consequences of Funding Cuts.** If funding is reduced, the impact would be severe. Positions at nearly every university would be at risk due to hiring freezes, unfilled vacancies or layoffs. This would strain services, resulting in longer wait times for counseling and reduced outreach to underserved students. Universities like CSU Channel Islands, where a quarter of the student body relies on the food pantry, would struggle to maintain stock and open hours. Expansion efforts at CSU San Bernardino and CSU Fullerton might also falter, limiting their ability to meet student food insecurity needs. Additionally, loss of funding would jeopardize critical emergency housing programs and the ability to support students facing housing instability, which would likely harm student retention and graduation rates. At CSU Northridge, for example, 85% of students receiving housing support persisted to their next year of study or graduation.

**Funding Request.** Additional funding of \$5 million is needed to keep up with rising living costs and increased demand for services. Specific needs include expanded pantry space and stock, as seen at CSU Channel Islands, where many students visit pantries multiple times a month, and emergency housing and case management, as highlighted by Stanislaus State, where a single staff member manages housing

navigation for the entire university. More funding would also support additional counselors and innovative programming to address the growing college mental health crisis. A larger increase in funding would allow these services to expand and better meet student needs, while a smaller increase only covers rising costs with minimal service expansion.

**Implications of Not Receiving Additional Funding.** If additional funding is not secured, universities would be unable to fully fund or expand their programs to meet the ever-increasing needs of students facing basic needs insecurities and struggles with mental health. An ongoing challenge is the ever-increasing cost of food and rent. In 2023, the United States Department of Agriculture reported a 5.8% increase in food prices and, even with rent control laws in California, rental costs increase 5 to 10% annually. Without additional funding, it would be difficult to maintain the current level of support needed, let alone increase support.

### **FACILITATING ARTIFICIAL INTELLIGENCE OPTIMIZATION**

The integration of artificial intelligence (AI) into the CSU's educational framework is crucial for advancing the university's mission to provide innovative learning experiences and prepare students for a rapidly evolving workforce. Currently, the CSU lacks dedicated funding for AI, with only minimal resources devoted to support faculty development, technology testing and software licensing. AI has the potential to revolutionize teaching, enhance student learning outcomes, augment student support and equip students with essential skills for the future.

**Current Funding Allocation.** While the CSU does not currently have any dedicated funding for AI, the CSU has been able to divert less than \$200,000 in 2023-24 and 2024-25 to support faculty development efforts, GenAI technology platform testing and GenAI software licensing.

**Consequences of Funding Cuts.** Currently there is no dedicated funding for AI, and any budget cuts would make it difficult to maintain current operations and service levels, which would result in less capacity to support strategic priorities and put the CSU further behind other institutions in our expertise in, access to, and support of AI.

**Funding Request.** If AI is to be a priority for the CSU, funding and resources are needed to enable equitable access for faculty, staff and students across all socioeconomic backgrounds, with a strong focus on enhancing student learning outcomes and empowering faculty to integrate AI into their instruction. Currently, the CSU lacks internal expertise and faces limitations in upskilling or re-skilling existing staff and faculty. This situation risks exacerbating the digital divide within our community and potentially widening the gap in AI literacy among our students. The CSU seeks \$7 million to build staff capacity and expertise in supporting AI efforts; build an AI hub for students that would provide hands-on learning, training and research; support faculty development and AI-driven innovation; help provide AI-ready infrastructure for campuses and purchase technology and licensing.

**Implications of Not Receiving Additional Funding.** With flat or declining budget projections and increased operational costs due to inflation increases, the CSU does not currently have dedicated funds to explore AI technologies and capabilities. The impacts to the CSU include a widening gap in AI literacy among our students, a loss of knowledge production and falling behind in expertise. The lack of investment poses the greatest risks to the student learning experience and workforce preparation. Even a modest investment in

the CSU to build internal capacity in staff and students and to extend the technology infrastructure and toolset to enhance AI-readiness would go a long way to expand our efforts.

### **DEBT SERVICE ON ACADEMIC FACILITIES AND INFRASTRUCTURE**

To effectively educate all students, regular investment in critical infrastructure is necessary along with refurbishing existing academic facilities and constructing new ones. The CSU strives to finance projects that address these critical infrastructure needs, renovate existing buildings and expand capacity to accommodate projected growth in student enrollment. Many of these projects would support students seeking careers in engineering, health care and the sciences. For every \$25 million in ongoing funding, the CSU could finance approximately \$300 million worth of new academic and infrastructure facilities.

For more information on specific projects and priorities, please reference the CSU five-year capital plan (<http://www.calstate.edu/major-capital-outlay>).

**Current Funding Allocation.** The total amount of ongoing operating funds committed to debt service is approximately \$440 million, or 5% of the CSU's 2024-25 operating budget.

Prior to 2014, the CSU was only allowed to issue debt to finance self-support projects that generate their own revenue sources separate from the operating budget, and academic facilities projects were financed by the state. Then, in 2014, the state enacted legislation that granted the CSU the authority to issue debt, and from that point forward, the Board of Trustees has decided how much of its operating budget is committed to supporting the issuance of debt to finance academic facilities.

Over recent years, the CSU also received \$803 million in one-time allocations from the state for deferred maintenance, covering critical deficiencies, modernization and enrollment growth.

**Consequences of Funding Cuts.** Reductions in funding would worsen the situation for the CSU's facilities, delaying critical projects and repairs, particularly in buildings that prepare students for high-demand fields like healthcare and engineering. Many facilities, over 50 years old, require urgent updates to provide a modern educational environment. Without increased funding, the CSU would struggle to attract and retain quality students, faculty and staff, essential for maintaining educational standards, enrollment and reputation.

**Funding Request.** The CSU requests \$25 million to fund approximately \$300 million of 2025-26 capital projects and deferred renewal. The top 20 priority projects on the 2025-26 Academic Projects List total \$2.4 billion. This request would fund just over 12% of the need and would only support small infrastructure improvement projects and two university building projects.

**Implications of Not Receiving Additional Funding.** The CSU faces a significant \$8.2 billion backlog in deferred maintenance, impacting student learning due to frequent outages and facility issues. The aging infrastructure also challenges recruitment and retention of faculty and staff, critical for a supportive educational environment. This backlog is expected to increase by \$410 million annually due to inflation and aging facilities.

**REVENUE**

<b>REVENUE SOURCES (MILLIONS)</b>	<b>BASE</b>	<b>INCREASE</b>	<b>%</b>
Tuition: Rate Increase	\$2,636	\$163.8	6%
Tuition: Student Access and Enrollment		24.1	1%
Campus-based Mandatory Fees	707		
State General Fund	5,235	-397.0	-8%
<b>TOTAL</b>	<b>\$8,578</b>	<b>-\$209.1</b>	<b>-2.4%</b>

**ESTIMATED INCREMENTAL NEW REVENUE**

Forecasted revenues show a deficit of \$209.1 million available to support the budget request. It includes the tuition rate increase (\$163.8 million); tuition from the 1% resident, undergraduate enrollment growth (\$24.1 million); a -\$397 million General Fund cut as well as the deferral of the 2025-26 compact commitment (\$252.3 million). The estimated revenues are insufficient to support planned expenditures.

**REVENUE FROM TUITION RATE INCREASE**

The CSU's multi-year tuition plan will increase rates in 2025-26. The additional revenue resulting from the 6% rate increase for all levels of education is included in the budget request and will allow the CSU to invest in some of its budget priorities and advance student success. The additional tuition revenue estimated from the increase is \$163.8 million in 2025-26.

**REVENUE FROM STRATEGIC ENROLLMENT GROWTH**

As part of the compact, the CSU is committed to grow enrollment equivalent to a 1% increase, or approximately 3,515 resident, undergraduate, full-time equivalent students (FTES), in 2025-26. The additional tuition revenue from the enrollment growth is estimated to be \$24.1 million.

**STATE GENERAL FUND**

The CSU anticipates that the governor's administration will propose a 7.95% cut (-\$397 million) as well as the deferral of the ongoing state General Fund increase of 5% (\$252.3 million) for 2025-26. This intended cut and deferral was codified by the state legislature and governor's administration in the final Budget Act of 2024. Additional tuition revenue alone will not fully cover the expenditure plan.

## SOURCES AND USES OF FUNDS

The table below summarizes the sources and uses of funds that make up the \$593 million increase compared to 2024-25. The 2025-26 budget request prioritizes student success and retention, grows student enrollment and financial aid, provides workforce investments for all employee groups and covers institutional infrastructure costs.

An organization's budget reflects its values. This is the case at the CSU. As briefly shown in the "Budget Request" column, the 2025-26 Operating Budget Request includes new, aspirational investments that reflect the many values and priorities of the university. Also, the request contains necessary investments in required operational costs that are important for the long-term financial sustainability of the university. If these investments are appropriately resourced, the CSU and the state will be in a better position to meet the overall economic and future workforce needs of California.

<b>SOURCES OF FUNDS (Incremental New Revenue in Millions)</b>	<b>BUDGET REQUEST</b>	<b>LIMITED BUDGET</b>
Tuition from Rate Increase	\$163.8	\$163.8
Tuition from Student Access & Enrollment	24.1	
State General Fund	-397.0	-397.0
<b>TOTAL NEW SOURCES</b>	<b>-\$209.1</b>	<b>-\$233.2</b>
<b>USES OF FUNDS (Incremental New Expenditures in Millions)</b>	<b>BUDGET REQUEST</b>	<b>LIMITED BUDGET</b>
<b>Unavoidable Expenditures</b>	<b>\$163.6</b>	<b>\$163.6</b>
Financial Aid: State University Grant – Tuition Rate Increase	54.6	54.6
Health Premiums	60.3	60.3
Maintenance of New Facilities	7.0	7.0
Liability and Property Insurance Premiums	10.0	10.0
Utilities	31.7	31.7
<b>Essential Expenditures</b>	<b>429.4</b>	
Student Success / Graduation Initiative	20.0	
Beyond Completion	2.0	
Student Access and Enrollment	56.1	
Financial Aid: State University Grant – Enrollment Increase	8.0	
Faculty and Staff Compensation Pool	295.8	
Title IX and NAGPRA Compliance Programs	10.5	
Student Basic Needs and Mental Health	5.0	
Facilitating Artificial Intelligence Optimization	7.0	
Debt Service on Academic Facilities and Infrastructure	25.0	
<b>TOTAL NEW USES</b>	<b>\$593.0</b>	<b>\$163.6</b>
<b>BUDGET GAP / REPRIORITIZATION</b>	<b>-\$802.1</b>	<b>-\$396.8</b>

However, the “Limited Budget” column in the table suggests that if the state were to adopt a -\$397 million ongoing reduction and defer compact funding in 2025-26, many of the CSU’s budget priorities would not be funded and a significant budget gap would occur requiring a reprioritization away from the classroom and student services to unavoidable expenses, including cost increases.

The request notes a significant budget gap between the unavoidable and essential priorities and available revenue for 2025-26. At this early stage in the budget cycle, it is important to highlight the budget priorities that will advance many aspects of the university’s work. As we move along the budget cycle timeline, the state, the system, and each of the universities will explore many options and make many decisions that will narrow and eventually bridge the budget gaps noted in this document. Examples of those options include:

- The state partially or fully withdraws plans to permanently reduce CSU funding.
- The state restores compact funding.
- The CSU foregoes many or all new essential budget priorities.
- The CSU reprioritizes resources from current programs and services to unavoidable budget priorities.
- The CSU makes permanent budget reductions to current programs and services.
- The CSU utilizes one-time designated balances and reserves to bridge to 2026-27 until permanent reductions can be implemented.



## DESIGNATED BALANCES AND RESERVES

As of June 30, 2024, one-time designated balances and reserves in the operating fund totaled \$2.4 billion systemwide. These balances and reserves support the core operations of the university. To mitigate the budget challenges in 2023-24, CSU universities used their designated balances and reserves. It is anticipated that one-time designated balances and reserves will be utilized again in 2024-25 and will be used further in 2025-26 to address some of the budget gap. The 23 CSU universities and the Chancellor's Office only have \$777 million of reserves for economic uncertainty that are not obligated for a specific purpose. These funds are equivalent to about 34 days of operations for the entire CSU system. This is far below the university policy and national best practices that stipulate reserves cover at least three to six months of operations. The table below shows designated balances and reserves in detail.

<b>Operating Fund (in whole dollars) as of June 30, 2024</b>		
Designated Balances	Short Term Obligations	\$1,247,309,000
	Capital Infrastructure	\$315,559,000
	Catastrophic Events	\$30,221,000
Reserves	Reserves for Economic Uncertainty	\$776,585,000
<b>Total Designated Balances and Reserves</b>		<b>\$2,369,674,000</b>

Designated balances and reserves are determined and reported annually by the universities and the Chancellor's Office and are published on CSU's financial transparency portal ([calstate.edu/transparency](https://calstate.edu/transparency)).

## **COMMITTEE ON FINANCE**

### **Overview of California State University Debt and Impact on Operating Budget**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
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Financing, Treasury, and Risk Management

#### **Summary**

This item provides the California State University Board of Trustees with information on CSU's debt including statutory authority to issue debt, policy governing CSU debt, and CSU debt structure. This item also provides information on the share of the CSU's operating budget that is dedicated to the payment of debt service (principal and interest). While the CSU utilizes other financing structures to meet capital needs, such as public-private partnerships and equipment finance programs, this agenda item focuses on the CSU's primary sources of debt, the Systemwide Revenue Bond and commercial paper programs.

#### **Statutory Authority to Issue Debt and Pledge Revenues**

The Board of Trustees' authorities governing the structure and issuance of CSU debt is outlined in the California Education Code.<sup>1</sup> Among the provisions of these authorities, the CSU may only issue debt to finance or refinance capital projects—the CSU may not borrow for operating purposes—and, since the CSU is not allowed to provide assets as collateral to secure the repayment of debt, the authorities allow the Board of Trustees to pledge revenues to secure the payment of debt service on CSU debt.

Prior to 2014, the CSU was only allowed to issue debt to finance self-support projects—i.e., projects that generate their own sources of revenue separate from the core operating revenues of the CSU, which are then used to meet the operational requirements for the projects and to pay debt service on the debt issued to finance the projects. Self-support projects include

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<sup>1</sup> Sections 90010-90083, (the State University Revenue Bond Act of 1947), 89770-89774, 89304, and 89701-89704

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student housing, parking facilities, student unions and recreation/wellness centers, health centers, professional and continuing education facilities, and auxiliary projects. Revenues from the self-support programs and auxiliaries are pledged to secure the payment of debt service on CSU debt. Academic facilities—i.e., projects that do not create their own sources of revenue—were financed with funding from the state, primarily from the proceeds of general obligation bonds approved by California voters or lease revenue bonds issued by the State Public Works Board. Debt service on the general obligation and State Public Works Board bond debt was covered by the state and treated separately from the CSU's annual ongoing state appropriation used to meet the educational operations of the CSU.

However, in 2014, the state enacted legislation that made the financing of academic facilities the responsibility of the CSU and granted the CSU with authority to issue debt to meet that responsibility. To the extent that general obligations bonds were approved by the voters, that source of funding might still be available to the CSU in the future, although at the time (and still to this day) the last voter-approved general obligation bond funding provided to the CSU was in 2006. Financing via the State Public Works Board was effectively eliminated because up to that point the state paid the debt service on State Public Works Board bond debt each year via a line-item appropriation separate from the CSU's annual ongoing state appropriation used to meet operations. Now, the legislation stipulated that the separate line-item appropriation for annual State Public Works Board debt service would be eliminated, and the CSU would receive one annual appropriation from the state. From that point forward, the Board of Trustees would decide how much of its operating budget might be committed to supporting the issuance of CSU debt to finance academic facilities.

The legislation also stipulated that the CSU would be responsible for the future debt service on existing general obligation and State Public Works Board bond debt that had been issued in the past to finance academic facilities for the CSU. However, to ensure that this responsibility did not impact existing ongoing funding for operating needs, the state increased the CSU's ongoing annual state appropriation in 2014-2015 by \$296 million to cover the debt service on existing general obligation and State Public Works Board bond debt. Over the next three years, this amount was adjusted up to \$317 million to cover academic projects that had been approved but not yet financed at the time of the legislation.

Because the CSU was now responsible for financing academic facilities from its annual operating budget, the legislation granted the Board of Trustees with the authority to pledge operating revenues to secure the payment of debt service on CSU debt issued to finance academic facilities, and in 2016, the CSU added student tuition and related fees to its pledge of revenues supporting the issuance of debt.

## **Debt Policy**

To utilize CSU debt resources in the most effective and prudent manner to finance capital projects, in 2002 the Board of Trustees established a centralized capital financing program supported by a broad, systemwide multi-source revenue pledge—the Systemwide Revenue Bond, or SRB, program. Since the inception of the SRB program, the Board of Trustees’ CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program. The CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended in November 2014 and can be found at: <https://calstate.policystat.com/policy/11691604/latest>.

The CSU Policy on Financing Activities has also delegated authority to the Chancellor to establish further policy for the management of the SRB program consistent with the Board of Trustees’ objectives for the use of debt, including the establishment of benchmark financial ratios to ascertain the financial viability of projects to be financed with CSU debt. The current version of the Chancellor’s debt policy—the Financing and Debt Management Policy—can be found at: <https://calstate.policystat.com/policy/16111417/latest>.

The CSU has also established a commercial paper (CP) program primarily to allow campuses and auxiliaries to begin project construction with interim, lower cost capital financing on projects until long term SRB debt is sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by SRB program bond anticipation notes issued by the CSU.

## **Debt Approval Processes and Issuance**

As described above, the SRB and CP programs provide capital financing for two types of projects—self-support and academic—each with different review and approval processes.

For a self-support project, university staff and, if applicable, auxiliary staff work with the Department of Financing and Treasury in the Chancellor’s Office to determine the amount of debt needed to finance the project and evaluate its financial viability. The evaluation of financial viability focuses on the future ability to make debt service payments as measured by certain debt service coverage ratios outlined in the Financing and Debt Management Policy. There are two debt service coverage ratios that must be met—a program ratio that focuses on the program within which the project resides (e.g., a housing program for a housing project) and a campus ratio that combines all of a university’s self-support programs, as well as any of its auxiliaries that have SRB debt. The amount of debt needed for the project and a summary of the debt service coverage ratios are reported in the agenda item presented to the Board of Trustees for financing approval of the project.

For academic projects, the amount of debt that might be issued is driven by the amount of the CSU operating budget that can be utilized to support the debt service on such debt. When such an amount is approved, it is then used to support the issuance of debt for academic projects, which are selected for funding based upon the systemwide priority list in the Board of Trustees' approved capital outlay plan.

Projects that have been approved for financing over the course of multiple Board of Trustee meetings are consolidated and financed through a single issuance of long-term SRB debt, usually about once a year. Projects that may require funding prior to the issuance of SRB debt can be funded through the CP program until the SRB debt is issued, at which time, the CP is paid off by the proceeds of the SRB debt.

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

The CSU's most recent issuance of SRB debt was in August 2024 in the amount of approximately \$672 million. The CSU now has approximately \$9.8 billion in outstanding SRB debt.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.39%
Weighted Average Maturity:	14.3 Years
Interest Rate Mix:	97% Long Term Fixed Rate 3% Short Term Fixed Rate

The CSU currently has a CP program in the amount of \$300 million, although both the Board of Trustees and the CSU Institute have authorized a CP program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in May 2025. Currently, outstanding CP is approximately \$171 million at a weighted average interest rate of 4.15%

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

For the fiscal years ended June 30, 2021, June 30, 2022, and June 30, 2023, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>
Operating Revenues	\$4,790	\$5,362	\$5,606
Operating Expenses	<u>1,622</u>	<u>1,886</u>	<u>2,307</u>
Net Revenues	3,168	3,476	3,299
Annual Debt Service	\$470	\$489	\$514 <sup>1</sup>
Debt Service Coverage <sup>2</sup>	<b>6.74</b>	<b>7.11</b>	<b>6.42</b>

- (1) For the fiscal year ended June 30, 2023, the amount of annual debt service allocated to tuition was \$147 million and the amount allocated to other fees was \$367 million.
- (2) The minimum benchmark for the system, as established by executive order, is 1.45.

**Amount of CSU Operating Budget Committed to Debt Service**

As noted, with the legislative changes in 2014, the state added \$317 million to the CSU’s ongoing annual appropriation to cover the debt service on existing general obligation and State Public Works Board bond debt issued for the benefit of the CSU. The Board of Trustees also authorized allocations within the 2014-2015 and 2015-2016 operating budgets to support the issuance of SRB debt to fund academic and infrastructure projects in the approved capital outlay program. In 2023-2024, the state clawed back one-time funds for a number of academic and affordable student housing projects, and instead increased the CSU’s annual ongoing appropriation to support the issuance of SRB debt to replace the one-time funding. In total, the amount of ongoing operating funds committed to debt service is approximately \$440 million, or 5.2% of the CSU’s total operating budget of \$8.5 billion for the 2024-2025 fiscal year.