AGENDA

COMMITTEE ON FINANCE

Meeting: **9:00 a.m., Wednesday, January 31, 2024**
Glenn S. Dumke Auditorium

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

Consent

1. Approval of Minutes of the Meeting of November 8, 2023, *Action*
2. Approval to Issue Debt for Affordable Housing at California State University, Dominguez Hills, *Action*
3. Approval of Third-Party Financing at California Polytechnic State University, San Luis Obispo, *Action*
4. Law Enforcement Regulated Equipment and Tools Annual Report, *Information*

Discussion

5. Auxiliary Organizations, *Information*
6. 2024-25 Operating Budget Update, *Information*
7. 2023-24 Student Fee Report, *Information*

MINUTES OF THE MEETING OF COMMITTEE ON FINANCE

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

November 8, 2023

Members Present

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

Wenda Fong, Chair of the Board
Mildred García, Chancellor

Trustee Julia Lopez called the meeting to order.

Public Comment

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

Approval of the Consent Agenda

The minutes of the September 13, 2023, meeting of the Committee on Finance were approved as submitted.

Item 2, Approval to Issue Debt for Affordable Housing at California State University San Marcos was approved as submitted (RFIN 11-23-12).

Item 3, Approval of 2024-25 Lottery Budget and Report was approved as submitted (RFIN 11-23-13).

Item 4, Approval of an Auxiliary Organization Financing at California State University, Sacramento was approved as submitted (RFIN 11-23-14).

Item 5, California State University Annual Investment Report was an information item.

Discussion Agenda

The committee had one item on the discussion agenda.

Item 6, Annual Systemwide Report on Hate Incidents on Campus, Information

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

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

Trustee McGrory suggested an additional level of reporting to include incidents, as many significant issues often fall outside the federal hate crime/hate violence definition.

Trustee Lopez concluded the business of the Committee on Finance.

COMMITTEE ON FINANCE

Approval to Issue Debt for Affordable Housing at California State University, Dominguez Hills

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury and Risk Management

Summary

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, in an aggregate principal amount not-to-exceed $29,520,000 to provide financing for a campus capital project:

California State University, Dominguez Hills Affordable Student Housing, Phase 4 and Dining Commons

Background

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

California State University, Dominguez Hills Affordable Student Housing, Phase 4 and Dining Commons

The California State University, Dominguez Hills Affordable Student Housing, Phase 4 and Dining Commons project (the "Project") was presented to the Board of Trustees Committee on Campus Planning, Buildings and Grounds for schematic approval during the January 2023 meeting. Because the project was over budget at the time, the Board requested the university work to reduce the budget shortfall by modifying the proposed design and/or identifying additional funds. Approval for the revised design for the project was delegated by the Board to the chancellor since the total project budget exceeded the $40 million threshold under existing delegated authority. The campus was able to reduce the budget shortfall by implementing cost reduction strategies and modifying the proposed design. The revised schematic plans were approved under delegated authority at a project budget of $97,000,000.

The Project will consist of a four-story residence hall with two wings forming residential clusters (totaling approximately 63,000 gross square feet) and a separate one-story dining facility (approximately 17,500 gross square feet). The Project will be located north of the existing Student Resident Hall, south of International Avenue, and west of Birchknoll Drive. The student housing building will house 288 students in a combination of single, double, and triple traditional residence hall style rooms and will include multipurpose rooms, living rooms, laundry facilities, and other amenities. The dining commons will be the campus' first resident-centered dining facility. This proposed project will allow the campus to provide housing to designated low-income students and bolster direct access to affordable student housing for those students in the most need.

The not-to-exceed principal amount of the proposed bonds is $29,520,000, based on a total project budget of $97,000,000 with funding of $50,250,000 from the State's Higher Education Student Housing Grant Program for the housing building; $18,500,000 one-time funding for the dining commons from State appropriations in the 2021-2022 fiscal year; and $2,000,000 from a donation from an outside vendor for the dining commons. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $3,270,000), are expected to be funded from bond proceeds. The Project is scheduled to start construction in February 2024 with completion expected in April 2026.

The funding from the State's Higher Education Student Housing Grant Program was initially expected to be in the form of a one-time cash grant, which was awarded in the 2022-23 fiscal year. However, the 2023-24 state budget for the CSU clawed back the cash grants for all previously awarded projects in the program and replaced them with an increase in CSU's annual support appropriation which will allow CSU to replace the cash grants with a like amount of additional SRB net proceeds. This additional SRB funding in the amount of $50,250,000 for the Project was approved by the Board of Trustees during its July 2023 meeting ($48,750,000 as listed directly for the project and an additional $1.5 million project augmentation from the $157 million of pending approvals). The related debt to be issued under the SRB program will be repaid from the additional support appropriation from the state (rather than campus resources).

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	$29,520,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	$2,030,208
Projected debt service coverage including the new project: Net revenue – Dominguez Hills pledged revenue programs: [1] Net revenue – Projected campus housing program:	 1.73 1.38

1. Combines 2026-27 information for all campus pledged revenue programs with 2026-27 information for the project.

The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.73 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 1.38 in fiscal year 2026-27, the first full year of operations, which is better than the CSU benchmark of 1.10 for the program. When combining the Project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.73, which is better than the CSU benchmark of 1.35 for a campus.

In coordination with CSU's Office of General Counsel, Orrick, Herrington & Sutcliffe LLP, as outside bond counsel, is preparing resolutions 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 principal amount not-to-exceed $29,520,000 and certain actions relating thereto.

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

Approval of the financing resolutions for this project as described in this Agenda Item 2 of the Committee on Finance at the January 29-31, 2024, meeting of the CSU Board of Trustees is recommended for:

California State University, Dominguez Hills Affordable Student Housing, Phase 4 and Dining Commons

COMMITTEE ON FINANCE

Approval of Third-Party Financing at California Polytechnic State University, San Luis Obispo

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

This item requests approval from the Board of Trustees to authorize Cal Poly Corporation, (the "Corporation"), a recognized auxiliary organization in good standing at California Polytechnic State University, San Luis Obispo, to secure certain external financing in an amount not-to-exceed $20,000,000 to fund costs associated with the construction of new for-sale faculty and staff housing units.

Background

In 2006, via a ground lease with the CSU, the Corporation built 69 for-sale homes, a development known as Bella Montana, to provide faculty and staff housing for the campus. To further the university's educational mission and recruitment goal of filling vacant positions and hiring new faculty to meet targeted enrollment growth, the Corporation plans to build additional for-sale housing units on underutilized CSU-owned land and create a faculty and staff community closely connected with campus.

Project Description

The planned housing development, commonly known as "Faculty and Staff Housing Project II – Slack & Grand," will involve the construction of 33 single family units on approximately 6 acres of vacant land at the Grand Avenue entrance to campus (the "Project"). The on-campus location at the university's southern edge provides a high-quality for-sale housing alternative for faculty and staff in a community environment that will enhance connectivity with the campus and reduce

commuting demands, including easing near-campus neighborhood traffic. The proposed for-sale housing units will consist of a variety of sizes to accommodate different preferences and needs, ranging from approximately 1,600 to 2,100 square feet, and will be constructed by a general contractor to be selected through a competitive bid process.

The Corporation will develop the Project subject to a long-term ground lease with the CSU and proposes to finance the construction costs through a 3-year revolving line of credit from Wells Fargo Bank. Payoff of the revolving line of credit will occur through the faculty and staff home sales following a two-year construction period.

The development plan calls for the for-sale residences to be offered at twenty to thirty percent below existing market rates providing an attainable solution for home ownership for Cal Poly faculty and staff. The proposed Project will also help address the long-term housing deficiencies in the San Luis Obispo region and add to a growing portfolio of housing product at Cal Poly, providing flexible alternatives to new and existing faculty and staff.

Proposed External Financing

Subject to approval by the Board, the Corporation proposes to secure short-term financing through Wells Fargo Bank, based on the following key terms:

- The amount of the line of credit will be $20 million.
- The term of the line of credit will be three years after document closing.
- Term may be extended on an annual basis or multi-annual basis, upon mutual consent of CPC and Wells Fargo.
- For amounts borrowed under the line of credit, the interest rate will be indexed on the floating Secured Overnight Financing Rate (SOFR) plus 1.50%, calculated on a per annum basis. (Total interest rate of 6.81% based upon SOFR rates at the time of agenda posting.)
- Undrawn amounts of the line credit will be charged 0.35% per annum.
- The note may be prepaid at any time, in whole or in part, without any prepayment penalty.
- The facility will be secured by collateral consisting of investments to be held by Wells Fargo.
- Among other standard terms and conditions, the Corporation shall maintain a debt service coverage ratio of at least 1.10.

Staff has reviewed key terms of the proposed financing and deemed them to be satisfactory and reasonable for this type of transaction. Furthermore, this financing will not conflict with any provisions of the CSU's Systemwide Revenue Bond program.

Trustee Resolution and Recommended Action:

The following resolution is recommended for approval:

> **RESOLVED,** by the Board of Trustees of the California State University, that the request from Cal Poly Corporation to obtain external short-term financing in the amount of $20,000,000 with the key terms as described herein is approved.

COMMITTEE ON FINANCE

Law Enforcement Regulated Equipment and Tools Annual Report

Presentation By

Steve Relyea
Executive Vice Chancellor
and Chief Financial Officer

Summary

Assembly Bill 481, which took effect on January 1, 2022, required the Board of Trustees to adopt policies governing the use of any regulated equipment and tools that are or may be used on any California State University (CSU) campus, either by the university police department or an affiliated law enforcement agency such as a municipal police department or county sheriff. The same requirement applies to other governing bodies in California that oversee law enforcement agencies such as municipal police departments and county sheriff agencies.

At the July 2022 meeting, the Board of Trustees adopted a policy that authorized CSU universities to use the following regulated equipment and tools:

(a) Unmanned, remotely piloted, powered aerial (observation drones) or ground vehicles.

(b) Command and control vehicles that are either built or modified to facilitate the operational control and direction of public safety units.

(c) Munitions containing tear gas (oleoresin capsicum), excluding standard, service-issued handheld pepper spray.

(d) Kinetic energy weapons (e.g., bean bag and foam tip launchers) and munitions.

(e) Long Range Acoustic Device (LRAD)

The Board of Trustees policy also requires each university to submit an annual report regarding uses of any regulated equipment and tools that occurred during the year.

For calendar year 2023, CSU universities reported that no regulated equipment or tools were used during the year except during training exercises, no complaints or concerns were received about the use of regulated equipment or tools, no internal audits identified any policy violations regarding the use, and no acquisitions of new types of regulated equipment and tools were planned for the current fiscal year.

COMMITTEE ON FINANCE

Auxiliary Organizations

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Erika D. Beck
President
California State University, Northridge

Heather Cairns
Associate Executive Director
The University Corporation
California State University, Northridge, and
President, Auxiliary Organizations Association

Colin Donahue
Vice President, Administration and Finance, and
Chief Financial Officer
California State University, Northridge

Summary

California State University (CSU) auxiliary organizations are separate legal entities created to support the educational mission of the university. Auxiliary organizations help ensure student success and the financial strength of the university by providing essential services and activities, increasing student engagement in high impact practices, managing risk and exposure, increasing investment opportunities, and facilitating real estate transactions. Auxiliary organizations include associated student organizations, student unions and recreation facilities, enterprise corporations that run bookstores and food services, and foundations that manage contracts and grants or gifts.

Auxiliaries are authorized under the provisions of the Education Code, Title 5 of the California Code of Regulations, the Internal Revenue Code, and the California Corporations Code as 501(c)(3) nonprofit organizations and 509(a)(3) supporting organizations, operating as "public charities" for tax-exempt purposes. They are subject to CSU and campus policies with university leadership typically serving on the governing boards. By policy, campus auxiliary organization annual budgets are approved by the university president.

Approved activities of auxiliary organizations are contained within operating agreements with the CSU and are sometimes accompanied by leases when the auxiliary organization occupies state land or buildings. Auxiliary organizations are required to produce independently audited financial statements, file annual tax returns, and follow either Financial Accounting Standards Board or Government Accounting Standards Board guidelines.

List of Recognized Auxiliary Organizations

Annually, the California State University audited financial statements include a list of recognized auxiliary organizations, which are reported as component units of the overall California State University financial statements. Below is the current list of 88 recognized auxiliary organizations affiliated with the CSU.

Office of the Chancellor
- California State University Institute
- California State University Foundation

California State University, Bakersfield
- Associated Students, California State University, Bakersfield, Inc.
- California State University, Bakersfield, Foundation
- California State University, Bakersfield Student-centered Enterprises, Inc. (formerly California State University, Bakersfield Student Union)
- California State University, Bakersfield, Auxiliary for Sponsored Programs Administration

California State University, Channel Islands
- Associated Students of California State University, Channel Islands, Inc.
- California State University, Channel Islands Foundation
- CI University Auxiliary Services, Inc.

California State University, Chico
- Associated Students of California State University, Chico
- Chico State Enterprises (formerly The CSU, Chico Research Foundation)
- The University Foundation, California State University, Chico

California State University, Dominguez Hills
- Associated Students, Inc., California State University, Dominguez Hills
- California State University Dominguez Toro Auxiliary Partners
- California State University Dominguez Hills Philanthropic Foundation
- The Donald P. and Katherine B. Loker University Student Union, Inc., California State University, Dominguez Hills

California State University, East Bay

Associated Students, Inc. of California State University, East Bay
California State University, East Bay Foundation, Inc.
Cal State East Bay Educational Foundation, Inc.

California State University, Fresno

Associated Students, Inc. of California State University, Fresno
California State University, Fresno Association, Inc.
California State University, Fresno Athletic Corporation
California State University, Fresno Foundation
Fresno State Programs for Children, Inc.
The Agricultural Foundation of California State University, Fresno

California State University, Fullerton

Associated Students, California State University, Fullerton, Inc.
Cal State Fullerton Philanthropic Foundation
CSU Fullerton Auxiliary Services Corporation

Humboldt State University

Associated Students of Humboldt State University
Humboldt State University Center Board of Directors
Humboldt State University Sponsored Programs Foundation
Humboldt State University Foundation

California State University, Long Beach

Associated Students, Inc., California State University, Long Beach
California State University, Long Beach Research Foundation
CSULB 49er Foundation
Forty-Niner Shops, Inc.

California State University, Los Angeles

Associated Students of California State University, Los Angeles, Inc.
Cal State L.A. University Auxiliary Services, Inc.
California State University, Los Angeles Foundation
University – Student Union at California State University, Los Angeles

California Maritime Academy

Associated Students of the California Maritime Academy
California Maritime Academy Foundation, Inc.

California State University, Monterey Bay
- Foundation of California State University, Monterey Bay
- Otter Student Union at CSU Monterey Bay
- University Corporation at Monterey Bay

California State University, Northridge
- Associated Students, Inc., California State University, Northridge
- California State University, Northridge Foundation
- North Campus – University Park Development Corporation
- The University Corporation
- University Student Union, California State University, Northridge

California State Polytechnic University, Pomona
- Associated Students, Inc., California State Polytechnic University, Pomona
- Cal Poly Pomona Foundation, Inc.
- Cal Poly Pomona Philanthropic Foundation

California State University, Sacramento
- Associated Students of California State University, Sacramento
- Capital Public Radio, Inc.
- The University Foundation at Sacramento State
- University Enterprises, Inc.
- University Union Operation of California State University, Sacramento

California State University, San Bernardino
- Associated Students, Incorporated, California State University, San Bernardino
- CSUSB Philanthropic Foundation
- Santos Manuel Student Union of California State University, San Bernardino
- University Enterprises Corporation at CSUSB

San Diego State University
- Associated Students of San Diego State University
- San Diego State University Research Foundation
- The Campanile Foundation
- Aztec Shops, Ltd.

San Francisco State University
- Associated Students of San Francisco State University
- San Francisco State University Foundation
- The University Corporation, San Francisco State

San Jose State University
- Associated Students of San Jose State University
- San Jose State University Research Foundation
- Spartan Shops, Inc.
- The Student Union of San Jose State University
- The Tower Foundation of San Jose State University

California Polytechnic State University, San Luis Obispo
- Associated Students, Inc.
- Cal Poly Corporation
- California Polytechnic State University Foundation

California State University, San Marcos
- Associated Students, Inc. of California State University, San Marcos
- California State University, San Marcos Corporation
- California State University San Marcos Foundation

Sonoma State University
- Associated Students of Sonoma State University
- Sonoma State Enterprises, Inc.
- Sonoma State University Academic Foundation, Inc.

California State University, Stanislaus
- Associated Students Incorporated of California State University, Stanislaus
- California State University, Stanislaus Auxiliary and Business Services
- California State University, Stanislaus Foundation
- University Student Center of California State University, Stanislaus (formerly University Student Union of California State University, Stanislaus)

COMMITTEE ON FINANCE

2024-25 Operating Budget Update

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Lynn Mahoney
President
San Francisco State University

Richard Yao
President
California State University, Channel Islands

Summary

This item summarizes the latest developments in the state and California State University budget plans for 2024-25. The state expects a tax revenue shortfall and resulting budget shortfall for the 2024-25 cycle. For context, this deficit represents about a six percent budget deficit, on average, for the past, current, and budget years.

In response to the state budget deficit, the governor's budget did not propose new ongoing or one-time funding for the CSU for 2024-25. Instead, the governor's administration proposed two alternatives to the original compact plan. First, the administration proposed to defer ongoing compact funding by one-year. Second, the administration proposed the CSU cover new investments with one-time funding during 2024-25 and the state reimburse the CSU with one-time funding in 2025-26.

The governor's proposals would deliver the same level of funding per fiscal year as originally outlined in the compact, although with additional risk to the CSU if the state's budget condition further erodes and the state cannot fulfill this restructured commitment. Recognizing this, the CSU will honor and work toward fulfilling the goals outlined in the original multi-year compact but will

also proceed with caution and financial prudence as we continue to review the impacts and implications of this budget proposal.

California's Fiscal Outlook

Forecasters are not of one mind on their expectations for the economy and the state's tax coffers. Since the November 2023 Board of Trustees meeting, three reputable entities have published forecasts for California's economy and the resulting effect on the state budget – the Legislative Analyst Office (LAO) California Fiscal Outlook in December 2023, the University of California, Los Angeles Anderson Forecast in December 2023, and the Department of Finance 2024-25 Governor's Budget in January 2024.

The Anderson Forecast leans toward optimism. Nationally, the Anderson Forecast suggests no imminent threat of recession, weak economic growth through much of 2024, and an eventual return to more typical economic growth trends by the end of 2025. Anderson anticipates California's economic growth will be a touch softer than the rest of the country due to an increase in California unemployment and other factors.

The LAO's California Fiscal Outlook suggests downbeat economic and budgetary news. According to the LAO in December 2023, higher interest rates and unemployment numbers are the cause and evidence of overall weakness in the California economy. This condition could persist through 2024. This context, coupled with tax collection data, lead the LAO to the conclusion that the state will have a $68 billion deficit to address during the 2024-25 budget cycle. For context, this deficit represents about an eleven percent budget deficit, on average, for the past, current, and budget years.

In their report, the LAO identified several options to close the short-term budget shortfall. The options include utilizing half of monies in the state's rainy day fund, reducing Proposition 98 spending on early childhood education through community college, further reducing one-time spending, shifting costs away from the state general fund to other state funds, raising taxes, and reducing ongoing spending in other areas of the state budget.

Another item to regularly monitor and noted in the LAO's California Fiscal Outlook is the multi-year forecast, which includes the three fiscal years beyond the budget year (i.e., budget year is 2024-25, multi-year forecast includes 2025-26, 2026-27 and 2027-28). One year ago, the LAO's multi-year forecast suggested the state faced a structural deficit averaging approximately $10 billion per year. Today, the LAO's multi-year forecast suggests the average structural deficit is now $30 billion per year. These data indicate a worsening of the longer-term state budget picture. However, the state's budget situation has and could change rapidly and markedly due to the state's heavy reliance on personal income tax and capital gains tax revenues.

The Department of Finance also reports unpromising news. The short-term fiscal trajectory provided by the Department of Finance in the release of the Governor's Budget reported a deficit of $38 billion for the 2024-25 budget cycle. The longer-term picture is mixed—the Department of Finance forecasts that state tax revenue growth will return to pre-pandemic normal rates. However, after the 2024-25 year, the state anticipates annual operating budget deficits of 15 percent each year. Please note that these longer-term circumstances may not materialize and certainly could change.

Regardless of the differences in the assumptions, tone, or figures included in economic forecasts today, the state is amid challenging budgetary times.

In May 2024, revisions to these revenue estimates will be updated and it is not yet known if the state's fortunes will further worsen or improve.

Governor's Budget Proposal - State Overview

Again, the governor's administration identified a $38 billion state deficit for the 2024-25 budget cycle. which is a six percent budget deficit, on average, for the past, current, and budget years. The governor's budget proposal attempts to protect recent state investments and maintain a portion of reserves. According to the administration's proposal, the state would have $18 billion set aside in several mandatory and discretionary reserve accounts by the end of 2024-25—approximately half the reserves reported a year ago. This includes the state's rainy day fund of $11 billion. Beyond the use of reserves, the governor proposes to narrow the budget gap through deferrals, funding delays, reductions, fund shifts and loans between the state general fund and other state sources.

Governor's Budget Proposal for the CSU

In response to the state budget deficit and the CSU's 2024-25 Operating Budget Plan, the governor's administration proposed a modification to their compact funding commitment. The governor's budget did not propose new ongoing or one-time funding for the CSU for 2024-25. Instead, the governor's administration proposed two alternatives to the original compact plan. First, the administration proposed to defer ongoing compact funding by one-year. Rather than receive a $240.2 million ongoing increase in 2024-25, the proposal would defer this increase to 2025-26. Second, the administration's proposal would provide the CSU $240.2 million of one-time funding in 2025-26 to repay the CSU for the university's use of interim financing structures or other internal borrowing to support CSU spending at the planned 2024-25 compact level. To overly simplify, this second proposal could be viewed as a short-term loan between the state and the CSU. If the CSU were to use interim financing, internal borrowing, or one-time reserves it is anticipated that lending costs or foregone interest earnings would be in the single-digit millions of dollars.

In sum, the governor's proposals would deliver the same level of funding per fiscal year as originally outlined in the compact, although with additional risk to the CSU if the state's budget condition further erodes and the state cannot fulfill this restructured commitment. Recognizing this, the CSU will honor and work toward fulfilling the goals outlined in the original multi-year compact but will also proceed with caution and financial prudence as we continue to review the impacts and implications of this budget proposal.

2024-25 CSU Operating Budget Plan

The CSU 2024-25 operating budget plan calls for continued and increased state investment in the CSU. This budget plan, which totals $557.4 million in new resources, would address necessary new investments in the CSU and build on the momentum of recent years.

The budget plan is comprised of a request of $144.5 million from the state general fund above the original compact commitment ($240.2 million), revenue from strategic enrollment growth ($24.3 million), and revenue from the tuition rate increase ($148.3 million). At this point in time, the likelihood of the CSU collecting the amounts of revenue from these four sources ranges from less to most likely in that order as organized above. Due to the state's current fiscal condition and if fortunes do not change at the May Revision, it would be unlikely that the state would be able to provide as much as $144.5 million above the compact commitment. Conversely, the likelihood that the estimated revenue from the recent tuition rate increase will be collected is very high.

The expenditure portion of the budget plan (see below table) is organized around three themes with several specific areas of investment. Also, the budget plan is arranged by funding priority. It assumed full funding of the compact and new tuition revenue from the recent rate increase would help support many expenditure priorities such as financial aid, CSU workforce investments, and unavoidable institutional supports. The plan also laid out additional investments if the state provided additional funding above the compact commitment.

The current assessment is that many—but not all—of the budget plan priorities could be cautiously supported in 2024-25. While not ideal, the governor's deferral proposals would deliver the same level of funding per fiscal year as originally outlined in the compact. While the governor's proposal introduces more risk, it would allow for the CSU to cautiously move forward with budget priorities in the "Tuition & Within Compact" column that totals $413 million. However, approximately $145 million in the "Above Compact" column being expended on those budget priorities has become more unlikely because of the state's fiscal condition and the potential for its improvement.

For more information on the 2024-25 Operating Budget Plan adopted by the Board of Trustees in September 2023, including further details on each of the budget priorities and baseline funding dedicated to those priorities, follow this link.

SOURCES OF FUNDS (Incremental New Revenue)	TUITION & WITHIN COMPACT	ABOVE COMPACT	BUDGET PLAN
State General Fund	$240,243,000	$144,546,000	**$384,789,000**
Tuition from Rate Increase	148,330,000		**148,330,000**
Tuition from Strategic Resident Enrollment Growth	24,278,000		**24,278,000**
TOTAL NEW SOURCES	**$412,851,000**	**$144,546,000**	**$557,397,000**

USES OF FUNDS (Incremental New Expenditures)	TUITION & WITHIN COMPACT	ABOVE COMPACT	BUDGET PLAN
Student Access & Success			
Financial Aid			
State University Grant — Tuition Rate Increase	$49,443,000		**$49,443,000**
State University Grant — Enrollment Increase	8,093,000		**8,093,000**
Student Access and Enrollment	54,957,000		**54,957,000**
Graduation Initiative		30,000,000	**30,000,000**
Student Basic Needs and Mental Health	3,000,000	4,000,000	**7,000,000**
Institutional Support			
Title IX and DHR Programs	7,900,000	8,000,000	**15,900,000**
State and Federal NAGPRA Compliance	2,250,000	2,000,000	**4,250,000**
Maintenance of New Facilities	12,548,000		**12,548,000**
Liability and Property Insurance Premium Increases	22,635,000		**22,635,000**
Inflation on Non-Personnel Costs		28,506,000	**28,506,000**
Debt Service on Academic Facilities & Infrastructure	10,000,000	15,000,000	**25,000,000**
CSU Workforce Investments			
Faculty and Staff Compensation Pool	163,664,000	57,040,000	**220,704,000**
Health Premium Increases	78,361,000		**78,361,000**
TOTAL NEW USES	**$412,851,000**	**$144,546,000**	**$557,397,000**

Addressing Fiscal Challenges

At this point in time, the CSU is encountering many fiscal challenges. The state's budget deficit limits or prevents the prospective delivery of new resources to the university to address the CSU's many budget priorities. The governor's deferral proposal introduces an element of concern and risk that both the governor's administration and the CSU are working to ease. Additionally, staff and faculty compensation costs are significant in the current year through 2025-26. As previously shared and if assumptions hold (they currently are), state funding and tuition revenue will not be sufficient to fully cover those costs, which will require universities to absorb approximately $322 million of new, ongoing compensation costs without new revenue to support those costs (i.e., $138 million in 2023-24, $110 million in 2024-25, and $74 million in 2025-26, which totals $322 million). Also, enrollment across the system has recently dipped below our overall target with several universities experiencing significant enrollment declines. Less tuition revenue from a smaller student population contributes to the fiscal challenge but even more acutely on those universities with significantly smaller student populations. These are only three of many fiscal challenges that universities face today. Each university leadership team faces their own set of unique fiscal challenges as well as their own university-specific aspirational goals that require regular planning and adjusting.

The CSU has several tools to help address fiscal challenges. The most significant tool is time. Of the three challenges mentioned—state budget deficit, compensation, and enrollment—system and university leaders have learned of the specific challenge and have been provided many months to develop and implement programmatic and financial mitigation plans. As an example, the CSU Enrollment Target and Budget Reallocation Plan provided universities eighteen months of lead time before the first shift of funding occurs among universities. Other examples are: the availability of one-time reserves for unexpected developments and economic uncertainties as provided in the CSU reserves policy; governance structures that equip university leaders with the flexibility to make difficult decisions in the areas of course offerings, student services, hiring freezes, employee workload, and workforce levels; a recently-initiated effort with Deloitte Consulting to identify shared services opportunities among universities; and, in some cases funding, such as systemwide funding to supplement university new student recruitment and retention efforts.

Conclusion

The state is amid challenging budgetary times. The Governor's Budget proposal reports lower than expected state tax revenues and a resulting state budget deficit for the 2024-25 budget cycle and proposes the use of state reserves along with many deferrals, funding delays, reductions, fund shifts, and loans.

The governor's January budget proposal for 2024-25 provides a restructured approach to the multi-year compact that includes a one-year funding delay for the CSU, to be later backfilled with one-

time and ongoing funding by the state. Given the state's economic circumstances, the governor's plan endeavors to both acknowledge the financial commitment to the CSU and our students and takes steps to resolve the budget deficit.

This proposal would deliver the same level of funding per fiscal year as originally outlined in the compact, although with additional risk to the CSU if the state's budget condition further erodes and the state cannot fulfill this restructured commitment.

Recognizing this, the CSU will honor and work toward fulfilling the goals outlined in the original multi-year compact. We will explore our funding options to advance compact-related goals during the one-year delay and will proceed with financial prudence.

As for next steps, the Chancellor’s Office will continue working with university leaders to address the fiscal challenges related to employee compensation, enrollment, and the state’s fiscal condition. Additionally, representatives of the university will advocate at the state capitol in support of the values and funding priorities contained in the Trustees’ operating budget plan. These next steps over the coming months will support educational opportunities in the short run and workforce capacity for California in the long run.

COMMITTEE ON FINANCE

2023-24 Student Fee Report

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Summary

This information item reports the annual 2023-24 campus-based mandatory fees to the California State University Board of Trustees as required by policy. Campus-based mandatory fees are required for enrollment under the authority of the president once established by the chancellor. Fee rates for 2023-24 by university and type are included in Attachment A. The 2023-24 average systemwide campus-based mandatory fees are $1,880 per student which is an increase from 2022-23 of $98 per student.

Overview

The CSU Student Tuition and Fee Policy authorizes the chancellor to establish campus-based mandatory fees for certain activities. Attachment B includes a list of the six student fee categories authorized by CSU policy. Also, the policy has delegated presidential approval and adjustment for most types of fees while ensuring accountability and appropriate and meaningful consultation with students. Specific examples of accountability are the establishment of a university fee advisory committee and annual reporting requirements to the committee and Chancellor's Office.

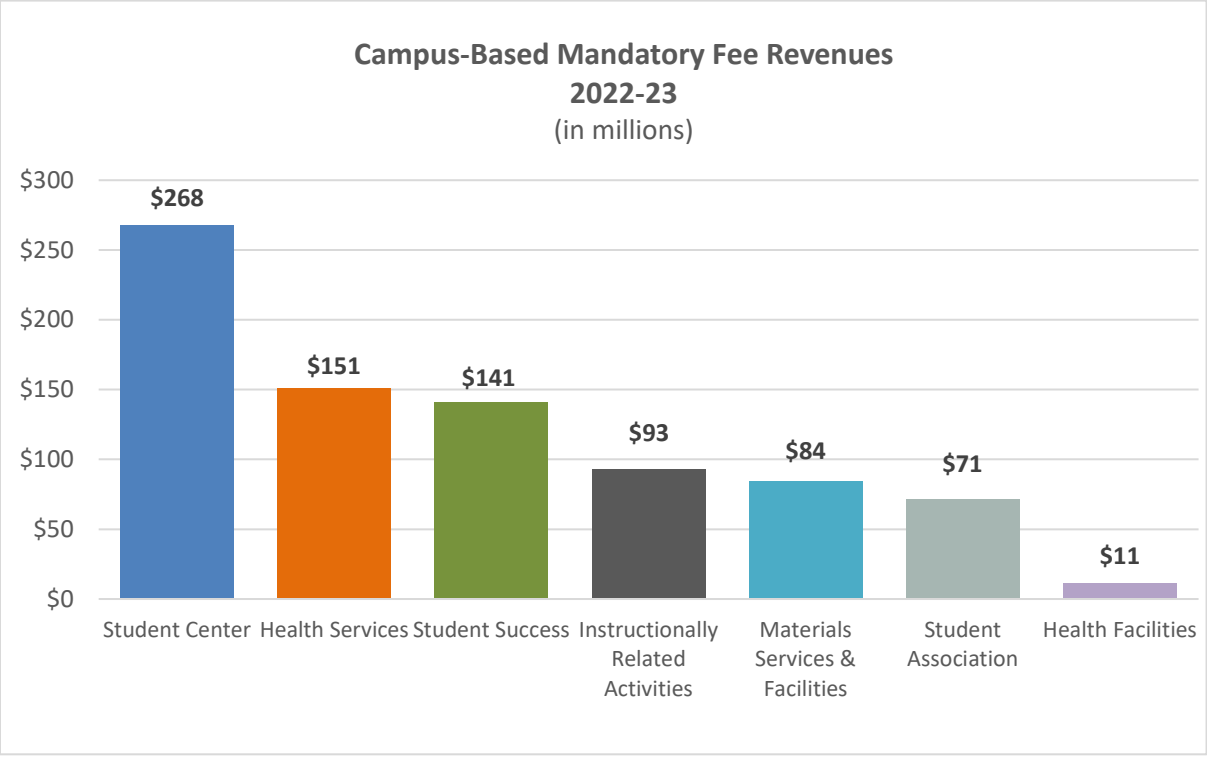
The focus of this item is campus-based mandatory fees. Each campus-based mandatory fee serves a specific purpose, ensuring targeted investment in areas that directly benefit, or have been expressly requested by the student community. Consisting of seven distinct types, campus-based mandatory fees include charges for health facilities, health services, instructionally related activities, student body association, student body center, student success, and materials, services and facilities – including those dedicated to new student orientations. These fees support programs, personnel, facilities, and services beyond the scope of tuition or state appropriations. The revenue generated is directed toward student-centered initiatives, aligning with student needs and enhancing the educational experience.

2023-24 CSU Student Fee Report

This report provides comprehensive information about campus-based mandatory fees, including a summary of prior-year revenues and expenditures and fee rates for each university.

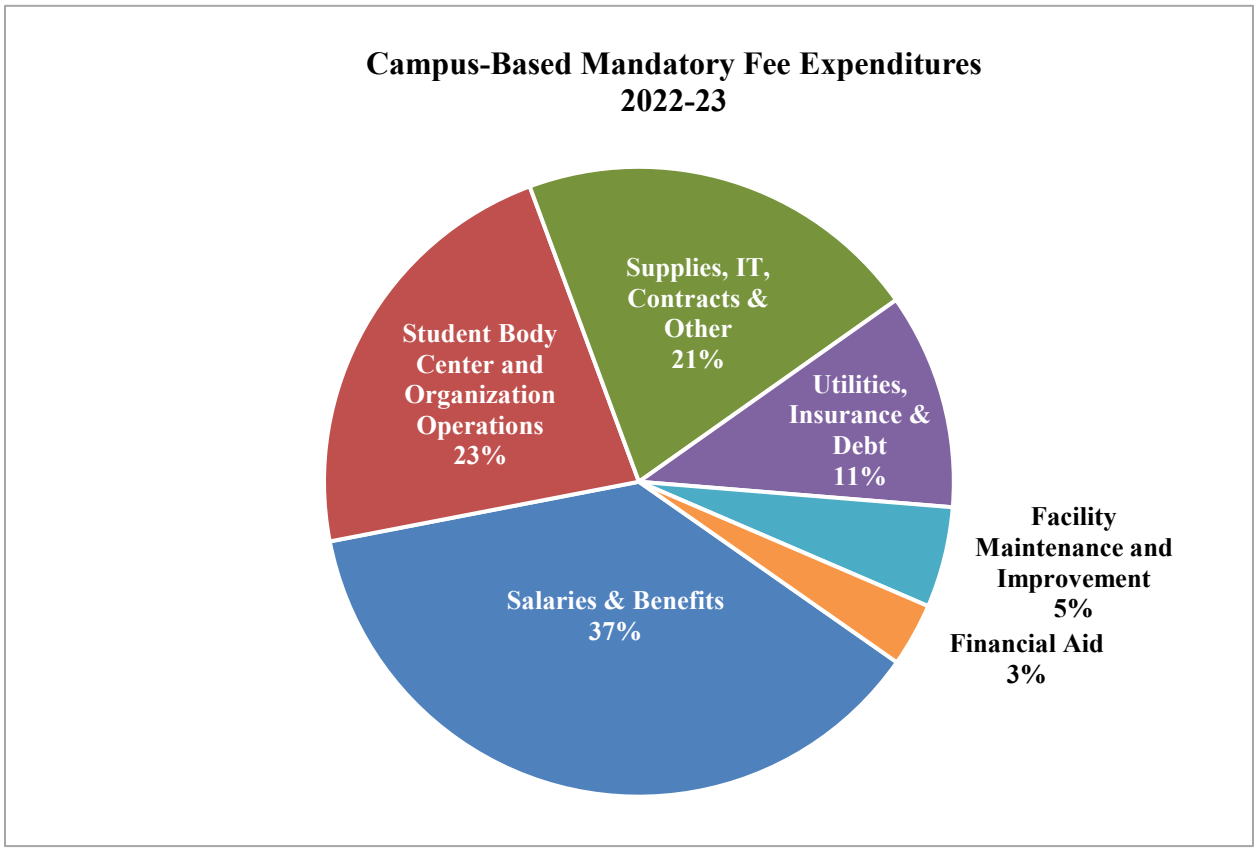
Revenues

CSU universities collected $819 million of campus-based mandatory fees in 2022-23. The revenue collected from the seven fee types is displayed in the chart below. Student centers and health services account for more than half of the fee revenue.



Expenditures

Unlike tuition revenue or state general fund, which can be used for a wide variety of expenditures, campus-based mandatory fees are used for specific purposes. The pie chart below shows expenditures by category and percent. The two largest expenditure categories are salaries and benefits as well as operations for student centers and student associations that utilize 501(c)3 nonprofit organizations (or more commonly, auxiliary organizations). It should be noted, however, that a sizable portion of campus-based mandatory fee expenditures are for non-personnel items such as supplies, contracts, debt service, facility improvements, and utilities.



Rates

The 2023-24 average systemwide campus-based mandatory fees are $1,880 per student. Each university has individual fee rates that support specific programs and facility needs, and there are varying reasons and approaches each university president considers when evaluating changes to their mandatory fees. Systemwide average campus-based mandatory fees increased between 2022-23 and 2023-24 by an average of $98 per student (5.5 percent). Stable tuition and small average fee increases, coupled with federal, state and institutional financial aid programs available to CSU

students, make CSU an affordable option for students from all socio-economic backgrounds. Overall, 82 percent (over 383,000) of CSU students received financial assistance.

On average over the past 10 years, universities have increased three of the seven fee types each year. Health services and student center fees are fees that typically experience yearly increases. Through student referendum or consultation, many universities have authorized annual incremental increases to keep pace with inflation tied to either the Higher Education Price Index (HEPI) or California Consumer Price Index (CPI). Overall, most fee increases are due to HEPI/CPI increases or expansion of services or facilities.

The table below compares campus-based mandatory fees at each university for the 2022-23 and 2023-24 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by $98 (5.5 percent). The comparable California inflation rate was estimated at 5.9 percent in 2022-23. For all but the San Luis Obispo university, campus-based mandatory fees range from $1,100 to $2,500, differing based on university and student priorities, and facilities and services offered.

Comparison of 2022-23 and 2023-24
Campus-Based Mandatory Fee Rate Totals by University

University	2022-23	2023-24	Increase
Bakersfield	$1,895	$1,954	$59
Channel Islands	1,075	1,075	0
Chico	2,230	2,322	92
Dominguez Hills	1,318	1,322	4
East Bay	1,253	1,313	60
Fresno	921	1,238	317
Fullerton	1,265	1,331	66
Humboldt	2,122	2,171	49
Long Beach	1,142	1,266	124
Los Angeles	1,063	1,076	13
Maritime	1,430	1,930	500
Monterey Bay	1,611	1,695	84
Northridge	1,327	1,348	21
Pomona	1,697	1,697	0
Sacramento	1,742	1,860	118
San Bernardino	1,744	1,933	189
San Diego	2,432	2,548	116
San Francisco	1,782	1,542	-240
San Jose	2,157	2,250	93
San Luis Obispo	5,023	5,333	310
San Marcos	1,991	1,992	1

Comparison of 2022-23 and 2023-24 Campus-Based Mandatory Fee Rate Totals by University			
University	**2022-23**	**2023-24**	**Increase**
Sonoma	2,318	2,448	130
Stanislaus	1,992	2,084	92
Weighted Average	**$1,782**	**$1,880**	**$98**

The average annual increase in campus-based mandatory fees over the past 10 years (from 2013-14 to 2023-24) was 4.6 percent. Three of the seven fee types (health facilities, instructionally related activities, and student body association) have had average increases below inflation levels. The other four types have averaged higher increases due to a variety of reasons:

- Health services fees have increased due to expansion of health services and rising health care costs, including employee compensation.
- Materials, services and facilities fees have increased due to new fees such as a consolidation of miscellaneous course fees into a campus-wide mandatory fee, transit passes and a wellness center.
- Student center fees have increased due to new or expanded student union and wellness facilities at universities.
- Student success fees were new ten years ago. Only nine universities had these fees in 2013-14, and most had not started programmed increases. Three universities added them in 2014-15, and there have been no new student success fees since then.

Fee increases in 2023-24 occurred for several reasons. In addition to the inflationary factor increases, there were increases at some universities related to new services or facilities. Fresno increased the student center fee due to the opening of a new student union approved by a student vote. Long Beach increased its instructionally related activities fee to support student activities and athletics. Maritime's materials, services and facilities fee increased due to a reclassification of the existing mandatory uniform fee. San Bernardino increased the health services fee to support rising health care costs. San Francisco significantly reduced the Gator transit pass fee to reflect lower transit usage. San Luis Obispo restructured its college-based academic fee to vary by cohort and college, which will phase in over several years.

2023-24 Academic Year Campus-Based Mandatory Fee Rates by University and Fee Category, as reported August 2023

University	Health Facilities	Health Services	Instructionally Related Activities	Materials Services & Facilities	Student Success	Student Association	Student Center	Total Campus-Based Mandatory Fees
Bakersfield	$6	$373	$183	$62	$0	$441	$889	$1,954
Channel Islands	6	190	260	145	0	150	324	1,075
Chico	6	546	428	226	0	160	956	2,322
Dominguez Hills	6	260	10	5	560	139	342	1,322
East Bay	6	396	129	3	240	129	410	1,313
Fresno	6	302	264	46	0	69	551	1,238
Fullerton	7	196	88	88	443	181	328	1,331
Humboldt	66	696	674	353	0	136	246	2,171
Long Beach	10	150	154	10	346	156	440	1,266
Los Angeles	6	312	126	5	298	54	275	1,076
Maritime	14	886	130	690	0	210	0	1,930
Monterey Bay	0	246	254	315	0	180	700	1,695
Northridge	6	158	44	0	252	246	642	1,348
Pomona	6	269	40	0	447	127	808	1,697
Sacramento	56	292	458	0	0	170	884	1,860
San Bernardino	31	442	186	15	206	123	930	1,933
San Diego	50	452	538	50	480	70	908	2,548
San Francisco	72	522	236	440	0	108	164	1,542
San Jose	76	380	0	36	723	211	824	2,250
San Luis Obispo	12	743	368	1,982	980	379	869	5,333
San Marcos	40	348	80	244	500	150	630	1,992
Sonoma	46	492	598	46	0	294	972	2,448
Stanislaus	32	456	396	332	0	182	686	2,084

Fee Categories and Authority

The CSU tuition and fee policy includes six fee categories:

- **Category I – Systemwide mandatory tuition and fees**
  Systemwide tuition and fees are the same across the system. Examples include systemwide tuition, nonresident tuition, the graduate business professional fee, and the admissions application fee. The Board of Trustees retains authority to set and adjust these fees.

- **Category II – Campus-based mandatory fees**
  Campus-specific fees are charged to all students to enroll at a specific CSU university. Examples include student association, student body/recreation center, and health services fees. The chancellor is delegated authority to establish Category II fees and each president is delegated the authority to adjust or abolish these fees on their university. Each university president is responsible for assuring that appropriate and meaningful consultation and/or student referendum occurs before proposing a new fee or adjusting an existing fee. To measure student support, a referendum is encouraged for new Category II fees and is required by state statute for certain types of Category II fees. If a referendum is not required, and the president determines that a referendum is not the best mechanism to achieve appropriate and meaningful consultation, alternative forms of consultation may be used. By way of a student referendum, students often initiate the creation and increase of certain types of Category II fees, such as associated student fees and student recreation center fees.

- **Category III – Course-specific fees for materials and services**
  Category III fees are for course materials and services that are charged to enroll in a specific course. Examples include laboratory and field trip fees. Each president, after consulting with the campus fee advisory committee, is delegated authority to establish, adjust, and abolish these fees (within a pre-approved range).

- **Category IV – Fees, other than Category II or III, paid to receive materials, services, or for the use of facilities**
  Category IV fees are for other services, materials, and use of facilities that are charged to students for administrative and processing purposes. Examples include transcript fees, library fines, and replacement identification cards. Each president is delegated authority to establish, adjust, and abolish these fees.

- **Category V – Fees paid to self-support programs**
  Category V fees are for self-support programs and charged to participating students and employees. Examples include parking, housing, and Professional and Continuing

Education (PaCE). Each president is delegated authority to establish, adjust and abolish these fees.

- **Category VI – Systemwide voluntary fees**
  This category only applies to the California State Student Association (CSSA) Student Involvement & Representation Fee, which is a voluntary fee charged to students to expand opportunities for student involvement and representation. The chancellor is delegated authority to adjust the Student Involvement & Representation Fee for inflationary purposes if necessary.

Each summer at the start of the next academic year, universities report all fees charged for the upcoming year as well as fee revenues collected and fee fund balances for the prior year to the Chancellor's Office.