

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:00 p.m., Tuesday, November 17, 2015
Glenn S. Dumke Auditorium

Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
Lupe C. Garcia
Lillian Kimbell

Consent Items

Approval of Minutes of September 8, 2015

1. 2016-2017 Lottery Revenue Budget, *Action*
2. Conceptual Approval of a Public/Public Partnership Charter School at California State University, Monterey Bay, *Action*

Discussion Items

3. Approval of the 2016-2017 Support Budget Request, *Action*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for the 2015-2016 Infrastructure Improvements and Capital Outlay Projects, *Action*
5. Conceptual Approval of the California State University, Channel Islands Site Authority Apartments Sale Project, *Action*
6. Conceptual Approval of a Public/Private Partnership Hotel Development Project at California State University, Northridge, *Action*
7. State Public Works Board Bond Debt Restructuring, *Information*
8. California State University Investment Authority, Policy, and Portfolio Review Initiative, *Information*

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

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

September 8, 2015

Members Present

Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
Lupe Garcia
Lillian Kimbell
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Trustee Adam Day called the meeting to order.

Public Comments

California Faculty Association President Jennifer Eagan spoke of the excellent work performed by the faculty and the need for competitive faculty salaries. Simone Aloisio, Faculty, Channel Islands, discussed lobbying the legislature and the need for faculty raises. Donna Andrews, Faculty, Stanislaus, explained the importance of training teachers and the need for adequate compensation. Veronica Chavez, Alumni, Stanislaus, spoke of the importance of faculty in improving the lives of at risk students and of adequately compensating those faculty members. Enrique Ochoa, Faculty, Los Angeles, spoke of the role of faculty in building strong, just, fair communities and the need to adequately pay the faculty for the work they perform. Christian Torres, Student, Los Angeles, spoke of the importance of the work faculty members perform inside and outside of the classroom. Matthew Jendian, Faculty, Fresno, spoke of the great effort faculty members put into achieving excellence and the need to properly compensate their efforts. Pedro Nava, Alumni, Fresno, spoke of the contribution CSU faculty made to his professional success. Ellen Wallace, Faculty, Pomona, described how much effort goes into creative teaching and the need to adequately compensate faculty for it.

Consent

The minutes of the May 19, 2015 meeting and consent items on 2016-2017 Lottery Revenue Budget and Update on 2015A and 2015B Systemwide Revenue Bond Issuance were approved by consent as submitted.

California State University Annual Investment Report, *Information*

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, introduced the annual investment report for fiscal year 2014-2015 for funds managed under the California State University Investment Policy. He reminded the board that staff has been actively engaging with the CSU's key partners in Sacramento to change legislation that will provide the University with more flexibility in how it invests a portion of its funds.

Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management reported that the bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT) investment portfolio, which had a balance of \$3.2 billion and provided a return of 0.71% during the 12 months ended June 30, 2015. He noted that the portfolio continues to be invested in high quality, fixed income securities, however as Mr. Relyea indicated, the CSU is working to change legislation in order to provide the CSU with greater investment flexibility and increased earnings on its existing base of funds. He stated this potential for additional revenues would have a meaningful impact on the CSU's ability to address a variety of needs, notably its deferred maintenance and critical infrastructure backlog.

Trustee Lillian Kimbell asked what fees are charged by the SWIFT account management companies. Mr. Eaton responded that one charges five basis points and the other charges three basis points.

Trustee Peter Taylor inquired if anyone has looked at the pros and cons of bringing fixed income management in house. Mr. Eaton responded this had been considered in the past but was not pursued due to the substantial resources necessary to support such an effort. Trustee Taylor offered to work with staff to conduct another review and shared that the University of California did support fixed income management in house and utilized external managers for equities. Trustee Day added that low returns on the portfolio amplified the need to pursue the change in legislation.

Update on Governmental Accounting Standards Board (GASB) Statement No. 68 – Accounting and Financial Reporting for Pensions, *Information*

Mr. Relyea provided background information on the changes to GASB 68 - Accounting and Financial Reporting for Pensions, effective for fiscal year 2014-2015. He informed the board that each governmental employer participating in a pension plan is now required to recognize a proportionate share of the collective net pension liability on the face of its financial statements. The CSU's initial proportionate share of the State's net pension liability as of June 30, 2015 was

\$5.9 billion, based on the information from the State Controller's Office in August 2015. Currently CSU staff and KPMG, CSU's external auditors, are reviewing the information. He then asked KPMG audit partner, Mark Thomas to share how KPMG views this matter.

Mr. Thomas acknowledged that this new accounting pronouncement affects governmental entities across the United States. For the first time, financial statements of state and local governments, public universities, and other government agencies will reflect the unfunded portion of pension plans as liabilities on the face of their financial statements. He added that often times these numbers are in the billions of dollars and may eliminate any net assets/equity of the entity, as is the case with CSU. However the effects of this requirement are well understood within the industry and, in most cases, are not expected to drive adverse actions in the debt markets.

Mr. Relyea reiterated that the inclusion of this liability is a result of the CSU's compliance with an accounting mandate, not a deterioration in its financial condition. However, the explicit recognition of the CSU's pension obligation is important for future planning both at the CSU and state levels. He stated staff has discussed other obligations, including capital deferred maintenance, which campuses are helping to manage by establishing designated reserves. He stated annual operating reserves are also used to meet operating obligations. In recognition of CSU's fiduciary responsibilities and good stewardship, staff would continue to consider all potential obligations and plan accordingly. He stated that with regard to the pension liability, bond advisors are aware of this financial reporting issue that affects all public universities and governmental entities and have been notified of the amount of CSU's share of the net pension liability of the State.

Planning for the 2016-2017 Support Budget, *Information*

Mr. Relyea introduced the preliminary support budget plan for fiscal year 2016-2017 and shared that for the first time since 2006-2007, the CSU's 2015-2016 support budget request was fully funded by the state. He cautioned that the Department of Finance has indicated that the CSU should assume for 2016-2017 an amount closer to \$139 million of new, permanent funds, which would be consistent with the administration's multi-year funding plan for CSU. He stated that staff would like to solicit ideas and feedback from the board that will be used to craft the final support budget plan which will be an action item at the November 2015 board meeting. He then invited Assistant Vice Chancellor for Budget Ryan Storm to provide details about the proposed plan.

Mr. Storm provided a description of the state budget process and how it relates to the university's budget process. He stated the bulk of the process at the state level runs from January through June, while the board works to plan a budget in September and finalize the details in November. This asynchronous process requires the Chancellor's Office and campuses to make a number of decisions before, during, and after the state budget process has wrapped up, including student admissions and enrollment, financial aid, course scheduling, and related funding decisions. He reminded the board that the support budget's purpose is to meet the core mission

of state-supported instruction, applied research, and public service. He stated the CSU's general fund budget is tied directly to the health and stability of the state budget, therefore, when state revenues are positive, the CSU tends to financially benefit; the reverse is also true.

He continued by stating that the support budget has two primary funding sources: state general fund, which is provided by the state legislature and governor, and tuition, which is provided by students and their families. The current funding ratio is about 55 percent from state funds, and 45 percent from tuition.

He asked trustees to keep three items in mind as they review the CSU's preliminary budget request. First, the incremental additions to the CSU's baseline budget, including increased needs in funding for both new and ongoing obligations. Second, the state's fiscal position which currently appears to be about to fund the fourth year of the administration's multi-year funding plan, or go beyond that level of funding. Third, he welcomed the board's input to help staff prepare a final draft of this budget plan for the board's consideration in November.

Mr. Storm then gave an overview of the components of the preliminary support budget plan for 2016-2017. The preliminary expenditure plan would bring annual spending for support of the CSU to nearly \$5.4 billion, including systemwide tuition revenues, net of State University Grants. He then discussed each of the components. He stated that mandatory costs are costs that have already been determined by state law, CSU policy, and operational needs. He added that the compensation pool item remains contingent upon the collective bargaining process and that the projection of \$68 million represents the third year of the currently bargained plan of 3% in 2014-2015, 2% in 2015-2016, and 2% in 2016-2017.

Mr. Storm then added the board has significant discretion over the plan for enrollment increases, student success and completion, and facilities and infrastructure needs. He stated that there is strong demand for a CSU education and added that there are a variety of efforts and strategies to facilitate degree completion and student success at CSU campuses. Some of those efforts were funded in 2015-2016 and have allowed campuses to gain momentum on the many initiatives initiated during phase one of the graduation initiative. As campuses roll out Graduation Initiative 2025 strategies to increase student success, reduce time to degree and eliminate the achievement gap, they are instituting high impact practices, making data-driven decisions, and improving the educational experience for students.

He stated that the CSU's backlog of facility maintenance and infrastructure needs is massive and growing and is currently estimated to be \$2.5 billion. He added that with the shift of capital outlay responsibilities from the state to the CSU, the state did not provide sufficient funds for the CSU to capitalize on the new program. Consequently, annual support budgets would not be able to retire significant portions of maintenance backlog for many years without additional resources being allocated for this purpose. He stated that staff is proposing that \$25 million be annually committed to debt finance approximately \$325 million of projects.

He added that under the administration's multi-year funding plan new funding would only support a 1% increase in current and new student enrollment. It would not support any new commitments for infrastructure or student success unless portions of the very small balance of \$8.1 million were to be allocated to those categories. He informed the board that a 1% enrollment increase would only yield \$18 million in new student tuition revenue. Conversely, the CSU preliminary plan of 3% new enrollment would generate an additional \$55 million on tuition revenue. Leaving an additional need of \$101 million from the state so that the CSU could continue investments in students, faculty, staff, and infrastructure.

Trustee Day asked Mr. Storm what the difference is between the CSU's 2015-2016 enrollment growth request and the governor's proposal. Mr. Storm responded that the trustees requested and received funding for a 3% increase versus the administration's proposed 1% percent increase. Chancellor White added that in November 2014 campuses planned on a 1% enrollment growth based on the anticipated funding, and adjusted accordingly when it became known that the trustees' request would be fully funded. He indicated that a similar set of actions would happen this year as campuses will need to initially make conservative decisions unless or until there is a clear signal that the CSU will receive additional funds.

Trustee Lupe Garcia asked for elaboration on the strategic investments category. Mr. Relyea clarified that the category labeled strategic investments is being used as a placeholder name and only pertains to the assumption that the CSU receives what the governor planned. The \$8.1 million is the amount left after enrollment, compensation, and mandatory costs are subtracted and would be used to deal with infrastructure issues and student success.

Trustee Kelsey Brewer inquired how the state's rainy day fund would affect the CSU's access to those surplus funds. Mr. Storm responded the state adopted a rainy day fund that requires them to carve off several billion dollars a year to put away for use when there is an economic downturn. It is yet to be determined how those funds would be used during an economic downturn.

Trustee Brewer asked if the enrollment growth numbers take into consideration the limitations that have been placed on the CSU by having to enroll a certain number of transfer students that complete the pathway requirement. Mr. Storm answered that from a macro perspective, the CSU takes in roughly about half first-time freshmen and half transfer students on an annual basis. He stated that is something that needs to be worked out over time and on a campus-by-campus basis. Chancellor White shared that the last analysis done by Academic and Student Affairs did not indicate that the SB 1440 legislation would fundamentally change the CSU's ability to admit first-time freshmen.

Trustee Steven Stepanek thanked staff and noted that the CSU has asked for additional funding for student enrollment and infrastructure needs which are very important, and in a sense challenged the governor and legislators to better support the CSU. He added that it is also important to consider the employee compensation pool and asked why more than 2% is not being sought. He indicated there would be a presentation the following day talking about compensation

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issues such salary compression and where salary inversions and cost of living issues exist. He opined it would be incredibly fortunate for the CSU to find a way to get additional money to address those issues.

Trustee Kimbell asked if the 460,000 students mentioned in the CSU fact book are full-time students. Mr. Storm responded that it is the actual head count not full-time equivalent students. He further added that non-resident and international students are not factored into the support budget request and shared that the CSU has about 24,000 to 25,000 of these students.

Chancellor White stated that approximately 4% of CSU's students are not supported by state funds and added that campuses are doing heroic work. With respect to the CSU's out of state and international students, he stated that those students not only enrich the learning environment by bringing a different perspective, but also bring in revenues that help educate Californians.

Trustee Day adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

2016-2017 Lottery Revenue Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for 2016-2017 is presented to the California State University Board of Trustees, Committee on Finance as an action item. This budget is identical to the preliminary budget included in the committee's September 2015 agenda.

Background

On November 6, 1984, California voters approved Proposition 37, known as the California Lottery Act. The Lottery Act allows for the expenditure of lottery revenues to supplement funds allocated for public education. Since 1984, the CSU has received apportionments from the state based on total full-time equivalent students totaling \$1.07 billion, which equals approximately 3.7 percent of all Lottery Funds distributed for educational purposes. Recently, annual CSU Lottery Fund receipts have averaged around \$45 million per year.

The Lottery Act codifies the legislative intent that lottery funds be used "exclusively for the education of pupils and students" and that no funds can be used for non-instructional purposes, such as the acquisition of property, construction of facilities, or financing research. To that end, the CSU has adopted guidelines to ensure that lottery funds are used only to support instruction or instructional-related purposes.

Each year, the CSU Board of Trustees is asked to adopt a systemwide lottery revenue budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The budget identifies lottery receipts that the CSU expects to receive in the budget year and the program areas for allocation of those receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements. Approximately 90 percent of anticipated lottery receipts are allocated directly to campuses for instructionally-related programs and activities. Remaining funds are allocated for CSU programs that assist student education, such as the Summer Arts, Pre-Doctoral, and Doctoral Incentive programs. Only about 1.3 percent of lottery resources are used by the Chancellor's Office to manage lottery fund operations and reporting requirements.

CSU allows for the carryforward of 50 percent of annual lottery allocations by the campuses to address long-range educational programs, instructional equipment purchases, or instructional program development that crosses several years. The Chancellor's Office reviews campuses' planned uses of lottery carryforward balances that exceed the 50 percent threshold.

The board has delegated authority to the chancellor for the development and oversight of the lottery budget and for the deposit, control, investment, and expenditure of lottery revenues received. The CSU prepares a formal report on lottery fund revenues and expenditures each May to the Governor and Legislature, in accordance with the annual state budget act. The board receives an updated report in the fall of each year.

2016-2017 Lottery Budget Proposal

The total lottery budget for 2016-2017 is projected to be \$49.2 million. Past lottery budgets have set aside reserves to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and to be prepared for other economic uncertainties. After setting aside \$5 million for beginning reserves, the \$44.2 million 2016-2017 lottery budget proposal remains principally designated for campus-based programs and three system-designated programs that have traditionally received annual lottery funding support. The 2016-2017 budget proposes a small increase of \$63,000 for lottery fund and system programs administration, bringing the new total to \$607,000 (about 1.3 percent of total projected lottery revenues). This increase is due to higher salary and healthcare costs, and is consistent with decisions made by the CSU Board of Trustees and CalPERS board. As compared to the approved 2015-2016 lottery budget, no other changes are proposed for the 2016-2017 lottery budget.

System-Designated Programs

Of the \$44.2 million available for expenditure, \$4.6 million will be allocated to the three system-designated programs and administration costs as follows: the Chancellor's Doctoral Incentive Program provides \$2 million of financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program provides \$814,000 to support CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; the CSU Summer Arts Program includes \$1.2 million to offer courses for academic credit in the visual, performing, and literary arts; and lottery fund and system programs administration costs are \$607,000.

Campus-Based Programs

The remaining \$39.5 million will continue to be used for campus based programs (\$31.5 million) and increased financial aid for the trustee-approved Early Start program (\$8 million). Campus-based program funding provides flexibility in meeting unique campus needs, consistent with the Lottery Act. Traditionally, projects receiving campus-based funds have included replacement and purchase of new instructional equipment, curriculum development, and scholarships. Early Start program funds will provide campus-based financial aid as need-based fee waivers to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first time freshman students who are deficient in math and/or English skills through additional college preparatory instruction during the summer term prior to matriculation at any of the CSU campuses.

The CSU lottery revenue budget proposed for 2016-2017 is as follows:

2015-2016 Adopted and 2016-2017 Proposed Lottery Revenue Budget		
	2015-16 Adopted Budget	2016-17 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Receipts	44,100,000	44,163,000
Total Revenues	\$ 49,100,000	\$ 49,163,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 44,100,000	\$ 44,163,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	814,000	814,000
CSU Summer Arts Program	1,200,000	1,200,000
	\$ 4,014,000	\$ 4,014,000
<i>Campus-Based Programs</i>		
Campus Programs	\$ 31,542,000	\$ 31,542,000
Campus Early Start Financial Aid	8,000,000	8,000,000
	\$ 39,542,000	\$ 39,542,000
<i>Lottery Fund & System Programs Administration</i>	\$ 544,000	\$ 607,000
Total Uses of Funds	\$ 44,100,000	\$ 44,163,000

Recommendation

This item is an action item and the following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the 2016-2017 lottery revenue budget totaling \$49.2 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery revenue budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that a portion of campus-based program allocations will be used to support student financial aid for the trustee-approved Early Start program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need; and be it further,

RESOLVED, that the chancellor is hereby granted authority to adjust the 2016-2017 lottery revenue budget approved by the Board of Trustees to the extent that receipts are greater or lesser than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, that a report of the 2016-2017 lottery revenue budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

Conceptual Approval of a Public-Public Partnership Charter School at California State University, Monterey Bay

Presentation By

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

Eduardo Ochoa
President
California State University, Monterey Bay

Summary

This item requests conceptual approval from the California State University Board of Trustees for the development of the Monterey Bay Charter School (“MBCS”) on the California State University, Monterey Bay campus.

Background

MBCS is an independent charter school founded by parents and teachers in 1998 to inspire creativity, critical thinking, and motivated learning. MBCS received its first charter in 2005 and a subsequent charter renewal in 2012 from the Monterey County Board of Education for five years through 2017. MBCS was awarded a six-year accreditation jointly from the Western Association of Schools and Colleges and the California Department of Education.

The school first opened its doors in a small church in Marina, California, with 78 students in kindergarten through sixth grade. The school has since occupied several interim locations to accommodate growth and is currently located in Pacific Grove with the exception of two kindergarten classes that are located in Seaside, as the school grew beyond the available space in Pacific Grove. MBCS accommodates 362 students in the 2015-2016 school year.

As part of the school's goal to support diversity and accessibility, MBCS is working to relocate to the Seaside/Marina area and reunite the kindergarten with the other grades. MBCS began talks with Monterey Peninsula Unified School District to find district buildings that could be rented or purchased; however, no suitable buildings are available. Consequently, MBCS has sought to acquire property and build a new school facility which will accommodate the school’s growing student base and be centrally located to all students in Monterey County.

Project Description

The proposed campus would be a kindergarten through eighth grade school to accommodate approximately 500 students on a 20-acre site along the southern portion of the campus. The proposed site is currently vacant and consists of eight unoccupied buildings remaining from the campus site's former use as a military base that are scheduled to be demolished.

It is projected that classrooms would be completed for the 2017-2018 school year to accommodate approximately 500 students, with supporting facilities such as multi-purpose room, woodworking classroom, art studios, a library, and a cafeteria to be completed shortly thereafter. Alternative transportation to the school will be encouraged.

The campus received support for the development from the Land Development Review Committee in September 2015.

Financing

The campus anticipates entering into a ground lease with MBCS at a value to be determined based on the appraised value of the site. Neither the campus nor any auxiliary will have an investment in the project. MBCS will be responsible for financing, constructing, and managing the project during the term of the lease. MBCS will also be responsible for all costs associated with environmental and entitlement processes in accordance with CSU requirements. MBCS plans to obtain private funds for this project.

Educational Benefits

Many of the campus's core values and academic goals align with MBCS's values and goals. As a result, the MBCS has collaborated with a number of departments at the campus for over fifteen years by providing student internships and part-time employment, service learning opportunities, capstone projects, community service hours, and various campus class projects.

This proposed partnership between the campus and MBCS is expected to provide additional future benefits for the campus, including collaborative research opportunities between MBCS and campus students, faculty, and staff; business opportunities relating to MBCS rental of various campus facilities for certain school programs and events; and quality K-8 education for campus administration, faculty, and staff through priority enrollment of their children at MBCS. In addition, locating MBCS at the campus will make MBCS more accessible to the racially and economically diverse populations of Monterey County.

Approval of the Final Development Plan

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

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-public partnership for the Monterey Bay Charter School development and the release of the Request for Qualifications/Proposals;
2. Authorize the chancellor and the campus to enter into negotiations for agreements necessary to develop the final plan for the public-public partnership as explained in Agenda Item 2 of the November 17-18, 2015 meeting of the Committee on Finance;
3. Authorize the chancellor and the campus to enter into a due diligence access and option agreement which provides the Monterey Bay Charter School with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following additional action items relating to the final plan:
 - a) Certification of Final California Environmental Quality Act (CEQA) documentation;
 - b) Approval of a financial plan negotiated by the campus and the Monterey Bay Charter School with the advice of the chancellor;
 - c) Approval of any amendments to the campus master plan as they pertain to the project;
 - d) Approval of an amendment to the Non-State Capital Outlay Program;
 - e) Approval of the schematic design.

COMMITTEE ON FINANCE

Approval of the 2016-2017 Support Budget Request

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

At its September 2015 meeting, the California State University Board of Trustees reviewed a preliminary plan for purposes of crafting the CSU's support budget request to the state. This item presents for the board's approval a proposed support budget request for 2016-2017. Accompanying this agenda item as Attachment A, is the proposed 2016-2017 CSU Support Budget Request, which contains additional detail for the board's consideration.

State Budget Overview

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the Department of Finance, it is necessary to adopt the proposed 2016-2017 CSU Support Budget Request at the November board meeting.

While the state has made significant strides on the path to economic recovery, significant expenditure obligations persist. The state is challenged by long term health, pension, and deferred maintenance obligations in excess of \$200 billion. Also, highly volatile capital gains taxes make up a significant portion of the state budget revenue picture and can dramatically swing from one year to the next.

The significant tax revenues produced by Proposition 30 and the ongoing economic recovery allowed the state to begin anew to invest in many areas, including public higher education. Under current assumptions, the economic recovery will allow the state to completely eliminate its operating debt by 2017-2018 and set aside billions of dollars in operating reserves.

If the state's economic recovery continues, revenues could grow between three and five percent per year through 2017-2018, but slow down to one percent in 2018-2019 according to projections by the Department of Finance. The outlook over the next three fiscal years ranges from continued constraint to modest opportunity for growth.

The Governor's Multi-Year Funding Plan for CSU

In January 2013, Governor Brown's budget proposal included a multi-year plan to provide funding stability to CSU and the University of California (UC). This plan called for state funding increases to the two universities totaling \$511 million each over the course of four years, culminating with the 2016-2017 fiscal year. Recognizing that both CSU and UC endured state funding reductions in equal dollar amounts during the recent fiscal crisis and that an ongoing investment in the university systems is important to the vitality of the state's economy and people, the governor's administration has since added additional years and new permanent funding commitments to the plan. The cumulative, potential increase occurs in annual increments totaling \$816.2 million. Actual funding provided by the state is noted in parenthesis below.

- \$125.1 million in 2013-2014 (provided by the state)
- \$142.2 million in 2014-2015 (provided by the state)
- \$119.5 million in 2015-2016 (\$216.5 million provided by the state)
- \$139.4 million in 2016-2017
- \$155.4 million in 2017-2018
- \$134.6 million in 2018-2019
- Cumulative, potential increase in funding = \$816.2 million

Although the legislature never formally adopted this multi-year plan, it did approve the first and second year increases of \$125.1 million and \$142.2 million, and with the governor's consent went above and beyond in 2015-2016 to fully fund the CSU support budget request of \$216.5 million. With this increase and the new proposed levels through 2018-2019 the new six year total would be \$913.2 million, still short of the cuts totaling approximately \$1 billion dollars from 2008-2009 through 2011-2012.

One tenant of the governor's multi-year funding plan is no tuition increase between 2013-2014 and 2016-2017. CSU's support budget is dependent on two revenue sources: state general fund and tuition revenue. Each makes up approximately half of the support budget. With the governor's multi-year plan, which includes a flat tuition rate, the CSU has limited opportunities to expand enrollment, fund compensation increases, or make larger steps toward removing bottlenecks and improving student success outcomes, after accounting for inflationary increases and growing mandatory cost obligations.

The Governor's Funding Plan Does Not Fully Meet CSU's Needs

In 2015-2016, the state fully funded the CSU support budget request for the first time since 2006-2007. The Proposed 2016-2017 CSU Support Budget Request is similar to the 2015-2016 request and will allow the CSU to meet its mandatory cost obligations, fund compensation increases, and grow systemwide student enrollment by three percent, while also dedicating funds to student success and completion priorities. Additionally, significant progress can be made on infrastructure and deferred maintenance needs. However, the governor's multi-year funding plan only provides a \$139.4 million increase in 2016-2017, which will only fund the minimum cost increases required by the CSU and allow for one percent enrollment growth.

Proposed 2016-2017 CSU Support Budget

In this agenda item, we share with the board the proposed support budget request for 2016-2017. The proposal represents a credible statement of the university's key funding needs and reiterates the continued necessity for the state and CSU to partner to ensure student access and success, competitive salaries and other compensation improvements for faculty and staff and to continue to invest in critical capital and infrastructure needs.

Proposed Expenditure Plan

The proposed support budget request for 2016-2017 is summarized below. These items would require new ongoing revenues from the state of \$241.7 million, assuming additional tuition revenue of \$55.9 million. This expenditure plan exceeds the \$139.4 million increase specified for 2016-2017 under the governor's funding plan, however, it is a statement of the university's true funding needs. Given the possibility that 2016-2017 state revenues could grow above current projections, this presents worthy opportunities for the state to invest further in the students, faculty, and staff of the CSU. The executive summary of the proposed 2016-2017 Support Budget Request (Attachment A), intended for ultimate distribution to the governor, legislators, and other policy makers in the capital, is included with the board materials and can also be accessed at: <http://www.calstate.edu/budget/fybudget/support-budgets/>

Proposed Incremental Increase in Expenditures:

- | | |
|--|-----------------|
| • 3% Funded Enrollment Growth | \$110.0 million |
| • Student Success and Completion Initiatives | \$50.0 million |
| • 2% Compensation Pool | \$69.6 million |
| • Facilities and Infrastructure Needs | \$25.0 million |
| • Mandatory Costs (health benefits, pensions, & new space maintenance) | \$43.0 million |

Total Ongoing Expenditure Increase	\$297.6 million
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Sources of New Revenue

• General Fund Revenue from Governor’s Multi-Year Plan	\$124.4 million
• Middle Class Scholarship Redirected Funds	\$15.0 million
• Net Tuition from 3% Funded Enrollment Growth	\$55.9 million
• Preliminary Board of Trustees Additional Request	\$102.3 million
Total Additional Revenue Needed	\$297.6 million

This proposed expenditure plan would bring annual spending for support of the CSU to \$5.46 billion, including student tuition revenues (net of financial aid).

Funded Enrollment Costs

There is strong demand for a CSU education. Between 22,000 and 31,000 students each year have been denied access during the fall admission cycle since 2010 because the university did not have sufficient financial resources to admit these students and provide them with a quality education. In terms of the future, it is anticipated that demand for a CSU education will likely grow due to increasing numbers of prepared, CSU-eligible high school graduates as well as increased enrollment funding provided to the California Community Colleges. Access to education and the preparation of the state’s future workforce depends on the state investing in the CSU.

The proposed expenditure plan to support enrollment demand represents a three percent increase in full-time equivalent students (FTES), or 10,700 FTES. This increase would allow for growth in the number of students admitted and served, as well as accommodate existing demand by current students for additional courses (to improve time-to-degree) and for some campuses to consider a move back to a state-supported summer term, if they choose. The cost of accommodating a three percent increase in enrollment is \$110 million.

Student Success and Completion Initiatives

The proposed expenditure plan includes a \$50 million augmentation under the title of Student Success and Completion Initiatives for a variety of efforts and strategies to close achievement gaps, facilitate student success, and promote timely degree completion. These funds would be used in six areas: tenure-track faculty hiring, enhanced advising, student retention practices, data-driven decision making, student preparation, and bottleneck solutions.

Compensation Pool

The calculated cost of \$69.6 million represents a two percent increase to the compensation pool for all employees in 2016-2017.

Academic Facilities Maintenance and Infrastructure Needs

The CSU's backlog of facilities maintenance and infrastructure needs is \$2.6 billion and growing by approximately \$150 million per year. Even with the state statutorily changing the way it handles CSU academic-related infrastructure needs by providing the CSU with the autonomy to self-determine its capital program, the state will need to provide additional revenue for the CSU to truly benefit from the new program. Over the past two fiscal years, the CSU has been able to permanently commit \$35 million per year to finance the university's most pressing capital renewal projects. While this is in addition to the 2015-2016 one-time \$25 million state appropriation for deferred maintenance projects, this amount is far from adequate to halt the growth of the CSU's deferred maintenance backlog. The proposed expenditure plan would commit an additional \$25 million per year to finance approximately \$325 million of the university's next, most pressing group of critical projects.

Mandatory Costs

Mandatory costs are those that have already been determined by state law, CSU policy, and operational needs, such as employee benefits and maintenance of new space. The cost is \$43 million.

One-Time Funding

The proposed plan separately requests \$50 million, in one-time funds, from the state to further address the deferred maintenance backlog and \$90 million of cap and trade funds to implement greenhouse gas and energy reduction projects.

Proposed Revenue Plan

The proposed expenditure plan continues to address many of the CSU's educational and operational needs. The plan again holds systemwide tuition at 2011-2012 levels and presumes that the state will fill the revenue gap with funding that exceeds the governor's multi-year funding plan to meet CSU priorities and needs. It would be exceedingly difficult for the CSU to operate within the confines of the governor's multi-year funding plan. Increased mandatory costs and compensation pool costs together would consume approximately \$112.6 million of the \$139.4 million available from the governor's funding plan. With the addition of \$18.6 million from tuition revenue associated with a one percent enrollment growth, this leaves approximately \$45.4 million to address enrollment, student success, and facilities.

The CSU's current effort focuses on stating the need for \$241.7 million in state appropriations combined with \$55.9 million in new tuition revenue for 2016-2017.

Conclusion

This is an action item, presenting a final recommendation for the CSU 2016-2017 Support Budget Request to the governor's administration. This plan strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably furnished by the state and an amount that can be reasonably provided through tuition revenues generated by enrollment growth. The plan is capable of reprioritization if, ultimately, the university must budget within the \$139.4 million funding increase specified for 2016-2017 under the governor's funding plan. Such a reprioritization is far from ideal and would result in significant short-term and long-term consequences to the state and to current and prospective CSU students. At this stage, however, the proposed budget plan focuses on stating needs and being positioned for opportunity to benefit California's economic and social future.

Recommendation

This following resolution is presented for approval.

RESOLVED, that the Board of Trustees of the California State University acknowledges and expresses its appreciation to the governor and legislature for their increased budget support; and be it further

RESOLVED, that the Board of Trustees understands there are numerous competing interests for budgetary support given the fiscal constraints and competing policy priorities under which California continues to operate; and be it further

RESOLVED, that the future of California and its economy rests on the success of the CSU in providing life-changing benefits to hundreds of thousands of students; and be it further

RESOLVED, by the Board of Trustees of the California State University that the proposed CSU 2016-2017 Support Budget Request is approved as submitted by the chancellor; and be it further

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

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



Proposed
2016 - 2017
Support Budget

www.calstate.edu/budget
DRAFT FOR CSU BOARD OF TRUSTEES CONSIDERATION



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Chancellor's Message



A budget is a public statement of an institution's priorities. This is as true for the State of California as it is for the California State University.

State leaders took an important step this June by fully funding the 2015/16 CSU Support Budget request—a first in nearly a decade. This prioritization means that our 23 campuses will collectively educate an additional 12,000 students, strategically invest in educational enhancements that empower student success, take larger steps to recruit and retain a quality faculty and staff, and address critical facilities and infrastructure needs.

Since its inception, the CSU has embraced the vision set forth in the state's higher education master plan to draw the top-third of graduating high school seniors each year, prioritize admission to community college transfer students, and provide a high-quality, affordable education to its students. The purpose being an educated and successful California populace that leads to economic and social prosperity.

While small but steady increases are helpful, the CSU and the state cannot lose sight of the fact that much work remains. During the Great Recession, the state cut nearly \$1 billion from the CSU. Today, only about \$600 million of those unallocated cuts have been restored. The consequences, of course, are persistent challenges in serving the needs of California today and for our future.

The Public Policy Institute of California warns that the state faces an economic drought of 1.1 million bachelor's educated workers by 2030. If the CSU is to play its part in closing this gap, then the state must prioritize building the capacity needed to allow students to earn quality degrees. These degrees will only have value to California if they are earned through completion of rigorous academic instruction and applied study. This requires innovative programs and tools, a strong and appropriately compensated faculty and staff, and technologically-progressive and physically-sound structures.

The CSU budget plan for 2016/17 pushes one of the most efficient and effective higher education systems in the nation to focus on quality, while calling on the state to commit to increasing opportunity, by:

- Increasing access for community college transfer and first-time freshmen students
- Enhancing student success and completion efforts
- Addressing compensation issues for faculty and staff
- Providing adequate academic facilities through repair, replacement, and improvement
- Funding CSU mandatory costs

I trust that our elected leaders in Sacramento will carefully consider and fund this request. Millions of Californians have benefited from excellent educational opportunities on our campuses. These alumni have, in turn, contributed to the collective good of this great state. I have confidence that our elected leaders will prioritize investment in the next generation, so that millions more of our fellow Californians will benefit directly and indirectly from this great institution.



Timothy P. White
Chancellor
The California State University



CSU and California: An Integral Partnership Today and For Tomorrow



As the largest public university system in the state, the CSU has a significant role in shaping California's future. Since its inception, the CSU has strived to provide a high-quality, affordable education that enables our graduates to develop intellectually, personally, and professionally, and to contribute to California's communities, culture, and economy. Just recently, the CSU graduated its three-millionth alumnus and conferred another 105,693 undergraduate and graduate degrees—a record number. It is our hope and expectation that each CSU graduate continues the proud tradition and legacy of supplying California's workforce with knowledge, innovation, and creativity, so that the California economy continues to prosper.

Nearly one in every ten employees in the state is a CSU graduate. The CSU educates the majority of California's leaders and policymakers. The CSU trains the majority of California's teachers. CSU graduates power Silicon Valley, where San Jose State, Cal Poly San Luis Obispo, and San Francisco State rank among the top feeder schools to major technology companies. From Humboldt in the north to San Diego in the south, each campus plays a unique and vital role in driving California's economic growth. Industries including agriculture, business, entertainment, hospitality and tourism, information technology, life sciences, manufacturing, and transportation all benefit greatly from the CSU. Our campuses and academic programs rank among the top colleges in the region and across the nation.

As the CSU continues to educate and graduate a record number of students, we are continuously searching for ways to streamline operations and reduce costs, so these savings can be reinvested for student success. The CSU has saved over \$51 million in the past year through strategic debt refinancing. Collaborations with K-12 schools, the California Community Colleges, and the University of California have produced \$37 million in cost avoidance since fiscal year 2011/12 for wide area connectivity in the CSU Common Network Initiative. The CSU continues to work with these entities to find ways to leverage our size and talents for cost savings. In addition, CSU energy efficiency projects have avoided \$16 million in annual costs. Renegotiating electricity purchase contracts avoided \$18 million in costs since 2010 and will save \$30 million over the next five years. There are numerous other instances where the CSU has streamlined operations and reduced costs, whether through contract renegotiation, economies of scale, shared services, or high-efficiency energy projects. However, as Chancellor White has noted, we cannot "efficiency" our way to academic success.

To ensure more students graduate on-time and prepared to engage the world, the CSU invests heavily in faculty and staff, academic programs, and student success initiatives. We constantly remind ourselves that the focus of the CSU is to serve students, so that each and every student receives a high-quality education, graduates on-time with minimal student loan debt, and is ready to shape California's social and economic future.

To that end, the CSU Graduation Initiative was launched in 2009 to focus on student success, in addition to the historical CSU priorities of access, quality, and affordability. In 2014, Chancellor White expanded the initiative by committing the system to raising both the four- and six-year graduation rates for first-time freshmen and two- and four-year rates for transfer students. The CSU set 2025 as the date for achieving systemwide and individual campus target graduation rates. The CSU continues to utilize funds to strengthen campus capacity to gather, analyze, and use real-time student success data in support of local decision-making, and to support high-impact educational practices that deepen learning, improve graduation rates, and close achievement gaps. While this strategic investment of limited resources has started to show positive returns, this long-term effort requires sustained and robust investment in higher education by the state.

As the CSU looks to the future, there are challenges that remain and opportunities to pursue. With the state's continued investment in higher education, the CSU will be in a better position to carry out our mission. Together, the CSU and California can continue to do great things and provide a better state for future generations.

2016/17 Budget Plan





Budget Plan

The tables on the following pages provide background data on the CSU's operating budget for the current and prior fiscal years and summarize the CSU's 2016/17 budget plan. The plan focuses on the CSU's mission to educate Californians under the state's higher education master plan and seeks ongoing reinvestment by the state in the CSU. The planning approach is tempered by recognition of the state's finite resources, yet represents a credible statement of the CSU's key funding needs for the upcoming fiscal year.

The 2016/17 budget plan increase of \$297.6 million would bring the CSU's annual support budget to \$5.5 billion, with approximately \$2.2 billion from tuition and other fee revenues (net of \$0.7 billion foregone revenue for financial aid), and a state appropriation of \$3.3 billion. As shown in the summary on the next page, it is estimated that additional tuition revenues generated by enrollment growth will total \$55.9 million. This revenue, combined with a requested increase of state General Fund of \$241.7 million, would provide the needed ongoing revenues for the proposed increase in critical expenditure priorities. Specific justifications for the planned spending increases are provided following the summary displays.

For the CSU to fully meet the expectations placed upon it by the higher education master plan, a much larger budget request could be justified. This budget plan, however, strikes a balance between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition revenues generated by enrollment growth in order to address the growing demand for a CSU education and the increased spending to support that growth. Development of a 2016/17 budget plan that builds on the success achieved in recent years provides the governor and legislature an achievable plan to continue investing in the CSU for the sake of California's economic and social future.



Three-Year Budget Summary

Table 1: Support Budget	2014/15 Actuals	2015/16 Final Budget¹	2016/17 Plan
General Fund	\$2,464,241,000	\$2,667,021,000	\$2,883,686,000
Net Tuition and Other Fee Revenue ²	2,258,728,000	2,145,812,000	2,201,719,000
TOTAL SUPPORT BUDGET	\$4,722,969,000	\$4,812,833,000	\$5,085,405,000

Table 2: Facilities and Infrastructure Needs	2014/15 Actuals	2015/16 Final Budget¹	2016/17 Plan
General Fund Debt Service Payments on Existing Facilities ³	\$287,777,000	\$303,944,000	\$311,809,000
Budget Plan: Facilities and Infrastructure Needs	10,000,000	35,000,000	60,000,000
TOTAL FACILITIES AND INFRASTRUCTURE NEEDS	\$297,777,000	\$338,944,000	\$371,809,000

Total Support Budget General Fund Increase Enrollment, Programs, and Operations (Support Budget)			\$216,665,000
Net Tuition Revenue Adjustment⁴			\$55,907,000
Facilities and Infrastructure Needs Increase			\$25,000,000
TOTAL SOURCES OF REVENUE			\$297,572,000

Table 3: Sum of Tables 1 & 2	2014/15 Actuals	2015/16 Final Budget¹	2016/17 Plan
Total Support Budget	\$4,722,969,000	\$4,812,833,000	\$5,085,405,000
Total Facilities and Infrastructure Needs	297,777,000	338,944,000	371,809,000
GRAND TOTALS	\$5,020,746,000	\$5,151,777,000	\$5,457,214,000

¹ The CSU 2015/16 GF Final Budget Act Appropriation (support budget) was \$2,987,063,000, inclusive of \$338,944,000 for facilities and infrastructure. Additionally, the state-funded 2015/16 employer-paid retirement adjustment of \$18,902,000 is added to the GF support budget total.

² Includes tuition and other fee revenue reduced by revenue foregone from State University Grant awards. (reference table 4).

³ Total 2014/15 actual GF appropriation for debt service was \$296,316,000 versus expenditure of \$287,777,000 resulting in an \$8,539,000 carry forward balance. Beginning in 2014/15, state lease revenue bond and general obligation (GO) bond debt service attributable to CSU facilities were included in the CSU main appropriation. In 2016/17, the lease revenue bond debt service increases \$7.9 million to a total of \$114.6 million. There is no change in the GO bond debt service amount of \$197.2 million.

⁴ This represents revenue to be collected from an increase in funded enrollment net of financial aid.

Highlights—Uses of the 2016/17 Budget Increases

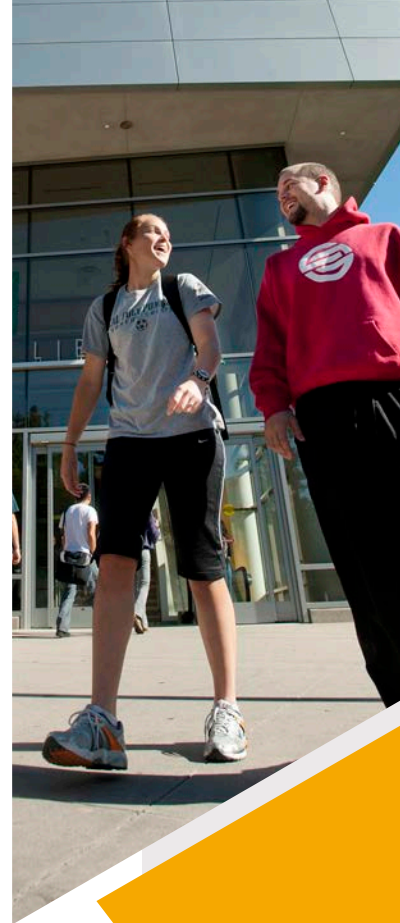
- \$ 43.0 million for mandatory cost increases (e.g. health benefits, retirement, new space)
- \$ 69.6 million for a 2 percent compensation pool increase
- \$ 110.0 million for a 3 percent increase in funded enrollment
- \$ 50.0 million for student success and completion initiatives
- \$ 25.0 million for facilities and infrastructure needs

Three-Year Summary of State University Grants (SUGs) and Tuition Waivers/Revenue Foregone

Table 4	2014/15 Actuals	2015/16 Final Budget ¹	2016/17 Plan
SUG Awards (Foregone Tuition Revenue) ¹	\$646,055,000	\$655,961,000	\$655,961,000
SUG Adjustment from Increase in Funded Enrollment	0	0	11,706,000
Tuition Waivers ²	67,590,000	67,590,000	67,590,000
TOTAL SUG AWARDS AND WAIVERS/ REVENUE FOREGONE	\$713,645,000	\$723,551,000	\$735,257,000

¹ SUG Awards cover tuition for eligible students with financial need. Amounts awarded reflect foregone tuition revenue for the CSU.

² Includes the campus tuition waivers reported annually in Enrollment Reporting System Students (ERSS) database (Waiver Codes 01-08). Amounts awarded reflect foregone tuition revenue for the CSU.





Three-Year Budget Summary by Program

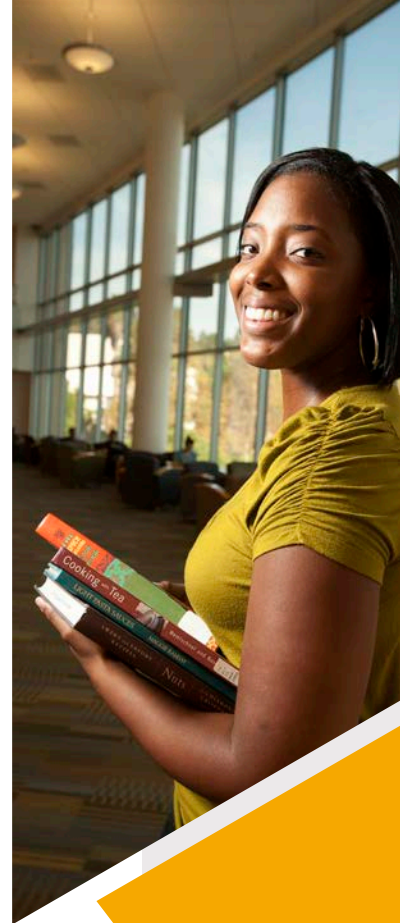
Table 5	2014/15 Actuals	2015/16 Final Budget ¹	2016/17 Plan
Instruction	\$2,189,079,000	\$2,303,801,000	\$2,303,801,000
Research	10,939,000	10,778,000	10,778,000
Public Service	11,653,000	11,226,000	11,226,000
Academic Support	594,322,000	601,377,000	601,377,000
Student Services	584,147,000	570,847,000	570,847,000
Institutional Support	706,310,000	731,235,000	731,235,000
Operation and Maintenance of Plant ¹	886,527,000	884,590,000	892,455,000
Student Grants and Scholarships (without SUG Awards) ²	37,769,000	37,923,000	37,923,000
Provisions for Allocation	0	0	297,572,000
GROSS EXPENDITURES	\$5,020,746,000	\$5,151,777,000	\$5,457,214,000

¹ 2016/17 operations and maintenance of plant includes a \$7.9 million state increase in lease revenue bond debt service.

² Amount is reduced by the SUG awards (revenue foregone) as shown in table 4.

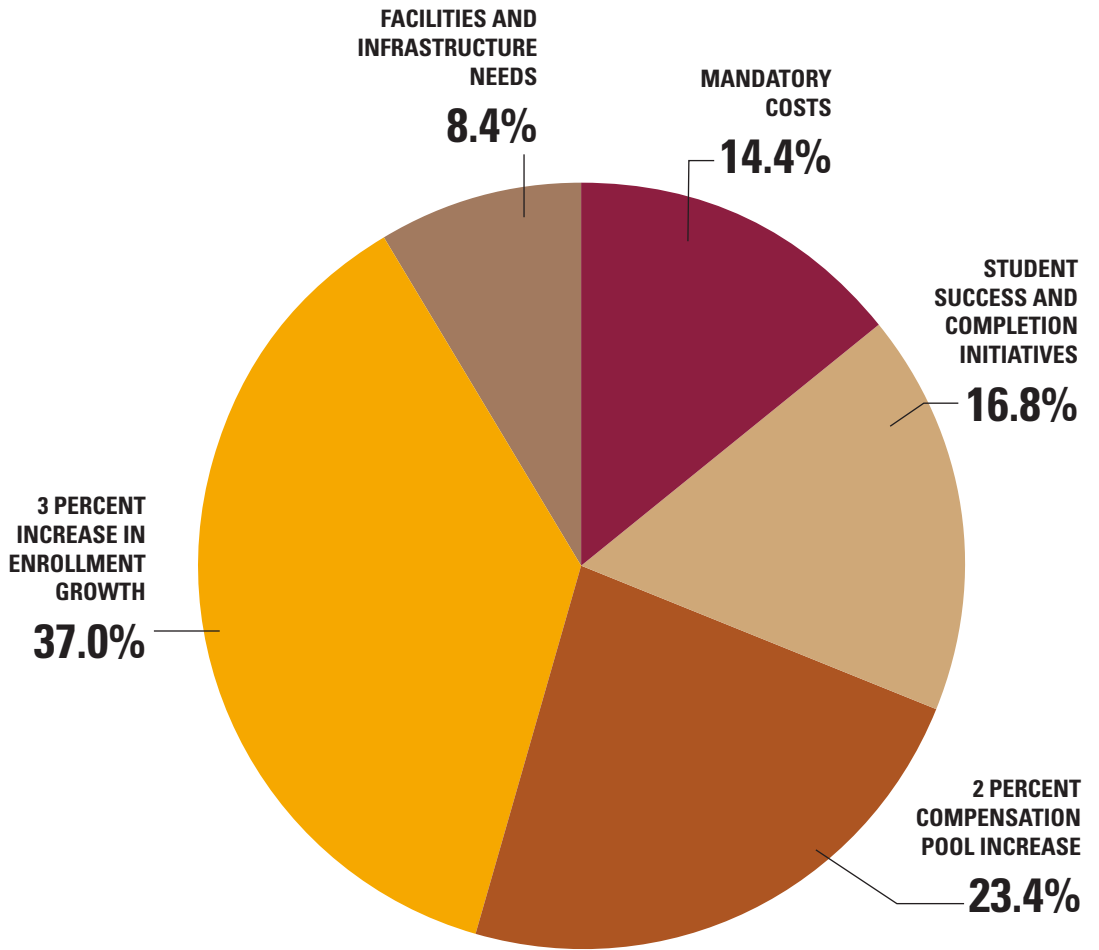
Sources of Funds and Expenditure Augmentations

SOURCES OF FUNDS		
General Fund Increase		\$241,665,000
3 Percent Enrollment Growth, Programs, and Operations		
Net Tuition Revenue Adjustment		55,907,000
3 Percent Funded Enrollment Increase		
(10,700 Full-time Equivalent Students Revenue)		
TOTAL REVENUE INCREASE		\$297,572,000
EXPENDITURE AUGMENTATIONS		
Mandatory Costs		
Compensation Related		
Health Benefits	35,080,000	
Retirement	7,000,000	
Other Increases		
Maintenance of New Facilities	890,000	
2 Percent Compensation Pool Increase		69,552,000
3 Percent Increase in Enrollment Growth		110,050,000
Student Success and Completion Initiatives		50,000,000
Facilities and Infrastructure Needs		25,000,000
TOTAL EXPENDITURE INCREASE		\$297,572,000





Distribution of Expenditure Increases



Sources of Revenue



State General Fund

The 2016/17 California State University Support Budget plan includes a \$241.7 million increase to the CSU's current \$3.0 billion General Fund base budget for a total of almost \$3.3 billion, including debt service. The requested \$241.7 million General Fund increase for the 2016/17 budget will fund various mandatory costs increases, 2 percent employee compensation pool increase, 3 percent enrollment growth, student success and completion initiatives, and facilities and infrastructure needs.

The proposed 2016/17 budget plan also reflects tuition revenue from the proposed state-supported 3 percent resident student enrollment growth [10,700 full-time equivalent students (FTES)]. The net growth in tuition revenue after adjusting for foregone revenue associated with financial aid is \$55.9 million.

The total 2016/17 support budget plan increase is \$297.6 million.

Sources of Funds:

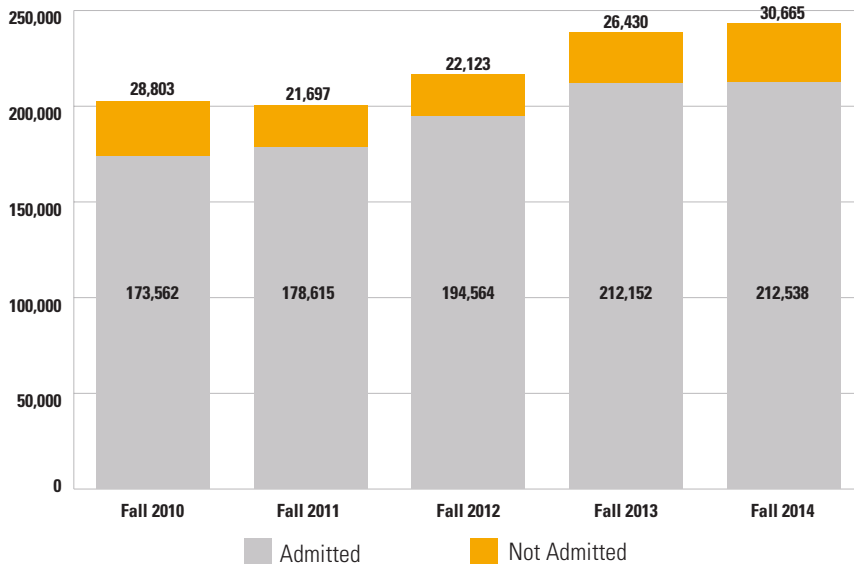
State General Fund Increase	\$241,665,000
Net Tuition Revenue Adjustments	55,907,000
TOTAL	\$297,572,000

3 Percent Enrollment Growth

The 2016/17 budget plan supports a 3 percent increase in resident student enrollment to continue offering the opportunity of a CSU education to the thousands of California high school graduates and community college transfer students who apply to the CSU each year.

Many CSU campuses continue to experience record levels of applications and enrollments. The CSU had to turn away more than 30,000 eligible undergraduate applicants in fall 2014, even with a year-over-year funding increase that allowed the CSU to grow by an estimated 9,800 students. Demand for the CSU has grown and remains high, with more than 825,000 undergraduate applications for admission for the fall 2015 term (compared to 760,000 applicants for fall 2014). Funding restrictions and prospective student demand have constrained the ability of the CSU to admit all eligible applicants as shown in the chart below.

Eligible Undergraduate Applicants - California Residents



Increasing enrollment by 3 percent from the current state-supported level of 356,450 California resident Full-Time Equivalent Students (FTES) to a new level of 367,150 is attainable, assuming adequate resources from the state. Three percent growth in 2015/16 was a meaningful step in the restoration of access to a high quality baccalaureate and graduate education at the CSU. It continues to be a solid investment by the state for the sake of California's further economic recovery and workforce development to provide new funding for increased access. Simply on the basis of application demand and eligibility, an increase in state-supported enrollment of more than 3 percent would be justified. However, due to the lead times and operational complexities of implementing enrollment growth at the campuses, this plan is limited to 3 percent for the 2016/17 fiscal year.

Based on the state-approved marginal cost methodology, the 2016/17 estimated net marginal cost rate, after foregone financial aid, has been calculated at \$10,285 per FTES. This amount multiplied by 10,700 FTES (3 percent) equals an estimated cost of \$110.0 million for new enrollment. The General Fund portion of marginal cost is \$7,673 per FTES, which equates to \$82.1 million funded from the state General Fund. The remainder would be offset by the estimated tuition revenue (net of financial aid) generated by additional enrollment. The 10,700 FTES translates into more than 12,600 additional students.

Tuition Revenue

A 3 percent increase in resident enrollment (10,700 FTES) is projected to generate \$55.9 million in new tuition revenue, after adjusting for foregone revenue associated with students receiving State University Grant awards. Tuition rates have been held flat since 2011/12 and again are not scheduled to increase in 2016/17.



Revenue Foregone





State University Grant Program

The State University Grant (SUG) program is a critical source of financial assistance for CSU students. Since its inception in 1982/83, the SUG program has provided these awards to offset the cost of tuition for resident students and to diminish the impact of increased costs for students with the greatest financial need.

Prior to 1992/93, the state provided the funds necessary to ensure adequate financial aid was available for the CSU's neediest students. Since 1992/93, the CSU has continued assistance to students by foregoing a portion of new tuition revenue generated through enrollment growth or changes in tuition rates.

The amount projected for 2016/17 SUG awards is \$667.7 million, an increase of \$11.7 million from 2015/16. This amount is due to a set-aside from tuition revenue derived from 3 percent enrollment growth (\$1,094 per FTES). This \$667.7 million of financial aid reflects tuition that is not collected—in effect, waived—thus decreasing total tuition revenue collection. SUGs were awarded to approximately 132,000 students in 2014/15.

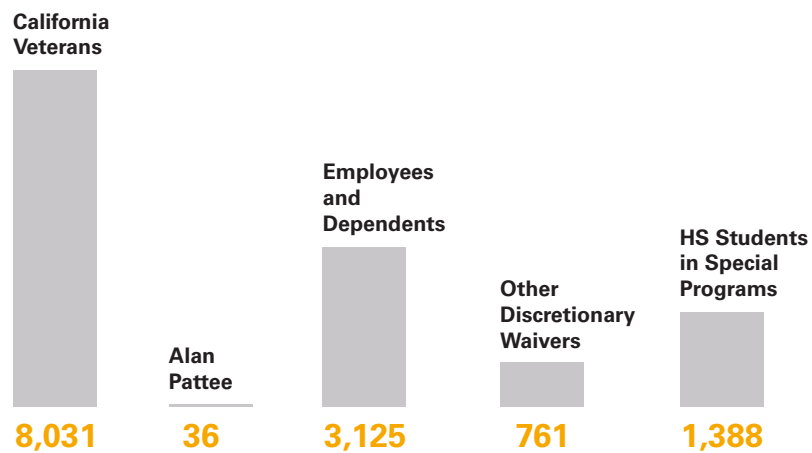


Tuition Waivers

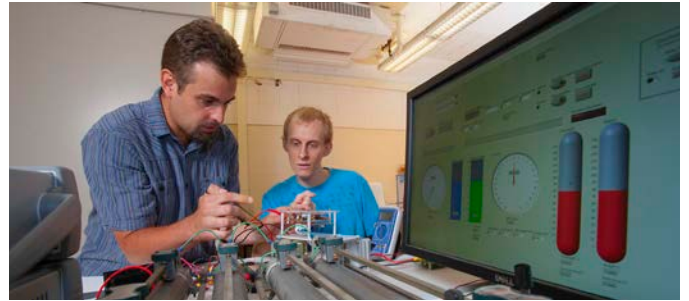
Under current law, there are four state-mandated tuition waiver programs: the California Veterans Waiver for children of disabled/deceased veterans (Education Code 66025.3), the Alan Pattee Waiver for dependents of deceased law enforcement or fire suppression personnel (Education Code 68120), the tuition waiver for California residents who were dependents of victims killed in the September 11, 2001 terrorist attacks (Education Code 68121), and the tuition waiver for the two students serving on the Board of Trustees (Education Code 66602). In addition to state-mandated tuition waiver programs, other tuition waiver programs include waivers for employees and employee dependents pursuant to collective bargaining agreements. Other non-mandatory waivers have been established by CSU Board of Trustees policy and California statute that include programs for high school students and California residents age 60 years and older, among others. The state has not provided General Fund support for CSU tuition waiver programs since fiscal year 1992/93.

A summary of the total revenue foregone and applied to SUG and mandatory waivers from 2014/15 through 2016/17 is included in the Three-Year Budget Summary and Highlights section. In the 2014/15 college year (fall, winter, spring, and summer), 13,341 tuition waivers were granted to CSU students. When tuition rates are applied to these waivers based on student enrollment status, it amounts to approximately \$67.6 million in revenue foregone to the CSU.

2014/15 Systemwide Tuition Waivers



Uses of Revenue



The 2016/17 California State University Support Budget recommends an expenditure plan based on increasing state General Fund and tuition revenue due to greater enrollment in order to cover the cost of new expenditures. The new expenditures outlined in this proposal address the university’s fundamental priorities for the 2016/17 fiscal year. These include increases for mandatory costs, employee compensation, enrollment growth, student success and completion initiatives, and facilities and infrastructure needs.

Mandatory Costs, \$42,970,000

Mandatory costs are expenditures the university must pay regardless of the level of funding allocated by the state, and which often increase independent of the state budget condition. These costs include increases for employee health and retirement benefits and the operations and maintenance of newly constructed facilities. Without funding for mandatory cost increases, campuses must redirect resources from other program areas to meet these obligations. In order to preserve the integrity of CSU programs, the 2016/17 support budget plan provides for the following increases in mandatory cost obligations.

Health Benefits	\$35,080,000
Retirement Benefits	7,000,000
Maintenance of New Facilities	890,000
Total	\$42,970,000



Two Percent Compensation Pool, \$69,552,000

The CSU Board of Trustees recognizes compensation for faculty, staff, and management as a key element of the university's success. The ability to offer a competitive compensation package is essential to the CSU's ability to recruit and retain faculty, staff, and management employees who contribute to the CSU's mission of excellence.

Continued investment to make progress toward competitive salaries is critical for the CSU to fulfill its primary mission of access to an affordable and high quality education. There continue to be salary-related concerns across CSU employee groups that require attention by CSU leadership and in the collective bargaining process. The first general salary increase in several years for faculty and staff occurred in 2013/14, with \$38 million funding an average increase of 1.34 percent, distributed across employee groups. In 2014/15, an increase of \$92.6 million provided an average increase of three percent. A two percent salary increase of \$65.5 million was budgeted for 2015/16, subject to collective bargaining.

This budget plan calls for approximately \$69.6 million to fund another two percent compensation pool increase, subject to collective bargaining, for all employee groups effective July 1, 2016. The 2016/17 cost of each one percent compensation increase is based on 2015/16 final budget salaries and salary-related benefits (OASDI, Medicare, and retirement) and is summarized in the following table.

Estimated 2016/17 Cost of One Percent Compensation Increase

	2015/16 Final Budget Compensation (Adjusted ¹)	2016/17 Cost of 1% Increase
Faculty	\$1,727,350,000	\$17,273,000
Staff	1,750,321,000	17,503,000
TOTAL	\$3,477,671,000	\$34,776,000

COST OF 2% INCREASE

\$69,552,000

¹ The compensation base is adjusted for changes in employer-paid retirement rates. The CalPERS member categories for State Miscellaneous-Tier 1 and State Peace Officer/Firefighter increased 0.870 percentage points and 2.158 percentage points, respectively, from the 2014/15 composite rates of 24.280 percent and 36.827 percent to 2015/16 rates of 25.150 percent and 38.985 percent.



Funded Student Enrollment, \$110,050,000

The 2016/17 budget plan includes three percent enrollment growth, which is equal to 10,700 California resident FTES (about 12,600 students) based on a 2015/16 enrollment base of 356,450 FTES.

2016/17 Enrollment Growth

2015/16 Resident FTES Base	356,450
2016/17 Resident Student Enrollment Growth (3%)	10,700
2016/17 TOTAL RESIDENT FTES	367,150

The cost to fund three percent enrollment growth is derived using a marginal cost rate of \$10,285 per FTES. New enrollment requires new funds for direct instruction, academic support, student services, institutional support, and plant operations in the amount of \$110.0 million.



Student Success And Completion Initiatives, \$50,000,000

The 2016/17 support budget plan includes \$50 million to support a variety of strategies and programs which have demonstrated success in improving graduation rates, shortening time-to-degree, and narrowing existing achievement gaps.

Continuing to support the strategic investment of significant funds in 2015/16, these funds will be used in six initiative areas:

1. **Tenure-track Faculty Hiring** – Campuses have prioritized the hiring of additional tenure-track faculty and continue to improve the ratio of tenured and tenure-track faculty to lecturers, as well as to improve student/faculty ratios. Continued investment will augment enrollment growth funds and tuition revenue. These increases will provide opportunities to offer more high-demand courses, which will improve student retention and degree completion.
2. **Enhanced Advising** – Through the hiring of more professional staff advisors on each campus and expanding the use of technology which provides clear and accurate roadmaps to graduation and can inform campus course scheduling and resource planning more effectively, the CSU has prioritized this critical component of student success. Investing in advisors greatly improves the advisor to student ratio, and when combined with useful eAdvising tools, gives students the best opportunity to shorten their time to degree while improving student services.
3. **Student Retention Practices** – Funds invested in student retention will help scale up a range of successful “high impact” practices within and across campuses, including expansion of the number of students served through the Educational Opportunity Program at all 23 campuses.
4. **Data-Driven Decision Making** – Continued investment in improving student information systems and their widespread use across campuses facilitates more strategic and intentional decision-making.
5. **Student Preparation** – Building on the outcomes of the first year of new statewide high school assessments, the CSU will increase investment in the Early Assessment Program, Early Start Program, and other related efforts to help new students attain college readiness before their first semester on campus.
6. **Bottleneck Solutions** – The CSU continues to expand the availability of online concurrent enrollment courses available to students at all CSU campuses. This expands options for students to add an additional class regardless of location or other scheduling conflicts.

These six areas of proposed funding are all directed at improving student success and completion. With \$50 million spread across the system, an average allocation of \$2.2 million per campus will allow each campus to prioritize the investments they make to improve graduation rates, reduce achievement gaps, and increase the number of successful degree completions at the CSU to meet the educational and workforce needs of California.





Facilities and Infrastructure Needs, \$25,000,000

The 2016/17 budget plan includes \$25.0 million to finance the CSU's most urgent facilities maintenance and utilities infrastructure needs. The CSU's backlog of maintenance and utilities infrastructure needs, even if restricted to the highest priorities, is massive and growing at about \$136.8 million per year over the next decade. Annual support budgets will not be able to retire significant portions of the roughly \$2.6 billion backlog without additional resources dedicated for this purpose. In light of the backlog of infrastructure renewal needs, the CSU continues to focus on needed improvements to our utilities, technology network, building infrastructure, and seismic upgrades, followed by major building replacements/renovations and new buildings to accommodate the growing student population. The Systemwide Infrastructure Improvements program is the highest priority for the use of CSU financing as the program provides funds across all campuses. The \$25.0 million in this plan will be used for projects on a pay-as-you-go basis and/or to finance larger projects.

This funding will address the most critical renewal and repair projects that are part of the deferred maintenance backlog, including health and safety concerns at each campus (e.g. fire protection, structural repairs, roofing, HVAC, and elevators), to avert building and campus shutdowns.

Additionally, at many of our campuses, the utilities infrastructure is obsolete, dating back more than a half century and in need of upgrade or replacement. Because the utilities infrastructure is a core system to the CSU, new funding is imperative to address the most critical projects that are part of the infrastructure backlog, including electrical distribution, utility system retrofit, natural gas piping, storm and sewer drain lines, and plumbing and water systems. Any interruptions, shutdowns, or failures in any of the infrastructure areas will impede the CSU's ability to provide educational services in a safe environment for students, faculty, and staff, and potentially result in additional damage to already stressed systems and infrastructure.

One-Time Augmentations





In addition to the permanent funding increases included in this plan, the 2016/17 support budget plan seeks additional, one-time investments from the state. In the recent past, the state has proposed and provided one-time non-recurring funding for a variety of energy efficiency and maintenance projects on CSU campuses.

Cap-and-Trade Program

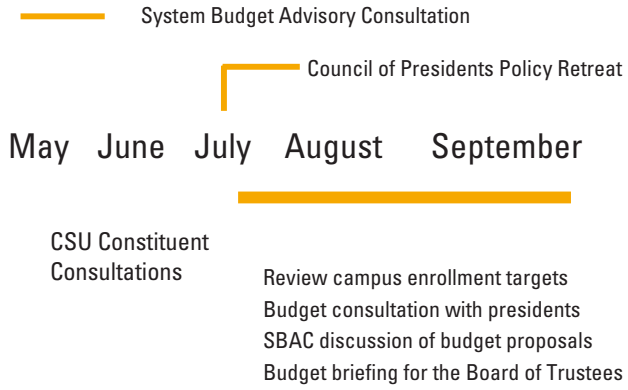
This budget plan seeks funds from the California Cap-and-Trade Program for renewable energy and energy efficiency projects. As these state funds are dedicated to implementing energy efficiency and greenhouse gas reduction projects, the CSU plan seeks \$90 million from the Cap-and-Trade Program for 2016/17 to further these efforts. In addition, discussions with the CSU/UC Investor-Owned Utility Partnership Executive Committee to potentially leverage the utility rebate incentive program in partnership with the Cap-and-Trade funding would further incentivize energy conservation projects across the CSU system.

Deferred Maintenance Backlog

This budget plan seeks an additional \$50 million in one-time funding to further address the growing maintenance backlog. Critical deficiencies identified throughout the 23 campuses will be addressed to enable campuses to continue essential operations, reduce the likelihood of catastrophic failures, and meet current code requirements to operate safe facilities. Major building systems that have exceeded the expected service life will be modernized to enable campuses to operate utilities more effectively, improve HVAC system efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions, and extend the useful life of existing facilities. The one-time funding will be spent on projects on a pay-as-you-go basis.

Together, funds from the Cap-and-Trade Program and funds for deferred maintenance will directly support CSU and statewide initiatives to attain energy and water conservation and greenhouse gas reductions.

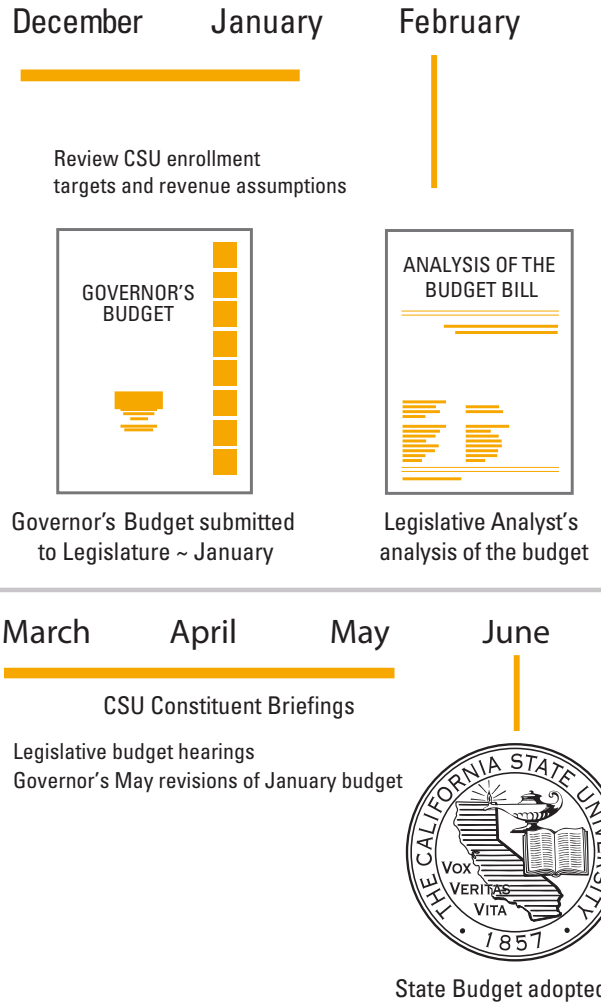
Budget Cycle



CSU Constituent Consultations

October/November

Trustees adopt Support Budget request



The 23 Outstanding Campuses of the CSU





Reference further 2016/17 Support Budget, Supplemental Documentation at www.calstate.edu/budget

401 Golden Shore, 5th Floor, Long Beach, CA 90802-4210

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for the 2015-2016 Infrastructure Improvements and Capital Outlay Projects

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury and Risk Management

Summary

This agenda item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bonds (SRB) and the issuance of bond anticipation notes (BANs) to support interim financing, under the CSU's commercial paper (CP) program, in an aggregate amount not-to-exceed \$461,675,000 to provide financing for a variety of critical infrastructure improvement and capital outlay projects. The board is also being asked to approve resolutions related to the financing for these projects. Long-term bonds will be part of one or more future SRB sales(s) and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

Background

In June 2014 the State legislature approved new capital financing authorities for the CSU. The legislation provides the CSU with flexibility to utilize the new capital financing authorities through the CSU's existing SRB program, an established, well-rated and well known debt program.

The SRB program provides capital financing for certain types projects of the CSU—student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects approved by the board. Revenues from these programs and revenues approved by the board are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to the issuance of long term bonds, some projects are funded through BANs issued by the CSU in support of the CSU's CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during

project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

In August 2015, as part of its Series 2015A and Series 2015B SRB issuance, the CSU financed the first group of projects under the CSU's new capital financing authorities, supported by the \$10 million in annual operating funds set-aside by the board in its 2014-2015 budget. In November 2014 the board approved the CSU/State Funded Capital Outlay Program 2015-2016 Priority List as part of its 2015-2016 Capital Outlay Program. The Capital Outlay Program and the list have been amended by the board in subsequent meetings to add other projects.

2015-2016 Infrastructure Improvements and Capital Outlay Projects

This item requests the board to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed \$461,675,000 for a number of infrastructure improvements and capital outlay projects per the CSU/State Funded Capital Outlay Program 2015-2016 Priority List. The annual debt service for these projects will be paid with the \$25 million earmarked for deferred maintenance and critical infrastructure initially approved by the board in the final CSU 2015-2016 Support Budget. The final amount of debt to be issued will be determined based upon interest rates at the time long term bonds are sold and will be set at an amount so that the annual maximum debt service over the life of the debt issued for this group of projects will not exceed \$25 million.

The new capital financing authorities allow the CSU to pledge any of the CSU's revenues, including general fund, SRB gross revenues, and student tuition fees, to support the financing of capital projects under the new authorities. This financing approval will be supported by the existing pledge of SRB gross revenues, as well as the addition of CSU operating funds—general fund and gross student tuition fees—which will be added to the SRB pledge. As of June 30, 2014, pledged revenues of the SRB program totaled approximately \$1.6 billion. Preliminary data for the fiscal year ended June 30, 2015 indicate that pledged revenues of the SRB program will increase modestly to about \$1.7 billion. With the addition of approximately \$5.3 billion in operating revenue (2015-2016 general fund and estimated student tuition), total SRB pledged revenues will increase to approximately \$7 billion, and based upon the preliminary data for the fiscal year ended June 30, 2015, systemwide debt service coverage will be 1.68 compared to the systemwide benchmark of 1.45.

Trustee Resolutions and Recommendations

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$461,675,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

In addition, the Board of Trustees is being requested to approve the following resolution:

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

1. \$25,000,000 per year be set aside from its annual operating funds for the payment of debt service and direct project expenditures related to the funding of its capital improvement projects.
2. The chancellor is authorized to make adjustments in the projects to be financed as necessary to maximize use of limited financing resources and consideration of the CSU's priorities for funding capital outlay projects.

Approval of the financing resolutions described in this Agenda Item 4 of the Committee on Finance at the November 17-18, 2015, meeting of the CSU Board of Trustees is recommended.

COMMITTEE ON FINANCE

Conceptual Approval of the California State University, Channel Islands Site Authority Apartments Sale Project

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury and Risk Management

Richard Rush
President
California State University, Channel Islands

Summary

This item requests conceptual approval from the California State University Board of Trustees to allow the California State University, Channel Islands Site Authority (“Site Authority”) to sell 328 existing apartments and apply net sales proceeds to retire existing bonds. This proposal is one of the components of the CI 2025 strategy that was presented during the January and March 2015 board meetings, upon which the board granted conceptual approval for another component of the CI 2025 strategy related to the development of a new, separate project under a public/private partnership.

Background

CSU Channel Islands is challenged to build critically needed facilities to accommodate enrollment expansion. Costs to transform the campus site continue to increase and traditional sources of capital funding, such as state capital facility funds, have been insufficient to support the transformation. Therefore, CSU Channel Islands continues to use alternative methods to help build out the campus, including opportunities made available through the Site Authority by establishing public/private partnerships or public/public partnerships.

Project Description and Financial Plan

University Glen, the Site Authority’s housing community, currently includes 658 total units, comprised of 184 for-sale single family attached and detached homes, 58 apartments located in a mixed-use town center development, 328 apartments, 88 rental town homes, and a 32.5 acre parcel available for development. This item requests approval to enable the Site Authority to enter into appropriate agreements to sell 328 apartments and ground lease the land under the apartments to a third party.

A qualification and competitive bid process to identify an appropriate buyer and operator of the apartments is expected to be initiated in the fall of 2015 followed by a selection and negotiation process. Numerous stakeholder meetings have been conducted including those with the recently formed East Campus Development Area Planning Group comprised of University Glen residents, CSU Channel Islands faculty and staff, local government representatives, and other interested parties. The Site Authority intends to continue to engage stakeholders through the entire solicitation, selection and negotiation, and ownership transition process.

The Site Authority anticipates it will enter into a ground lease on the project site with a private developer, at a value to be determined, who will be responsible for the management of the property during the term of the sublease. The Site Authority will ensure that the facilities revert to the Site Authority upon the agreement's expiration.

Proceeds from the sale of the apartments will be used to reduce a portion of the Site Authority's outstanding Systemwide Revenue Bond (SRB) debt—specifically, the approximate \$52.7 million of outstanding bonds used to finance the construction of 328 apartments. Analysis of the for sale and rental real estate market in Ventura County strongly supports this strategy as the best means to maximize the value of the apartments. Currently, the Site Authority has an aggregate total of \$192.5 million in outstanding SRB debt issued for the University Glen housing development and construction of the Broome Library. Current revenues generated by the Site Authority from housing and other operations are insufficient to pay the combined annual debt service payments, requiring financial contributions from systemwide resources. The sale of the apartments will reduce debt and improve financial flexibility of the Site Authority, allowing it to meet the primary purpose for which it was created—to serve as an instrument for campus development.

Educational Benefits

With constrained capital project funding during the campus' first decade, the growth experienced thus far has impacted the availability of classrooms, labs, faculty offices, and student support services. CSU Channel Islands needs to expand existing facilities in order to accommodate the community it serves. The CI 2025 strategy is vital to the academic mission of the campus because it serves as a comprehensive method to increase access and meet the growing student demand.

Approval of Final Plan

Key financial terms associated with the sale of the 328 apartments in University Glen will be presented at a future meeting for final approval by the Board of Trustees prior to the execution of any commitments for the sale and use of the assets.

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-private partnership to sell the 328 apartments in University Glen and the release of a Request for Qualifications / Proposals to pursue this project;
2. Authorize the chancellor and the Site Authority to enter into negotiations for agreements as necessary with a developer for the sale of the 328 apartments in University Glen as explained in Agenda Item 5 of the November 17-18, 2015 meeting of the Committee on Finance;
3. Will consider the following additional action items:
 - a) Approval of key financial terms negotiated by the Site Authority and a developer with the advice of the chancellor;
 - b) Authorize the chancellor and the Site Authority to make any necessary changes to the ground lease agreement between the CSU and the Site Authority as it pertains to the project;
 - c) Authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees with the authority to execute agreements and related documents necessary to implement the financial terms for this project.

COMMITTEE ON FINANCE

Conceptual Approval of a Public-Private Partnership Hotel Development Project at California State University, Northridge

Presentation By

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

Diane Harrison
President
California State University, Northridge

Summary

This item requests conceptual approval to pursue a public-private partnership plan through The University Corporation (TUC), a campus auxiliary organization, for the development of a full service hotel on the California State University, Northridge campus.

Background

The campus is situated in the northwest quadrant of the San Fernando Valley, with no comparable full service business class hotels accessible within 4-5 miles. The lack of available and accessible hotels within the community limits the campus's ability to host conferences and visiting scholars; provide convenient lodging for campus candidates, visiting family members, and athletic teams; and foster community partnerships. Currently, it is difficult to host events supporting the campus mission due to the lack of convenient, accessible hotel space.

In November 2014, the campus contracted with a consulting firm to conduct a market analysis of potential demand for the development of an on-campus hotel. Based upon the analysis, demand exists from the campus for lodging and conference facilities for students and faculty related events and activities, as well as from local community for commercial travelers, visiting tourists, and business conferences.

Project Description

The project proposes the construction of an industry recognized branded hotel on a 3-acre site along the southern boundary of the campus on the northwest quadrant of the Nordhoff Street and Matador Way intersection. A small portion of the site is currently occupied by an existing restaurant, Orange Grove Bistro, which is expected to be demolished to accommodate the hotel development.

The site has several attributes conducive to a hotel development, including its close proximity to the Valley Performing Arts Center, the University Student Union, and the on-campus athletic venues, as well as the 405 Freeway; adjacent land/site available for self-contained parking; and, visibility from the community and campus.

The hotel will include amenities common to a full service or hybrid select service hotel, including approximately 150 guest rooms, 5,000 square feet of configurable meeting space, and a full service restaurant.

The campus received support for the development from the Land Development Review Committee in August 2015.

Education Benefits

Development of the project site will help support the academic mission of the campus by providing greater access to much-needed hotel facilities for various campus events, including hosting conferences and visiting scholars, providing convenient lodging for campus candidates, visiting family members and athletic teams, and fostering community partnerships. The hotel will stem traffic congestion during peak hours by reducing long distance travel to the campus. In addition, the campus's Valley Performing Arts Center would benefit from a quality on-campus hotel.

Budget and Financing

The campus anticipates entering into a ground lease with TUC, which will in turn sublease the land to a private developer. No campus or auxiliary funds will be committed to the project and the developer will be fully responsible for the financing, construction, and management of the project during the term of the sublease. The ground lease and sublease will be structured to ensure that the campus receives rent based upon the fair market value of the site, at minimum.

The developer will also be responsible for funding all costs associated with the environmental and entitlement processes in accordance with CSU requirements. The campus will ensure that the facility is well maintained and adequately funded by maintenance reserves throughout the life of the agreement.

Approval of the Final Development Plan

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

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-private partnership for a hotel development and the release of the Request for Qualifications / Proposals;
2. Authorize the chancellor and the campus to enter into negotiations for agreements necessary to develop the final plan for the public-private partnership as explained in Agenda Item 6 of the November 17-18, 2015 meeting of the Committee on Finance;
3. Authorize the chancellor and the campus to enter into a due diligence access and option agreement which provides the Developer with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following additional action items relating to the final plan:
 - a) Certification of Final California Environmental Quality Act (CEQA) documentation;
 - b) Approval of a developer agreement with the advice of the chancellor;
 - c) Approval of any amendments to the campus master plan as they pertain to the project;
 - d) Approval of an amendment to the Non-State Capital Outlay Program;
 - e) Approval of the schematic design.

COMMITTEE ON FINANCE

State Public Works Board Bond Debt Restructuring

Presentation By

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

Summary

This item provides information on refinancing and restructuring State Public Works Board bond debt that has been issued on behalf of the California State University with debt issued under the CSU's Systemwide Revenue Bond program. Based upon feedback from the Board of Trustees, staff will continue evaluating possible refinancing and restructuring options with the intent of returning to the board in January 2016 for action on issuing Systemwide Revenue Bond debt to refinance and restructure the CSU's State Public Works Board bond debt.

Background

As of June 30, 2015, approximately \$1.045 billion of State Public Works Board bond debt issued on behalf of the CSU was outstanding. Proceeds from the issuance of these bonds were used to build academic projects across the CSU system over many years. Historically, the principal and interest on these bonds has been paid by the State through an annual general fund appropriation to the CSU that would fluctuate depending upon the amount of principal and interest due in that particular fiscal year. Thus, while the legal structure of the bonds required that the debt be carried on the CSU's financial statements, as a practical matter, the State paid the debt service on the bonds.

Legislation passed in July 2014 altered the way the State funds capital projects for the CSU and provided the CSU with new capital financing authorities. As a result the budget responsibility for paying debt service on State Public Works Board and State general obligation bonds issued on behalf of the CSU, shifted from the State to the CSU. For the 2014-2015 fiscal year, the CSU received a \$297 million augmentation to its base general fund appropriation to cover debt service on the State Public Works Board and State general obligation bonds. This augmentation would no longer be adjusted each year for fluctuations in the actual debt service, meaning that, in future years when the debt service is greater than the \$297 million, the CSU will need to find other resources to make up the difference. Conversely, in future years when the debt service is lower than the \$297 million, the CSU will have additional funds available to meet other needs.

The legislation also provided the CSU with new capital financing authorities, including the ability to refinance the State Public Works Board bond debt with debt issued directly by the CSU under its Systemwide Revenue Bond program. Any savings generated by such a refinancing would not impact the \$297 million base budget augmentation and, therefore, would accrue to the benefit of the CSU.

Key Structuring Considerations

Refinancing and Restructuring for Savings

The basic goal of refinancing and restructuring the CSU's State Public Works Board bond debt with CSU Systemwide Revenue Bond debt would be to generate savings for the CSU—i.e. reduce the amount of debt service that is required to be paid, thereby freeing up funds to meet other system needs. These savings objectives can be measured in one or a combination of two ways:

- Refinancing for Net Present Value Savings

These type of savings are the same as those that have been generated by the refinancing of Systemwide Revenue Bond debt over the past several years and which have been periodically reported to the board. These savings reduce the amount of funds needed to service the outstanding debt and when evaluated in current dollars—i.e. on a net present value basis—the savings are positive and significant.

These savings are achieved by refinancing debt at lower interest rates than what is currently being paid on the outstanding debt and are a result of possible factors such as:

1. Lower overall rates in the current financial markets compared to the level of rates at the time the debt was issued.
2. Better credit ratings by the issuing entity allowing for lower interest rates due to lower risk to bondholders. In this case, the CSU's Systemwide Revenue Bond program ratings are better (Aa2/AA-) than the rating on the existing CSU State Public Works Board bond debt (Aa3/A+).
3. Lower rates as a result of the passage of time, all else being equal. Debt that was issued originally with a long dated maturity, resulting in a high rate of interest, now has a shorter time to maturity and can therefore be refinanced at a reduced rate of interest reflecting the shorter time to maturity.

Currently, approximately \$358 million of the outstanding State Public Works Board bonds could be refunded on this basis, resulting in net present value savings of

approximately \$42 million, or annual average savings of \$2.4 million over the next twenty years.

- Restructuring for Cash Flow Savings

These type of savings are generated by restructuring the amortization schedule of the principal. This can be done by extending the repayment of principal to a later date, which lowers the principal component of the near term debt service, thereby reducing the amount of cash flow needed to service the outstanding debt in the near term and freeing up cash flow for other needs. However, when evaluated in current dollars—i.e. on a net present value basis—the savings can be negative because of the increased debt service that must be paid over a longer term.

Restructuring to Adjust the Asset-Liability Match

Historically, the State Public Works Board bonds issued on behalf of the CSU had shorter amortization periods (generally 25 years) when compared to Systemwide Revenue Bond debt (generally 30 years). This results in a mismatch between the average life of the State Public Works Board debt compared to the average useful life of the underlying capital projects that were financed with the debt. Restructuring the amortization schedule of the State Public Works Board bonds would allow the CSU to adjust the average life of the bonds to one that more closely aligns with the average useful life of the underlying assets.

Use of Variable/Short Term Debt

Historically, the CSU has issued long-term, fixed-rate bonds under its Systemwide Revenue Bond program and the State Public Works Board bond debt was issued on that same basis, although, as noted above, with a shorter amortization period. One way to potentially reduce the negative impact that restructuring and extending the repayment of principal would have on net present value savings would be with the use of variable rate debt or debt instruments with shorter maturities, which lowers the interest rate component of the near term debt service. However, the use of variable rate debt and shorter term debt introduces refinancing risk at the time of initial maturity, specifically, the possibility that interest rates may be higher than otherwise would have been the case had fixed rate debt been issued at the outset.

Revenue Pledge

To appropriately support the refinancing and restructuring of the State Public Works Board debt, CSU operating funds (general fund and gross student tuition fees) will be added to the existing SRB revenue pledge. As of June 30, 2014, pledged revenues of the SRB program totaled

approximately \$1.6 billion. Preliminary data for the fiscal year ended June 30, 2015 indicate that pledged revenues of the SRB program will increase modestly to about \$1.7 billion. With the addition of approximately \$5.3 billion in operating revenue (2015-2016 general fund and estimated gross student tuition) the total SRB pledged revenues will increase to approximately \$7 billion, providing support for approximately \$5.3 billion of outstanding SRB debt (\$4.3 billion of current outstanding bonds plus up to approximately \$1 billion to pay off the State Public Works Board bonds.)

Refinancing Plan Objectives

A refinancing and restructuring of the CSU's State Public Works Board bond debt with CSU Systemwide Revenue Bond debt would seek to meet the following objectives:

- 1) Generate cash flow savings over the next five to ten years at levels that can be used for pay-as-you-go capital projects and have a meaningful impact on the CSU's deferred maintenance and critical infrastructure backlog.
- 2) Refinance all or a significant portion of the existing State Public Works Board bond debt.
- 3) Utilize a structure that combines a prudent mix of long-term debt and variable/short-term debt.
- 4) Target net present value savings that are at least neutral on a total transaction basis.

Next Steps

Based upon feedback from the board, staff will continue evaluating possible refinancing and restructuring options with the intent of returning to the board in January 2016 for action on issuing Systemwide Revenue Bond debt to refinance and restructure the CSU's State Public Works Board bond debt. At that time, staff would outline structuring options and parameters in greater detail, including projected benefits to the system, and present resolutions and a not-to-exceed amount for the board's consideration and approval.

COMMITTEE ON FINANCE

California State University Investment Authority, Policy, and Portfolio Review Initiative

Presentation By

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

Summary

This item provides an update on efforts to change legislation governing the California State University's investments as part of the CSU's initiative to review the legislative authority, policies, and portfolio structure of the CSU's investments. The initiative was first presented to the board at its January 2015 meeting and an update was provided as part of the annual investment report at the September 2015 meeting. The basic goal of the initiative is to explore ways in which the CSU might increase investment earnings on its funds by creating a balanced investment portfolio.

Background

Responsibility for the annual principal and interest on State General Obligation and State Public Works Board bonds that have been issued on behalf of the CSU was shifted from the State to the CSU on a permanent basis beginning with fiscal year 2014-2015. Although the State increased the CSU's support budget to address this shift, the budget augmentation is not sufficient to support new capital funding to address the CSU's deferred maintenance and critical infrastructure backlog. To appropriately address this backlog, the CSU must find new revenues to support capital funding and reduce the potential burden on State taxpayers or CSU's students. One such opportunity is increasing investment earnings on CSU funds.

The CSU's existing Systemwide Investment Fund Trust or SWIFT was formed in 2007, following enabling legislation (Education Code Section 89724) that authorized the CSU to retain its student tuition fee revenue and invest those revenues in eligible investment securities listed in Government Code section 16430. GC 16430 is a list of fixed income securities that forms the basis for the CSU's investment policy. In 2008, the global, national, and state economies began to suffer significant downturns with an attendant reduction in state financial support for the CSU, forcing the CSU to use the SWIFT portfolio as a funding backstop for ongoing operations in the event of further reductions or delays in state support. This meant that the SWIFT was kept highly liquid for years resulting in ongoing low investment returns. In more recent years, short term

fixed income portfolio returns have been low due to the ongoing effects of Federal Reserve policy, slow global economic growth, and low inflation.

Update on Efforts to Change the Investment Legislation

For more than a year, staff has been working with the CSU's key partners in Sacramento—the Assembly, the Senate, Department of Finance, State Treasurer's Office, and the Legislative Analyst's Office—to evaluate options, address questions and concerns, and develop proposed legislation that would address concerns and expand the CSU's investment authority. By August 2015, such proposed legislation was ready for consideration by the legislature. Key components of the proposed legislation were as follows:

1. Expands the types of investments CSU can make to include mutual funds—including equity mutual funds—and real estate investment trusts.
2. Limits the amount of funds in the new investments and phases in such investment over a four-year period. The first year would be limited to \$200 million, year two would be limited to \$400 million, year three would be limited to \$600 million, and thereafter no more than 30% of the CSU's total investments could be invested in the new investment options.
3. Requires the board to establish an independent advisory committee to oversee investments. The committee would include a majority of independent members with investment expertise and the State Treasurer (or appointed designee) to serve as a member of the committee.
4. Enhances quarterly and annual reporting to the board and include an annual reporting requirement to the legislature that includes investment returns, comparisons to benchmarks, portfolio holdings, market values, and fees.
5. Restricts the use of earnings from the new investments to deferred maintenance and capital funding.
6. Prohibits the CSU from citing any losses associated with the new investments as justification for increases in student tuition or fees.
7. Prohibits the CSU from seeking State general fund dollars to offset any losses associated with the new investments.

The proposed legislation was presented to the Assembly and Senate Budget committees in late August 2015. The Assembly Committee on Budget approved the proposed legislation, but in the Senate Committee on Budget and Fiscal Review, the proposed legislation was held over until 2016, the second year of the Legislature's 2015-2016 Regular Session, in order to provide staff with time to address specific concerns of some of the committee members.

Next Steps

Staff will continue to work with the CSU's key partners in Sacramento to address the concerns raised during the Senate Committee on Budget and Fiscal Review hearings with the goal of gaining passage of the legislation in 2016.

In the meantime, staff will begin work on implementing some of the provisions of the proposed legislation, notably the establishment of an investment advisory committee to the board and the reporting provisions. Establishment of such a committee and adoption of the new aspects of reporting will not only serve the CSU well with respect to the proposed new investment authority, but will also serve the CSU well with respect to its existing investments.