

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 2:55 p.m., Tuesday, November 9, 2021  
Glenn S. Dumke Auditorium

Jack McGrory, Chair  
Larry L. Adamson, Vice Chair  
Jane W. Carney  
Wenda Fong  
Maria Linares  
Anna Ortiz-Morfit  
Krystal Raynes  
Romey Sabalius  
Christopher Steinhauser

- Consent**
1. Approval of Minutes of the Meeting of September 14, 2021, *Action*
  2. 2022-2023 Lottery Budget and Report, *Action*
  3. Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority, *Information*
- Discussion**
4. Approval of the 2022-2023 Operating Budget Request, *Action*
  5. California State University Annual Investment Report, *Information*

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

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

**September 14, 2021**

**Members Present**

Jack McGrory, Chair  
Larry L. Adamson, Vice Chair  
Jane W. Carney  
Wenda Fong  
Anna Ortiz-Morfit  
Krystal Raynes  
Romey Sabalius  
Christopher Steinhauser

Lillian Kimbell, Chair of the Board  
Joseph I. Castro, Chancellor

Trustee Jack McGrory called the meeting to order.

**Public Comment**

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

**Approval of the Consent Agenda**

The minutes of the July 13, 2021, meeting of the Committee on Finance were approved as submitted.

Item number two, Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority, was an information item.

**\*PLEASE NOTE: Due to the Governor's proclamation of a State of Emergency resulting from the threat of COVID-19, and pursuant to the Governor's Executive Orders N-25-20 and N-29-20 issued on March 12, 2020, and March 17, 2020, respectively, all members of the Board of Trustees may participate in meetings remotely, either by telephonic or video conference means. Out of consideration for the health, safety and well-being of the members of the public and the Chancellor's Office staff, the September 14-15, 2021, meeting of the CSU Board of Trustees was conducted entirely virtually via Zoom teleconference.**

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

Trustee Romey Sabalius requested that item two, the CSU Quarterly Investment Report, be removed from the consent agenda. He commended the favorable investment returns of the Total Return Portfolio. Trustee Jack McGrory shared that the Investment Advisory Committee is currently evaluating the CSU's investments in fossil fuels and will share the information with the Board of Trustees at a future meeting.

### **Annual Systemwide Report on Hate Incidents on Campus**

The annual systemwide report on hate incidents on campus was presented. Reporting requirements for both Clery and Campus Annual Security Reports were reviewed. During the 2020 calendar year there were no reported hate crimes and there was one reported non-criminal act of hate violence on one campus.

Following the presentation the trustees asked questions about who incidents may be reported to, requirements for disclosure of information, and tracking of significant non-criminal incidents. Director of Systemwide Clery and Campus Safety Compliance Melinda Latas shared that all campuses have designated campus security authorities to whom students may report an incident to, if they are not comfortable going to university police. Campus security authorities vary by campus but include all Title 9 coordinators and various Academic and Student Affairs personnel. In regards to tracking of other non-violent incidents, Ms. Latas informed the trustees that the Campus Annual Security Report includes additional metrics that may report some of that information. She added that another way campuses collect this information is via campus climate surveys where responses are anonymous. Information shared under confidence with a mental health professional or pastoral staff is excluded from being disclosed by law and would not be included in the reports.

### **Planning for the 2022-2023 Operating Budget**

The 2022-2023 preliminary operating budget plan was presented to the Board of Trustees for consideration and feedback. A report on 2021-2022 revenues, expenses, and designated balances and reserves was provided.

Following the presentation the trustees expressed support for additional recurring funding for student basic needs, especially for hiring of additional mental health counselors and improvements to Title IX reporting process to help students feel safe and heard when reporting incidents. It was requested that mobile broadband hot spots be included as part of the CSUCCESS program to ensure students have access to the internet. Executive Vice Chancellor and Chief Financial Officer Steve Relyea shared that the CSU received federal funding for COVID-related expenses that helped to kick-start the CSUCCESS program and that CSU is currently working with the

Superintendent of Public Instruction's office to pursue lower-cost hot spot options for students. The trustees requested further information about the line item for staff salary structure study and were supportive of a future salary study for faculty. Vice Chancellor for Human Resources Evelyn Nazario shared that Systemwide Human Resources and CSUEU partnered to pursue and received state funds for this staff salary structure study. The Chancellor's Office is mindful of the need to regularly review all CSU classifications and market conditions and will work to develop a similar partnership with CFA, if feasible, for a future funding cycle. The trustees expressed support for facilities and infrastructure, in particular for campuses located in fire-prone areas. Mr. Relyea added that currently the CSU has been able to take advantage of favorable construction rates and continues to carefully consider and balance risk to ensure the university is able to manage debt payments over time. The trustees expressed interest in long-term funding sustainability and asked about the status of a multi-year funding agreement with the state. They were informed that a minimum funding level has not been agreed upon and discussions continue with the Governor's Office and the Department of Finance.

Trustee McGrory adjourned the meeting of the Committee on Finance.

## COMMITTEE ON FINANCE

### **2022-2023 Lottery Budget and Report**

#### **Presentation By**

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

This item requests that the California State University Board of Trustees approve the 2022-2023 lottery budget. In accordance with CSU lottery guidelines, this item also contains a report of actual lottery fund expenditures in 2020-2021.

#### **Background**

The Lottery Act allows for the expenditure of lottery receipts for public education. The Lottery Act requires that funds are “exclusively for the education of pupils and students” and the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instruction-related purposes. Non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research are not permissible uses of lottery funds.

To date, the CSU has received \$1.49 billion in lottery funds from the state. Over the past five years, annual CSU Lottery Fund receipts have averaged \$63.8 million. Approximately 92 percent of lottery resources are expended directly by the campuses for instructionally-related programs and activities. The remaining 8 percent supports systemwide programs, such as the Summer Arts, Pre-Doctoral, Doctoral Incentive, DREAM Loan programs, Electronic Core Collection, and for program administration and reporting requirements.

Each year, the Board of Trustees adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates of CSU lottery receipts for the budget year and the program areas for allocation of those anticipated receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements.

The Board of Trustees has delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds.

## **2022-2023 Lottery Budget Proposal**

The System Budget Office estimates total lottery receipts available to the CSU in 2022-2023 will be \$63 million. After setting aside \$5 million as a contingency to assist with cash-flow variations in quarterly lottery receipts and other economic uncertainties, the \$58 million 2022-2023 lottery budget proposal remains principally designated for campus-based programs and five systemwide programs that have traditionally received annual lottery funding support. The proposed budget increases campus-based allocations by \$4 million and adds \$20,000 to support administration and reporting responsibilities of the Lottery Fund and systemwide programs.

### *Systemwide Programs*

Under the proposed budget, approximately \$13.3 million would be allocated to the five systemwide programs and administration costs:

- DREAM Loan Program (\$2.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor's Doctoral Incentive Program (\$2.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program (\$1.0 million) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program (\$1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Electronic Core Collection (\$6.0 million) provides all students access to electronic publications.
- Administration of Lottery Fund and system programs (\$731,000) provides Lottery Fund and program administration functions.

### *Campus-Based Programs*

The remaining \$44.7 million of anticipated 2022-2023 lottery receipts would be used to fund campus-based programs and the Early Start Program. \$39.7 million would be allocated directly to campuses, allowing presidents flexibility to meet unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of library materials and instructional equipment, curriculum development, and scholarships.

The proposed lottery budget would provide \$5 million to the Early Start Program for campus-based financial aid. An eligible student may receive a need-based fee waiver to ensure that financial hardship is not a barrier to enrollment in the Early Start Program. Through the program, first-time freshmen students who need additional preparation in math or English enroll in college courses with support during the summer term prior to matriculation at any CSU campus.

As stated, the proposed budget sets aside \$5 million as a contingency to assist with cash-flow and economic uncertainties. If quarterly lottery receipts remain strong, the Chancellor’s Office will work with campuses during 2022-2023 to allocate the \$5 million reserve for innovative campus-based programs that support Graduation Initiative 2025 efforts.

The CSU Lottery Budget proposed for 2022-2023 is as follows:

<b>2021-2022 Adopted and 2022-2023 Proposed Lottery Budget</b>		
	<b>2021-2022 Adopted Budget</b>	<b>2022-2023 Proposed Budget</b>
<b>Sources of Funds</b>		
Receipts	\$58,893,000	\$63,000,000
Less Systemwide Contingency	(5,000,000)	(5,000,000)
	<b>\$53,893,000</b>	<b>\$58,000,000</b>
<b>Uses of Funds</b>		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$2,000,000	\$2,000,000
California Pre-Doctoral Program	1,038,000	1,038,000
CSU Summer Arts Program	1,500,000	1,500,000
DREAM Loan	2,000,000	2,000,000
Electronic Core Collection	6,000,000	6,000,000
	\$12,538,000	\$12,538,000
<i>Campus-Based Programs</i>		
Campus Programs	\$35,644,000	\$39,731,000
Campus Early Start Financial Aid	5,000,000	5,000,000
	\$40,644,000	\$44,731,000
<i>Lottery Fund &amp; System Programs Administration</i>		
	\$711,000	\$731,000
	<b>\$53,893,000</b>	<b>\$58,000,000</b>
<b>Total Uses of Funds</b>	<b>\$53,893,000</b>	<b>\$58,000,000</b>

**Reporting Requirement**

In accordance with the CSU lottery guidelines, the CSU annually reports past year actual lottery expenditures to the Board of Trustees. This section of the agenda item satisfies that requirement.

In 2020-2021, similar to prior years, the majority of lottery funds were spent on instruction and instruction-related programs and services that supplement the CSU operating budget. The following table summarizes how available lottery revenues were spent in 2020-2021:

<b>2020-21 Lottery Expenditures</b>		
<b>Program Support Area</b>	<b>Expenditures</b>	<b>Percentage of Total Expenditures</b>
Doctoral Incentive Program <sup>1</sup>	\$0	0.0%
California Pre-Doctoral Program	851,155	1.7%
DREAM Loan Program	1,776,733	3.6%
CSU Summer Arts Program	582,216	1.2%
Campus Programs	45,228,410	92.0%
Campus Early Start Financial Aid <sup>2</sup>	0	0.0%
Lottery Fund & System Programs Admin.	730,136	1.5%
<b>Total</b>	<b>\$49,168,650</b>	<b>100.0%</b>

<sup>1</sup> The Doctoral Incentive Program is a revolving educational loan program. The budget included \$2 million for any net increase in program participation, but funds were unnecessary as existing loan repayments supported the issuance of new loans to new participants.

<sup>2</sup> The Campus Early Start Program budget included \$5 million, but funds were not used in 2020-2021 due to impact of the COVID-19 pandemic. Reimbursements for ESP waivers will resume in 2021-2022.

Carryforward balances from prior years were also used in 2020-2021 to fund several systemwide and campus programs, such as library services, early assessment program support, and technology initiatives.

**Recommendation**

The following resolution is presented for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the 2022-2023 lottery budget totaling \$63 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the lottery budget and to adjust expenditures in accordance with receipt of lottery funds; and be it further

**RESOLVED**, that the chancellor is hereby granted authority to adjust the 2022-2023 lottery budget approved by the Board of Trustees to the extent that receipts are greater or less than budgeted revenue to respond to opportunities or exigencies; and be it further

**RESOLVED**, that a report of the 2022-2023 lottery budget receipts and expenditures be made to the Board of Trustees.

## COMMITTEE ON FINANCE

### **Reporting of Auxiliary Liquidity Loans Approved by the Chancellor under Delegated Authority**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

#### **Summary**

This item provides information to the California State University Board of Trustees on auxiliary liquidity loans that have been approved by the Chancellor under delegated authority.

#### **Background**

The Board of Trustees' CSU Policy for Financing Activities (RFIN/CPBG 11-14-01), as well as the Financing and Debt Management Policy (Executive Order 994) issued by the Chancellor pursuant to the CSU Policy for Financing Activities, stipulates that all borrowing by the CSU or any CSU auxiliary shall be made through the CSU's established debt programs (e.g., the CSU's Systemwide Revenue Bond and commercial paper programs) and approved by the Board of Trustees. The policy and executive order also recognize that there may be certain types of financing structures that are not well suited for the CSU's established debt programs. In such cases, the proposed financing structure shall be reviewed by the Chancellor's Office and then presented to the Board of Trustees for approval.

At its November 2020 meeting, the Board of Trustees revised the CSU Board of Trustees' Standing Orders to delegate authority to the Chancellor to approve auxiliary liquidity borrowings outside of the CSU's established debt programs, subject to the following parameters:

- Maximum amount: \$40,000,000
- Maximum length of any borrowing, loan, or line of credit: Ten years.
- All auxiliary liquidity loans will comply with all legal and CSU policy requirements.
- Final terms and conditions of any auxiliary borrowing agreement established under this delegated authority shall not contain any provisions that will have a material adverse

impact upon the CSU's established debt programs or upon any financing already provided to such auxiliary through the CSU's established debt programs.

- Any auxiliary financings approved under this delegated authority will be reported to the Board of Trustees at each meeting of the Board of Trustees.
- The delegation of authority to the Chancellor to approve auxiliary liquidity loans will expire on November 18, 2023.

### **Auxiliary Liquidity Loans Approved by the Chancellor under the Delegated Authority**

In October 2021, one auxiliary liquidity loan was approved by the Chancellor. The approval being reported herein is for the renewal and increase of a line of credit that has been in place for a number of years and does not represent new auxiliary liquidity borrowing in response to COVID-19.

As part of its several areas of operation in support of Humboldt State University, the Humboldt State University Sponsored Programs Foundation (Foundation) provides the administration of grants from governmental and private agencies for research and other activities related to the programs of the campus. As part of the campus's transformation to a polytechnic institution with the launching of new academic programs, the Foundation expects there will be a need for increased liquidity to maintain its cash flow position due to the seasonality in its grants and contracts receivables to meet current expenses. The Foundation wanted to increase an existing line of credit facility with a financial institution to provide additional liquid resources and meet its working capital needs.

The key proposed terms of the line of credit from Redwood Capital Bank are as follows:

- The amount of the line of credit was increased from to \$2 million to \$4 million.
- The line of credit will expire October 15, 2024.
- The initial interest rate on the line of credit is 4.75 percent and will vary from time to time based on daily changes to Redwood Capital Bank's internal index, currently at 4.00 percent, plus 0.75 percent in margin over the index.
- Annual Fee of \$10,000, less any interest paid on amounts drawn during the year.
- The line of credit is secured by all accounts receivables of the Foundation.

## COMMITTEE ON FINANCE

### **Approval of the 2022-2023 Operating Budget Request**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

This item requests approval by the California State University Board of Trustees of the 2022-2023 CSU Operating Budget Request. Accompanying this agenda item as Attachment A is the proposed 2022-2023 request, which contains historical detail as well as prospective information for the Board of Trustees' consideration.

At its September 2021 meeting, the Board of Trustees reviewed a preliminary plan for purposes of crafting the CSU's operating budget request to the state. That preliminary plan included consideration of past and forecasted information regarding the state's economy and tax revenue as well as past and planned funding of the CSU. With that history and context, the focus of this item are the details of the proposed 2022-2023 CSU Operating Budget Request and a brief discussion of potential opportunities to address the necessary revenues of the operating budget.

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. To meet consequent deadlines of the Department of Finance, it is necessary to adopt the proposed 2022-2023 CSU Operating Budget Request at the November CSU Board of Trustees meeting.

#### **Proposed 2022-2023 CSU Operating Budget Request**

With the exception of 2020-2021, the state has systematically increased its investment in the CSU for a decade. The challenging \$299 million recurring budget reduction in 2020-2021 was immediately followed by a state budget rebound in 2021-2022 that unwound the prior year reduction and added \$251 million of incremental, recurring funding to the CSU's budget.

It is likely that this upward trend will continue. The prospect of the state providing new investments in the 2022-2023 budget cycle is promising because the state forecast from July 2021 suggests state tax revenue growth through 2024-2025. It should be noted that there have been some positive economic indicators since July 2021 including actual state tax revenue receipts ahead of forecasts and a continuing decline in California unemployment rates.

As a result, the university should be positioned for a potential investment. We must prepare for when the finances and priorities of the state align with the priorities of the university. As shown in the below table and in Attachment A, the 2022-2023 Operating Budget Request proposes a base, recurring increase of \$715.5 million. With such an investment, the state and the CSU will be in a better position to meet the overall economic and future workforce needs of California.

<b>Incremental Expenditures</b>	<b>in million</b>
Graduation Initiative 2025	\$75.0
Student Basic Needs	20.0
Bridging Equity Divide Through Technology	75.0
Salaries and Benefits	223.3
<i>Compensation Pool</i>	<i>\$209.3</i>
<i>Health Benefits</i>	<i>14.0</i>
<i>Staff Salary Structure Study Results</i>	<i>TBD</i>
Academic Facilities & Infrastructure	135.0
Strategic Resident Enrollment Growth	129.9
Senate Bill 169 State University Grant Requirement	16.8
Mandatory Costs	40.5
<i>Inflation on Non-Personnel Expenditures</i>	<i>29.6</i>
<i>Operations &amp; Maintenance of New Facilities</i>	<i>3.1</i>
<i>Minimum Wage</i>	<i>7.8</i>
<b>Total Incremental Expenditures</b>	<b>\$715.5</b>
<b>Anticipated, Incremental Revenues</b>	
Tuition from Enrollment Growth	42.5
Board of Trustees General Fund Increase Request	673.0
<b>Total Incremental Revenues</b>	<b>\$715.5</b>
<b>One-Time Funding Request</b>	<b>in millions</b>
Deferred Maintenance	\$1,000.0

## **Potential Opportunities to Address Operating Budget Revenue Needs**

The CSU's highest priority is to advocate for increased state funding to cover the full operating budget request. The CSU will work collaboratively with stakeholders and partners across the system including trustees, students, faculty, staff, union leaders, alumni, and business partners to make the case in Sacramento for increased funding that supports our priorities.

While additional general fund is the highest priority and the best option for the university, the state allocation will not be known until a final budget agreement is reached in June 2022. It is very early in the 2022-2023 budget cycle and the economy's direction is not certain. State revenues are heavily dependent on personal income tax and this source is prone to fluctuations, especially capital gains. At this stage, before the governor's budget proposal is released in January 2022, it is not known if the CSU will receive enough new general fund dollars to meet its mandatory obligations and invest in its ongoing priorities.

Consequently, all funding options must remain open. As a regular and routine business matter, the CSU will follow state statutory intent and prepare for and discuss with California State Student Association leadership a written tuition proposal. At this point, the CSU does not expect to raise tuition rates for 2022-2023 but will keep the possibility open in case the state budget deteriorates. The CSU must ensure that the university has the resources it needs to maintain the quality of academic and supportive services for students, while maintaining authentic access to the university.

If funding is not secured for the operating budget request through state general fund, priority areas of the operating budget would be reduced or eliminated, and campuses would have to redirect funding from designated balances, reserves, and existing programs. Faced with budget reductions, it is possible that fewer course sections would be available to students, average unit loads would go down not up, and ultimately it could take longer for students to graduate, costing students more money and creating challenges for Graduation Initiative 2025 efforts.

## **Conclusion**

The state's budget cycle is just beginning. At this time there are some funding assumptions from the state and it is not known at what level the state will provide the necessary resources to invest in operating budget priorities at the CSU. As the budget cycle moves forward, the CSU will work with its partners across California to advocate for funding by the state of the Board of Trustees' operating budget request.

This is an action item presenting final recommendations for the CSU 2022-2023 Operating Budget Request to the governor and legislature. It is the CSU's goal that the state support the budget plan

so that the CSU can focus on the transformational goals of Graduation Initiative 2025 while continuing to invest in other important needs.

The budget outlined in Attachment A is the official presentation of the 2022-2023 CSU Operating Budget Request and, if approved, will be distributed to the governor, legislators, and other policy makers in the capitol. It can be accessed, along with additional supplemental detail, at [www.calstate.edu/budget](http://www.calstate.edu/budget).

### **Recommendation**

The following resolution is presented for approval:

**RESOLVED**, that the future of California rests on the California State University's ability to provide a high-quality, affordable, and accessible education to nearly 500,000 students each year; and be it further

**RESOLVED**, by the Board of Trustees of the California State University that the 2022-2023 Operating Budget Request is approved as submitted by the chancellor; and be it further

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

**RESOLVED**, that copies of this resolution and the 2022-2023 CSU Operating Budget Request included as Attachment A to this agenda item be transmitted to the governor, to the director of the Department of Finance, and to the legislature.

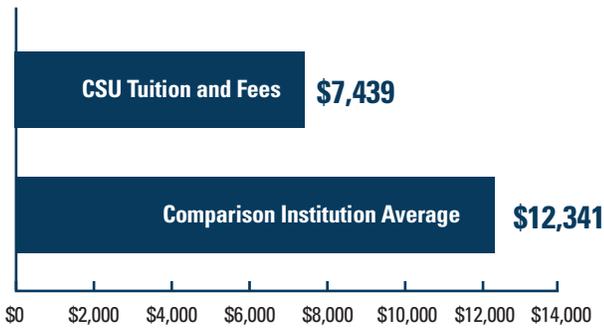
J. Paul Leonard Library  
Sutro Library

# 2022-23 OPERATING BUDGET

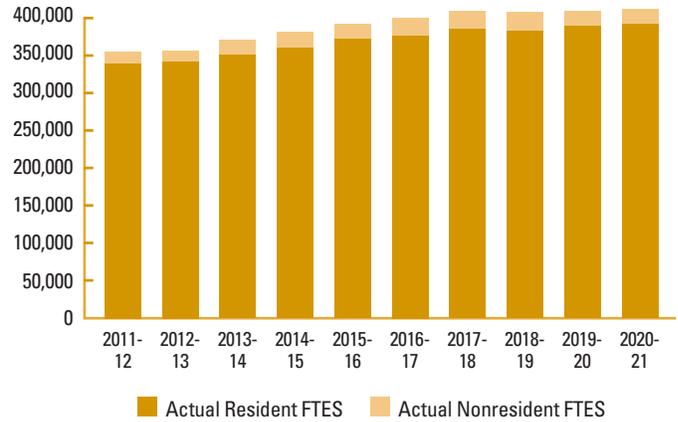
[www.calstate.edu/budget](http://www.calstate.edu/budget)

DRAFT FOR CSU BOARD OF TRUSTEES  
CONSIDERATION

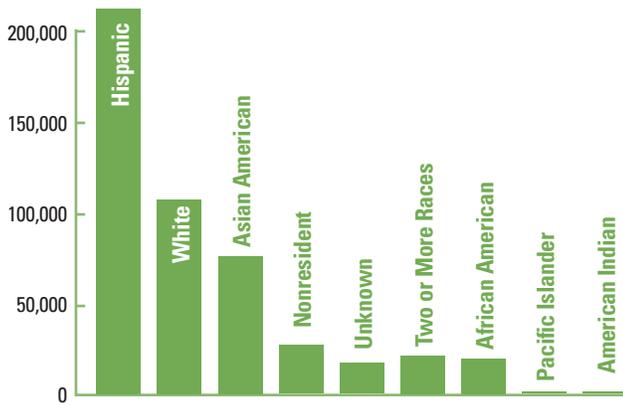
**CSU TUITION AND FEES REMAIN AFFORDABLE**  
[BASED ON AVERAGE RESIDENT UNDERGRAD]



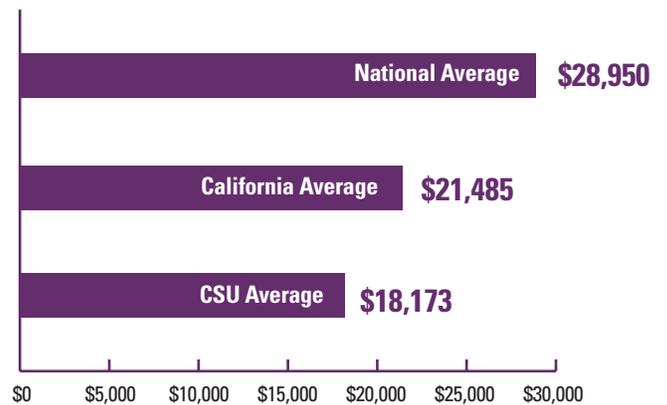
**95% OF CSU STUDENTS ARE FROM CALIFORNIA**



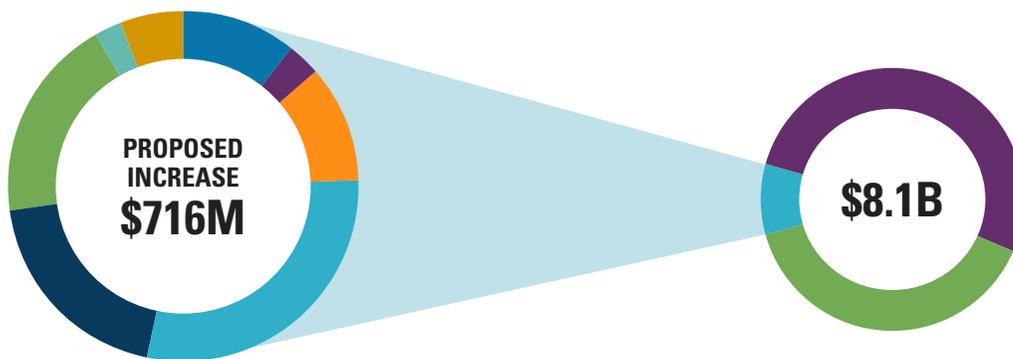
**CSU SERVES A DIVERSE STUDENT POPULATION**



**CSU STUDENTS HAVE LOWER AVERAGE DEBT**



**2022-23 PROPOSED OPERATING BUDGET**

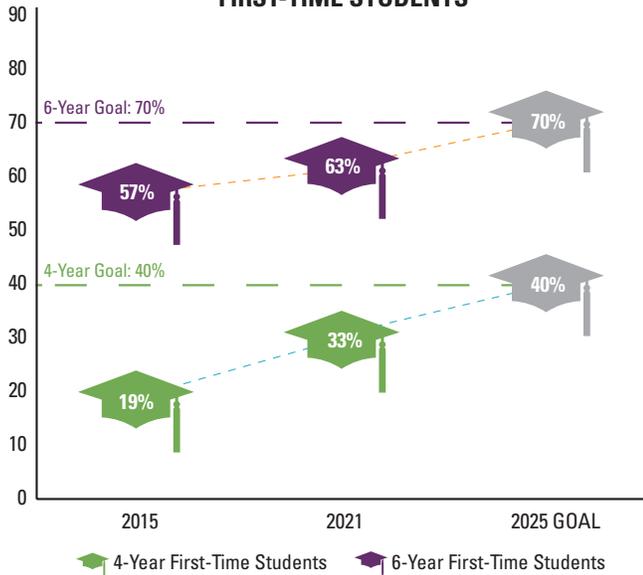


- Graduation Initiative 2025 **10.5%**
- Student Basic Needs **2.8%**
- Bridging Equity Divide Through Technology **10.5%**
- Salary and Benefits **31.2%**
- Academic Facilities and Infrastructure **18.9%**
- Strategic Resident Enrollment Growth **18.1%**
- Senate Bill 169 State University Grant Requirement **2.3%**
- Mandatory Costs **5.7%**

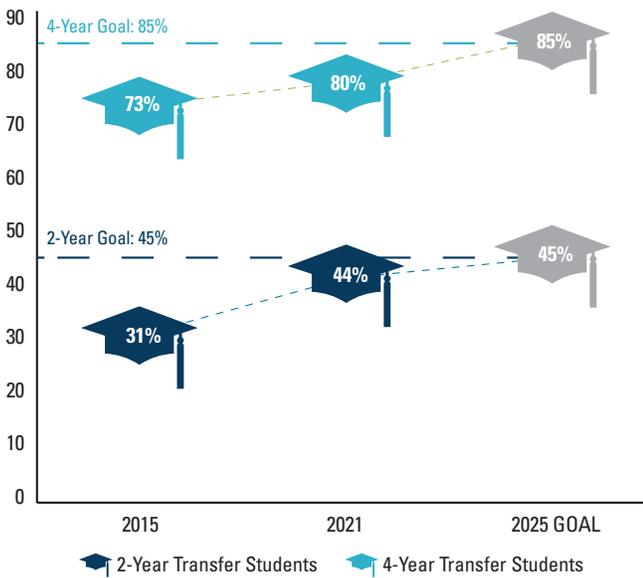
- Tuition and Fees **\$3.2B**
- General Fund **\$4.2B**
- 2022-23 Proposed Increase **\$716M**

# CSU IS ON TRACK TO MEET ITS SYSTEMWIDE GRADUATION RATE GOALS BY 2025

## FIRST-TIME STUDENTS



## TRANSFER STUDENTS



# CSUCCESS



**8**

CAMPUSES CURRENTLY PARTICIPATING



**\$19M**

FUNDING FOR PROGRAM



**22,775**

TECHNOLOGY BUNDLES



**UP TO 35,000**

FIRST-YEAR AND TRANSFER STUDENTS ELIGIBLE

**82%**

OF ALL CSU STUDENTS RECEIVED FINANCIAL AID

**49%**

OF CSU UNDERGRADUATES RECEIVED A FEDERAL PELL GRANT

**59%**

OF CSU STUDENTS HAD TUITION FULLY COVERED

**50%**

OF UNDERGRADUATES ARE FROM TRADITIONALLY UNDER-REPRESENTED MINORITIES

**95%**

OF NEW UNDERGRADUATE TRANSFERS ARE FROM CALIFORNIA COMMUNITY COLLEGES



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**CHANCELLOR'S  
MESSAGE**

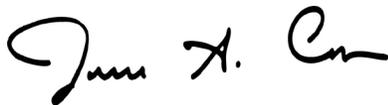
As California steadily emerges from the most devastating global pandemic in more than a century, I look to our state's future with great optimism. And I wholeheartedly believe that the California State University—the nation's largest, most diverse and most consequential university—can serve as an inflection point: one that will lead a turn toward healing, reconciliation, recovery and prosperity.

Despite the challenges of the past year and a half, the CSU and its students are thriving, thanks in large part to the state's renewed, generous and forward-thinking support. Almost 133,000 students earned degrees in 2020-21—a record high. Graduation rates are also at all-time highs for students from all backgrounds. As supported by Washington Monthly's recent rankings, the CSU continues to be the nation's most powerful driver of socioeconomic ascent, as we work to prepare California's future workforce for its most in-demand fields.

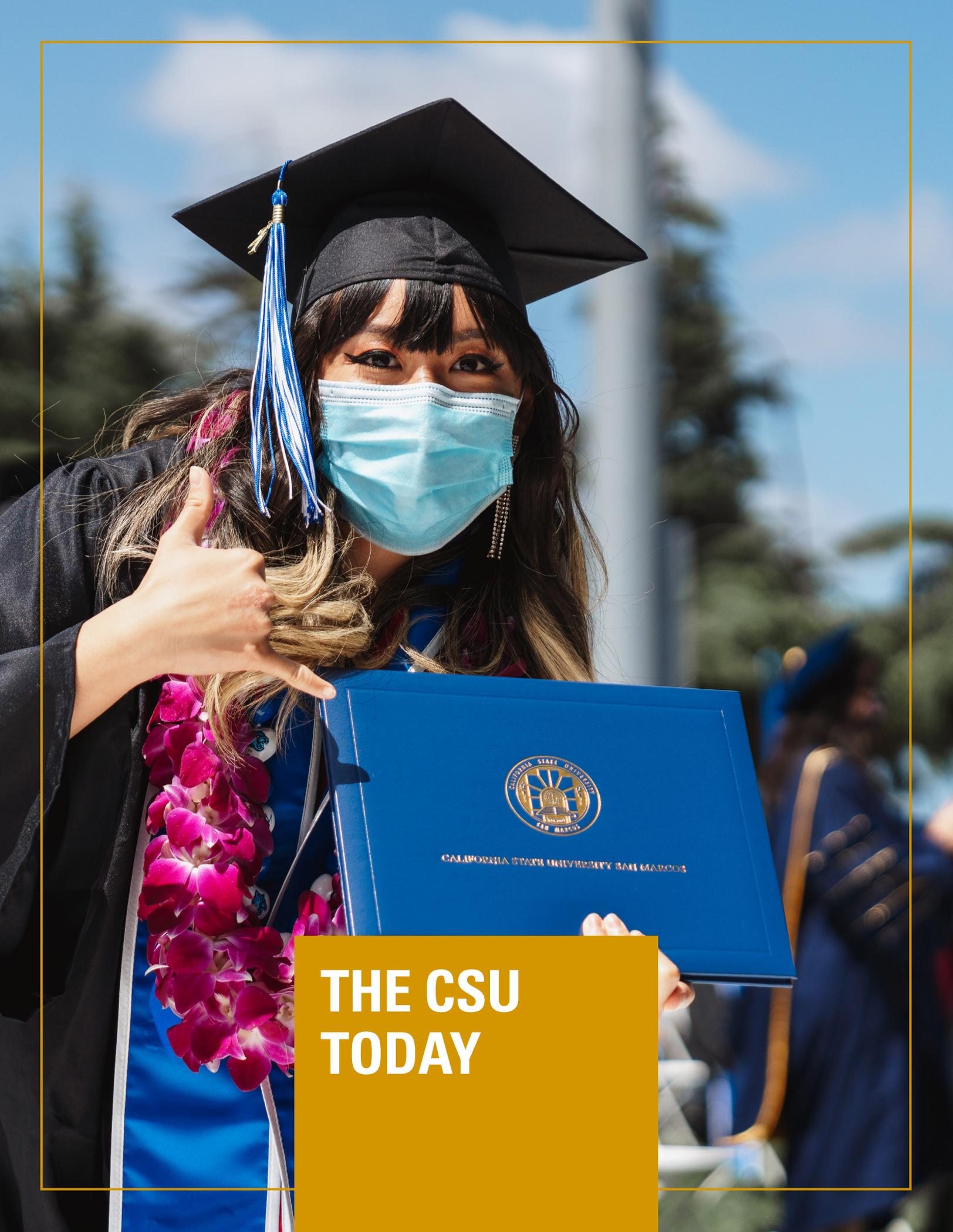
But we can, and must, do more for California's students—our state's future leaders. I believe the Trustees' budget plan represents a vital and effective path forward. It is one that will help us:

- Elevate student success for all, with a laser focus on completely eliminating equity gaps that exist between students of color, first-generation students and low-income students and their peers, via Graduation Initiative 2025.
- Promote our students' mental and physical well-being while supporting their basic needs, including housing and food security.
- Bridge the digital divide so that technology will be an essential and invaluable tool—and not a barrier—for every CSU student.
- Ensure the fair and equitable compensation of our world-class and student-centered faculty and staff.
- Repair and modernize our aging facilities and infrastructure to promote academic achievement while providing the safest possible environment for our students, faculty and staff.
- Increase access through enrollment growth, so that more Californians from all backgrounds can earn the security, purpose and prosperity that come with a high-quality CSU degree.

On behalf of the entire CSU community, including our more than four million global alumni, please accept my deepest appreciation and gratitude for your belief in our mission and for your visionary support and leadership through one of the most challenging times in our state's and university's history. I am extraordinarily proud of how the collective CSU community stepped up to deliver on your investment. And I hope that the remarkable successes of our talented and diverse students inspire continued partnership and investment, as together we transform our students' lives and communities and drive California's recovery and sustained economic vitality.



Joseph I. Castro  
Chancellor  
The California State University



# THE CSU TODAY

In the 2021-22 final budget, the CSU received from the state a permanent base budget increase of \$550.2 million, including a restoration of the \$299 million base funding reduction in 2020-21. The tables below also include the state-funded retirement adjustment of \$4.4 million that will be reduced in a subsequent General Fund appropriation. The 2021-22 current year total CSU operating budget of \$7.4 billion is composed of \$4.2 billion in state General Fund and \$3.2 billion in tuition and fees. New resources to fulfill the CSU's budget request for 2022-23 are \$715.5 million, as shown in Table 1.

**TABLE 1: OPERATING BUDGET AND INFRASTRUCTURE**

	2020-21 Past Year	2021-22 Current Year	2022-23 Budget Year	2022-23 Increase
General Fund, Operations	\$3,345,830,000	\$3,883,312,000	\$4,421,292,000	\$537,980,000
General Fund, Academic Facilities and Infrastructure	340,560,000	340,560,000	475,560,000	135,000,000
Tuition and Other Fee Revenue	3,277,002,000	3,163,392,000	3,205,920,000	42,528,000
<b>TOTAL OPERATING BUDGET AND INFRASTRUCTURE</b>	<b>\$6,963,392,000</b>	<b>\$7,387,264,000</b>	<b>\$8,102,772,000</b>	<b>\$715,508,000</b>

**TABLE 2: EXPENDITURES BY PROGRAM AREA**

	2020-21 Past Year	2021-22 Current Year	2022-23 Budget Year
Instruction	\$2,835,645,000	\$2,924,053,000	\$2,924,053,000
Research	31,653,000	23,856,000	23,856,000
Public Service	20,996,000	17,374,000	17,374,000
Academic Support	706,730,000	752,089,000	752,089,000
Student Services	775,869,000	790,223,000	790,223,000
Institutional Support	892,813,000	1,108,782,000	1,108,782,000
Operation and Maintenance of Plant	938,640,000	1,015,372,000	1,015,372,000
Student Grants and Scholarships	761,046,000	755,515,000	755,515,000
New Expenditures	0	0	715,508,000
<b>TOTAL EXPENDITURES</b>	<b>\$6,963,392,000</b>	<b>\$7,387,264,000</b>	<b>\$8,102,772,000</b>

The operating budget is focused on fulfilling the CSU's core mission: to serve students with a high-quality, affordable and accessible education. As shown in Table 2, the CSU spends 71 percent, \$5.2 billion, of its total operating budget on instruction, academic support, student services and financial aid. All of these activities promote student success, enrich the academic experience and ensure that each eventual CSU graduate is ready to succeed professionally.



State support for the CSU—the nation’s largest and most diverse public university—continues to be one of the wisest and most consequential commitments our state leaders can make with a sevenfold return on every dollar invested in the university. The CSU plays a critical role in providing future leaders with skills and knowledge to thrive in the workforce and help drive California’s economy. Producing over half the state’s bachelor’s degrees, the CSU sends more than 130,000 job-ready graduates into the workforce each year. Ongoing base augmentations from the state ensure higher education access is expanded and costs remain affordable. The CSU is the best value in higher education. Year after year, it remains one of the most affordable university systems in the nation, with more than half of its students graduating with zero loan debt. In 2019, all 23 campuses ranked among the top 100 “Best Bang for the Buck” universities in the West, according to Washington Monthly. Additional accomplishments include:

- Enrolled 477,472 students in fall 2021;
- Graduated 132,617 students in 2020-21, 3,692 more than 2019-20;
- Awarded 112,566 baccalaureate, 19,454 master’s and 597 doctoral degrees in 2020-21;
- Served 2,479 doctoral students in fall 2021 from diverse backgrounds, preparing them for leadership roles in education and nursing and filling roles in critical fields such as physical therapy and audiology;
- Improved four-year graduation rates for first-time students by 14 percentage points since 2015; and
- Improved six-year graduation rates for first-time students by 6 percentage points since 2015.

The university has embraced key opportunities from the COVID-19 pandemic to reimagine an even more dynamic and equitable institution. Technology and support strategies employed during virtual instruction were vital to student success during the pandemic. With an emphasis to be flexible, technology focused, compassionate and inclusive, the CSU will continue to refine and expand these tools to enrich the student learning experience moving forward.

- Distributed more than 21,000 laptops and tablets and 10,000 mobile Wi-Fi hot spots during the pandemic to facilitate necessary online instruction and learning;
- Launched CSUCCESS (California State University Connectivity Contributing to Equity and Student Success) in July 2021, which provided 22,775 new iPad bundles to fall 2021 first-year and transfer students at eight participating CSU campuses (Bakersfield, Channel Islands, Fresno, Humboldt, Los Angeles, Maritime Academy, Northridge and San Marcos);

- Engaged faculty and staff from across the CSU in a Flexible Course Experience Institute to explore ways to offer courses in three modes simultaneously (face-to-face, virtual synchronous and virtual asynchronous), with students able to choose the modality that best suits their needs and preferred learning style; and
- Provided virtual advisement, with appointment attendance nearing 100 percent at many campuses, allowing students with jobs and families to meet with their advisors from any location.

The CSU adopted a university-wide commitment to innovation and shared standards with a goal of driving value and increasing effectiveness across the system. Through joint contracts, energy partnerships and sustainability efforts, the CSU maximizes efficiencies and economies of scale to increase cost savings and cost avoidance whenever possible.

- Contributed \$45 million in value during 2020-21 through procurement-related cost avoidance and revenue generation activities across the organization, including administrative, instructional, student services, information technology, construction, energy and facilities operations.
- Leveraged supplier relationships to increase career development opportunities through student internships, professional development programs and job prospects.
- Developed intersegmental strategic partnerships to reduce costs in purchasing goods and services mainly for construction projects, information technology and academic support.
- Utilized CSU’s Energy Dashboard tool to reduce staff time through streamlined data collection and systemwide reporting, resulting in improved management of energy information and cost data.
- Established on-campus solar and battery storage Master Enabling Agreements, which provide cost-effective opportunities to increase resilient, clean energy resources across the CSU.
- Developing regional, inter-campus energy efficiency and carbon reduction specifications, which will lower costs by establishing standards and reducing duplication of work.

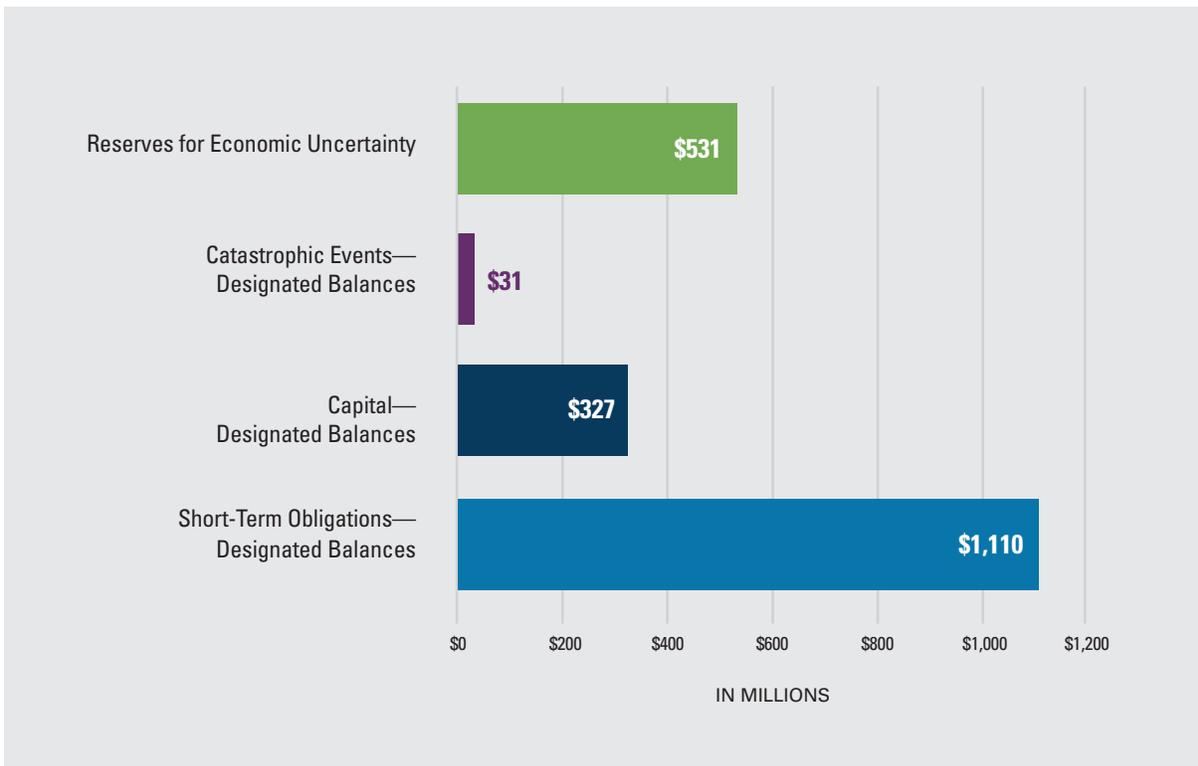
**DESIGNATED BALANCES AND RESERVES:  
\$2 BILLION**

The CSU’s operating fund designated balances and reserves pay for nonrecurring expenses to manage short-term obligations and commitments, provide funding for capital infrastructure repairs and maintenance and help ensure that operating costs can be paid during times of catastrophic events and economic and budgetary uncertainty. The CSU’s reserve policy encourages campuses to accumulate a minimum of one-quarter to a maximum of one-half of the annual operating budget. The policy also requires designation and reserve amounts to be established and reported annually by the campuses and the Chancellor’s Office. These amounts are published on the CSU’s financial transparency portal ([calstate.edu/csu-system/transparency-accountability](http://calstate.edu/csu-system/transparency-accountability)) and reported annually to the Board of Trustees. Designated balances and reserves are not used to fund recurring expenses such as salary increases. The use of one-time monies to pay recurring, permanent expenses can lead to structural deficits.

The CSU has prudently managed designated balances and reserves to meet certain strategic goals, one of which was to be prepared to respond during economic uncertainty. During

the first several months of the pandemic, the CSU drew upon these reserves on a one-time basis to maintain operations in programs impacted by COVID-19. More specifically and early in the pandemic, an estimated 45 percent of all operating fund reserves for economic uncertainties were expected to be used in 2020-21 to cover COVID-related losses and expenses. The fortunate reality was that over the past 18 months with subsequent rounds of federal legislation, campuses used one-time federal funds in lieu of operating fund reserves for COVID-related losses and expenses. The CSU no longer anticipates a use of reserves for COVID-related purposes over the next several years because the economy and state budget have rebounded sooner than expected.

As of June 30, 2021, designated balances and reserves in the operating fund totaled \$2 billion, accumulated primarily from tuition, fees and other revenues in excess of annual expenses. They are held for economic uncertainty, catastrophic events, capital needs and short-term obligations as displayed in the chart.





### **Reserves for Economic Uncertainty**

Reserves for economic uncertainty are held for costs that may occur due to short-term recessionary cycles or state budget fluctuations. Reserves are part of the university's prudent fiscal strategy and are intended to be used as a one-time supplement, which allows the CSU time to adjust operating budgets appropriately to balance reductions and to minimize disruptions to students' education as much as possible. As of June 30, 2021, reserves for economic uncertainty totaled \$531 million and represent about 27 days of operations for all 23 campuses and the Chancellor's Office. This is well below the need to maintain three to six months of operating expenses.

### **Designated for Catastrophic Events**

Balances are held to be used in the event of a natural disaster or other catastrophic event. Typically, these balances are used to pay for costs not covered by insurance. Balances designated for catastrophic events are sufficient to cover expected needs, which totaled \$31 million.

### **Designated for Capital**

Balances designated for capital are for new capital projects and repair of current buildings, as well as planning costs and equipment acquisition associated with those buildings. Capital reserves fall well short of the expected need, which is at least 10 percent of the cost of academic projects approved in the most recent multi-year capital plan. With over \$16.8 billion of academic facility and infrastructure needs identified in the 2021-22 through 2025-26 multi-year capital program, over \$1.6 billion is required. Balances designated for capital totaled \$327 million.

### **Designated for Short-Term Obligations**

Balances designated for short-term obligations are for open contracts and purchase orders, near-term debt service payments, financial aid obligations and programs that are in development. Balances designated for short-term obligations totaled \$1.1 billion at the end of last year, which are sufficient to cover expected needs and are typically paid in the following fiscal year.



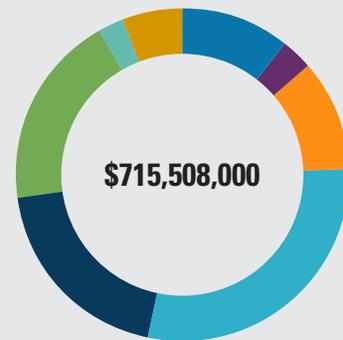
**2022-23  
OPERATING  
BUDGET PLAN**

The CSU proposes an \$8.1 billion operating budget for 2022-23, with \$4.9 billion from the state General Fund and \$3.2 billion from tuition and fee revenue. As shown in Table 1, this budget plan is an increase of \$715.5 million over the 2021-22 operating budget. It includes significant investments so that the CSU can continue to serve as the key to California’s prosperous economy, consistently ranked as one of the top ten largest in the world. Table 3 outlines the sources and uses of funds that make up the \$715.5 million increase.

**TABLE 3: SOURCES AND USES OF FUNDS**

<b>SOURCES OF FUNDS</b>		
<b>General Fund Increase</b>		<b>\$672,980,000</b>
Operating Budget	537,980,000	
Academic Facilities and Infrastructure	135,000,000	
<b>Tuition From Strategic Resident Enrollment Growth</b>		<b>42,528,000</b>
<b>TOTAL NEW SOURCES</b>		<b>\$715,508,000</b>
<b>USES OF FUNDS</b>		
<b>Graduation Initiative 2025</b>		<b>\$75,000,000</b>
<b>Student Basic Needs</b>		<b>20,000,000</b>
<b>Bridging Equity Divide Through Technology</b>		<b>75,000,000</b>
<b>Salary and Benefits</b>		<b>223,325,000</b>
Compensation Pool	209,363,000	
Health Benefits	13,962,000	
<b>Academic Facilities and Infrastructure</b>		<b>135,000,000</b>
<b>Strategic Resident Enrollment Growth</b>		<b>129,859,000</b>
<b>Senate Bill 169 State University Grant Requirement</b>		<b>16,835,000</b>
<b>Mandatory Costs</b>		<b>40,489,000</b>
Inflation on Non-Personnel Expenditures	29,628,000	
Maintenance of New Facilities	3,094,000	
Minimum Wage	7,767,000	
<b>TOTAL NEW USES</b>		<b>\$715,508,000</b>

### USES OF FUNDS



- Graduation Initiative 2025  
**10.5%**
- Student Basic Needs  
**2.8%**
- Bridging Equity Divide Through Technology  
**10.5%**
- Salary and Benefits  
**31.2%**
- Academic Facilities and Infrastructure  
**18.9%**
- Strategic Resident Enrollment Growth  
**18.1%**
- Senate Bill 169 State University Grant Requirement  
**2.3%**
- Mandatory Costs  
**5.7%**



**TABLE 4: CSU SYSTEMWIDE GRADUATION INITIATIVE PROGRESS**

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

**GRADUATION INITIATIVE 2025: \$75 MILLION**

As it enters its sixth year, Graduation Initiative 2025 is well on its way to meeting many of its bold systemwide goals with the highest graduation rates for first-time and transfer students since the initiative launched. Yet, the CSU is committed to doing more, which means ensuring that all students, regardless of background, have the opportunity to receive a high-quality education and earn a CSU degree. The CSU expects to invest \$75 million of the 2022-23 operating budget request to meet these ambitious

goals. To that end, Chancellor Castro convened a new advisory committee for Graduation Initiative 2025 with an expressed goal to identify new and creative ways to address disparities in graduation rates and accelerate the elimination of equity gaps. The committee, comprised of CSU administrators, faculty, staff and students, issued a set of recommendations that included enhancements in student advising, expanding data sharing and increasing transparency across campuses.

### Graduation Rates Continue to Climb

Based on preliminary 2021 data, four- and six-year graduation rates for first-time students and two- and four-year rates for transfer students continue to improve and have reached all-time highs. These increases are remarkable given the challenges of the pandemic and represent the commitment of CSU faculty and staff and the intentional action by campus leaders for a laser focus on student success.

- Every year, more and more students graduate from the CSU and enter the workforce. Since 2015, the number of students who annually earn a baccalaureate degree has increased by nearly 25,000.
- The systemwide four-year graduation rate increased two percentage points to 33 percent from the previous year and 14 percentage points since 2015.
- The systemwide six-year graduation rate increased one percentage point to 63 percent, continuing to exceed the national average for public four-year universities.
- The CSU is on track overall to meet its systemwide graduation rate goals by 2025.

### Focus on Eliminating Equity Gaps

The CSU is redoubling student success efforts with a more intentional focus on eliminating equity gaps. Informed by recommendations of the Graduation Initiative 2025 Advisory Committee, Chancellor Castro announced an action plan with the expressed goal to support students most in need—including students of color, first-generation and Pell Grant recipients. The plan's five priorities are:

- Advance systemwide campus campaigns to re-engage and re-enroll underserved students;
- Expand credit earning opportunities with summer and intercession sessions funding;
- Ensure equitable access to digital degree planners/roadmaps;
- Eliminate administrative barriers to graduation; and
- Promote equitable learning practices and reduce DFW (D, F, Withdrawal) rates.

Additional state funding for Graduation Initiative 2025 is critical to maintain this momentum. These new investments will be used to offer more courses, hire additional tenure-track faculty and to advance innovative student success practices. Specifically, campuses will focus on addressing the five equity priorities within the framework of the six operational pillars:

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

Increased state funding will allow campuses to accelerate existing Graduation Initiative 2025 efforts and scale programs that have demonstrated success to ensure all California students have the opportunity to earn a degree. More information about specific systemwide and campus priorities can be found at [calstate.edu/csu-system/why-the-csu-matters/graduation-initiative-2025](http://calstate.edu/csu-system/why-the-csu-matters/graduation-initiative-2025).

### STUDENT BASIC NEEDS: \$20 MILLION

The CSU requests \$20 million to sustain and expand its Basic Needs initiatives in support of Graduation Initiative 2025. Following a landmark research project into the prevalence of food and housing insecurity among CSU students, the Chancellor's Office launched a systemwide initiative in 2015 to provide a framework for all 23 campuses that guides a more coordinated approach to developing basic needs programs and services. These strategies are intended to support students experiencing food and housing insecurities, unanticipated financial distress, mental health concerns and overall health and safety challenges that could disrupt their timely pathways to degree. While the CSU's primary mission is educational in nature, the CSU recognizes that students cannot be fully engaged in, or out of, the classroom if they are preoccupied with hunger, housing insecurity, personal safety, mental and physical health, transportation, technology/broadband or childcare to attend educational and employment responsibilities. As such, leaders across all 23 campuses have committed to enhancing and developing resources consistent with the CSU academic mission to reduce the negative impact of these basic needs gaps on student retention and graduation. From a recently completed fall 2021 survey, campuses are investing \$140.5 million from all funding sources on basic needs support and services to students. That is a substantial increase over the fall 2020 total of \$92 million.



## BRIDGING EQUITY DIVIDE THROUGH TECHNOLOGY: \$75 MILLION

Over the course of the past 18 months, the CSU helped bridge the equity divide by increasing access to critical technology to ensure student success in a virtual learning environment. The CSU is offering the majority of instruction in person this fall term, but a significant increase in courses are offered virtually, because of ongoing risks and challenges posed by the COVID-19 pandemic and student-stated preferences.

In July 2021, the CSU announced the launch of the first phase of the California State University Connectivity Contributing to Equity and Student Success (CSUCCESS) initiative, a bold effort to enhance student achievement and create more equitable opportunities for the CSU community by providing industry-leading technology. CSUCCESS provides students with tools to participate and succeed in a virtual learning environment. Eight campuses are participating in the initial phase this fall 2021 and offered a free iPad Air, Apple Pencil and Apple Smart Keyboard Folio to all incoming first-year and new transfer students who registered to participate in the initiative. Students will have this iPad bundle for the entirety of their undergraduate experience at the CSU. The new CSUCCESS

initiative builds on previous efforts to address the issue at scale by partnering with a global technology leader at the university-wide level to provide a high-quality, reliable device for new students.

Next steps in bridging the equity divide through technology could include several approaches. The CSUCCESS initiative could be rolled out to additional campuses and students beginning in fall 2022. Also, information technology capabilities could be expanded so that the educational experiences, lessons learned and opportunities identified during the pandemic can be optimized now and in the future for course delivery. Another component of the request could be informational technology infrastructure that increases research opportunities and access to advanced cyberinfrastructure.

This \$75 million recurring request is an important component in the CSU's efforts to recover from the pandemic and improve student success while eliminating opportunity and achievement gaps as part of Graduation Initiative 2025.

## SALARY AND BENEFITS: \$223.3 MILLION

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

Compensation Pool	\$209,363,000
Health Benefits	13,962,000
<b>TOTAL</b>	<b>\$223,325,000</b>

### Compensation Pool

The CSU proactively mitigated the impact to faculty and staff during the COVID-19 health crisis and the state budget reduction in 2020-21. Fortunately, furloughs or systemwide layoffs were not needed, and campuses and employees benefited from the use of various resources (e.g., reserves and federal grants). Moving forward following the recent budget restoration and transition back to normal operations, the CSU will keep its employees a priority in its budgetary decisions.

This budget plan calls for approximately \$209.4 million to fund 2022-23 compensation increases for all employee groups. The compensation pool is subject to collective bargaining and contingent on the state providing the funding to support this. The 2022-23 cost of the compensation increases is based on 2021-22 final budget salaries and salary-related benefits (OASDI, Medicare and retirement).

### Health Benefits

Permanent base budget costs associated with January 2022 employer-paid health care premium increases are over \$13.9 million. Health care premiums are shared between the CSU and its employees, with the CSU funding a significant portion of the costs. The CSU is governed by California Government Code Section 22871 that defines the employer-paid contribution rates.

### Retirement Benefits (Beyond State-Funded)

Beginning with the 2013-14 fiscal year, the annual state budget placed a limit on the state's obligation to adjust CSU retirement funding due to annual changes in CalPERS rates. Although the state's statutory obligation to adjust retirement funding based on annual rates set by CalPERS continues (Government Code Section 20814), the salary base applied to the incremental rate change is annually set to the CSU 2013-14 pensionable payroll

level in the state budget. Final 2020-21 pensionable payroll for the CSU was 31 percent above the 2013-14 frozen pensionable payroll level. The retirement increase amount above the frozen payroll level is an unfunded cost for the CSU, and it continues to increase each year when pensionable payroll or retirement contribution rates increase.

CalPERS retirement contribution rates decreased for 2021-22, the second consecutive year, due in part to advanced paydown of unfunded retirement obligations, so there is no request for additional retirement funding in 2022-23. However, the state's use of this budgeting practice is problematic and should be discontinued. Throughout the years that this budget practice has been in effect, the state or students ultimately covered the unfunded liability above frozen pensionable payroll because retirement costs are mandatory and unavoidable. While the rationale of this practice was to help reduce state funding increases and to examine more closely the cost of annual general salary increases and hiring of new employees, those have always been key considerations. The CSU must balance the need to serve students with the level of funding available to the university, particularly as tuition rates have remained relatively constant since 2011-12, with only a \$270 per year increase in 2017-18. The CSU cannot hire additional employees or provide continued investment to ensure competitive salary and benefits without the proper level of state funding.

## STAFF SALARY STRUCTURE STUDY RESULTS: TO BE DETERMINED

The Budget Act of 2021 included \$2 million for the Chancellor's Office to evaluate the existing salary structure, issues of salary inversion and provide any recommendations for alternative salary models for CSU non-faculty staff. The Chancellor's Office, California State University Employees Union, Service Employees International Union and Teamsters Local 2010 partnered this past spring to advocate for state funding for this purpose. These organizations have long desired to find a mutually agreeable solution to address issues of inversion and salary structure.

The evaluation will be completed by April 30, 2022. The evaluation's recommendations could include solutions that would require additional funding. The Chancellor's Office, in partnership with these represented staff groups, may request additional funding for these purposes. The completion date of the evaluation is expected two weeks prior to the governor's 2022-23 May Revision. It will be extremely important for the Chancellor's Office and our represented groups to work together to obtain funding for this important purpose in the 2022-23 state budget.

**ACADEMIC FACILITIES AND INFRASTRUCTURE: \$135 MILLION**

The CSU proposes using \$135 million of the request to fund academic facilities and infrastructure projects. Campus need for facility renovation and improvement continues to grow. Academic facility and infrastructure improvement programs address important facility needs. Seismic projects include those to retrofit and improve buildings identified by the seismic review board as needing seismic strengthening. Energy efficiency projects aim to lower our utility consumption and respond to statewide capacity issues, and resiliency projects such as microgrid readiness and battery storage projects help campuses respond to public safety power shutoffs, fires and other natural disasters. Other projects address general deficiencies in building systems and building structure. Many of the infrastructure improvement projects address critical infrastructure needs, system upgrades, facility improvements, as well as maintenance needs that are well past due. While the CSU continues to make strides in addressing its systemwide needs, current funding levels prohibit the CSU from undertaking projects to adequately address the needs in the built environment.

In support of the request for additional, permanent base funding, the CSU multi-year capital plan identifies the priority needs of each of the 23 campuses and their off-campus centers. The plan primarily identifies renewal/replacement needs of existing buildings with some new facilities to accommodate growth and improve student access. The Board of Trustees regularly approves categories and criteria for capital outlay priority setting. The priorities are consistent with the state’s priorities of critical infrastructure, energy efficiency, life safety projects and renovation/modernization of existing facilities and new facilities to increase capacity to serve the existing and projected enrollment. The multi-year plan identifies a systemwide need in 2022-23 alone that exceeds \$2 billion to address academic infrastructure and facility needs. The \$135 million in the 2022-23 budget request will help finance approximately \$2 billion of the priority projects identified by the campuses. For more information on specific projects and priorities, see the CSU multi-year capital plan.

**STRATEGIC RESIDENT ENROLLMENT GROWTH: \$129.9 MILLION**

The CSU aims for bold increases in enrollment to meet student demand for a CSU education and the needs of California’s future workforce. The CSU plans to increase resident enrollment by 9,434 full-time equivalent students (FTES). Using the marginal cost rate, which is the cost of education per FTES, the funding required to support 9,434 new resident FTES in 2022-23 is \$129.9 million.

It is the CSU’s intent to place new enrollment strategically at campuses that are experiencing significant prospective student demand and can expand more seats in academic programs that are vital to reducing current and prospective workforce shortages.

<b>2021-22 Resident FTES Base</b>	<b>374,246</b>
Proposed Growth (2.5%)	9,434
<b>2022-23 TOTAL RESIDENT FTES</b>	<b>383,680</b>

Marginal Cost Rate per FTES	\$13,765
<b>TOTAL COST OF ENROLLMENT GROWTH</b>	<b>\$129,859,000</b>
<b>State’s Share of Marginal Cost Rate</b>	<b>\$9,257</b>

In 2015, the Public Policy Institute of California (PPIC) concluded that the state would fall about 1.1 million college graduates short of economic demand by 2030. Of the 1.1 million degree gap, the PPIC calculated the CSU will need to graduate an additional 480,000 students to meet its share of the gap. The CSU is on track to partially meet workforce demand by increasing access and completion outcomes through Graduation Initiative 2025. But the other half of the equation necessary to shrink the gap is a funded enrollment increase of three to five percent per year over the next decade to meet increasing student demand for a CSU education and California’s future workforce needs.

Additionally, California has for decades encouraged generations of young Californians to pursue higher education. Despite the pandemic, demand for the CSU remains strong as more students graduate from high school having met the requirements for admission to the CSU and more transfer students complete the Associate Degree for Transfer. To accommodate more students at the CSU, the legislature and governor committed to providing recurring funding to grow enrollment by 9,434 resident FTES beginning in 2022-23. This would cost approximately \$129.9 million and would be equivalent to approximately a 2.5 percent increase in funded enrollment growth principally for new two-year transfer and four-year first-time student seats and, to a smaller extent, growth in the average unit load for continuing students in support of graduation rate goals. Each one percent increase in enrollment would cost approximately \$51.5 million and would allow for growth of approximately 3,740 FTES.

### SENATE BILL 169 STATE UNIVERSITY GRANT REQUIREMENT: \$16.8 MILLION

The CSU requests \$16.8 million to increase State University Grant (SUG) program expenditures related to the aforementioned strategic resident enrollment growth of 2.5 percent.

In the final days of the first year of the 2021-22 two-year legislative session, the state's Middle Class Scholarship (MCS) program was substantively changed in state law that significantly altered the requirements for the CSU to participate in the program. The law requires the CSU to ensure that the amount of institutional aid provided each academic year be adjusted annually to account for increases in systemwide undergraduate enrollment, such that the proportion of SUG, relative to undergraduate enrollment, is maintained at levels equal to those during the 2021-22 academic year. In other words, when CSU enrollment grows, SUG program expenditures are now required to grow as well. Practically, this means that for every three new students above current levels, one of the new students will cost the CSU an additional \$4,825 (the mean SUG award) because state law now requires the CSU to increase SUG expenditures with enrollment growth.

### MANDATORY COSTS: \$40.5 MILLION

Mandatory costs are expenditures the university must pay regardless of the level of funding allocated by the state, and they often increase despite growing, flat or declining state support. The 2022-23 operating budget request includes \$40.5 million for increases due to inflation on non-personnel expenditures, maintenance of new facilities and minimum wage rate.

Inflation on Non-Personnel Expenditures	\$29,628,000
Maintenance of New Facilities	3,094,000
Minimum Wage	7,767,000
<b>TOTAL</b>	<b>\$40,489,000</b>

#### Inflation on Non-Personnel Expenditures

Inflation impacts all areas of the university and, for the most part, salary and benefit cost increases are addressed through collective bargaining and state budgetary processes. Over the past decade, the CSU operating costs have increased on variety of expenses such as technology, instructional equipment, library subscriptions, supplies, contracts, insurance and any other non-personnel expenditures. The 2022-23 operating budget request includes \$29.6 million for increases due to cost-of-living adjustment.

#### Maintenance of New Facilities

The CSU is scheduled to open 149,467 square feet of new facilities in 2022-23. The cost to fund regular maintenance of these facilities is \$20.70 per square foot, for a total of \$3.1 million in 2022-23. Regular maintenance of new facilities includes the cost of utilities, building maintenance, custodial, landscape and administrative support.

#### Minimum Wage

In January 2022, the California minimum wage will increase from \$14 per hour to \$15 per hour. The estimated annualized cost of the increase on CSU campuses is \$7.8 million.



# ONE-TIME REQUEST

## **DEFERRED MAINTENANCE BACKLOG: \$1 BILLION**

The CSU seeks \$1 billion of one-time funding to continue to address the growing maintenance backlog of building and utility infrastructure systems that have passed their useful life. More than half of the academic buildings are over 40 years old, and many of these buildings are overdue for major renovation. As buildings and their associated systems age, the cost to operate, maintain and renovate the facilities increases. Antiquated systems are generally more expensive to operate than more efficient modern systems, and replacement parts can be difficult to obtain. Although CSU facilities staff do an admirable job keeping these aging facilities operational, they do so with limited resources, and increased funding is necessary to adequately address the needs of our aging facilities moving forward. In 2020-21, the state provided \$325 million in one-time funding for deferred maintenance and energy efficiency, which is being used to address a small portion of our significant backlog of deferred renewal, improve energy efficiency and increase resiliency to enable campuses to better withstand and respond to climate change and utility interruptions. The CSU completes ongoing assessments and updates to our deferred maintenance inventory through a methodical approach using a third party with this expertise. Through these assessments, the CSU is able to develop a total, systemwide funding need. The assessment tool allows for the automatic addition of systems to backlog inventory as they age out past their useful life.

The one-time funding request will allow the university to address additional systemwide deficiencies, improve the reliability of systems and prevent costly and disruptive outages caused by system failures. In line with the overarching mission, system repairs and replacements will provide safer and healthier environments that support teaching and learning across all 23 campuses. These funds will also go toward projects that will improve the efficiency and effectiveness of systems, saving energy, producing fewer greenhouse gas emissions and improving occupant comfort and utilization. Major building systems that have exceeded the expected service life will be modernized to enable campuses to operate utilities more effectively, improve heating and air conditioning systems efficiency, reduce energy and lighting costs, reduce water consumption and greenhouse gas emissions and extend the useful life of existing facilities. The one-time funding will be spent on projects on a pay-as-you-go basis.



**CSU  
FINANCIAL  
AID**

The CSU strives to keep costs to a minimum by offering institutional aid programs in addition to federal and state grant and loan programs. Financial aid allows students attending the CSU to better focus on their academics and eases the pressure of educational and personal costs. CSU systemwide tuition is among the lowest in the nation, at \$5,742 per year for a resident undergraduate student. Numerous CSU, state and federal financial aid programs help defray the cost of attendance for the lowest income students and keep student debt well below the national average. In fact, CSU baccalaureate degree recipients have lower average debt (\$18,173) than other students in California (\$21,485) and the nation (\$28,950). With 82 percent of all CSU students receiving financial aid and 73 percent of undergraduate financial aid recipients receiving grants and scholarships to cover the full cost of tuition, the CSU understands the impact that need-based aid has on social mobility—a student's ability to attend college, earn a baccalaureate degree and enter the California workforce in a position to attain greater lifetime earnings. The CSU currently provides more than \$941 million of institutional aid, which includes \$701 million for the State University Grant program. An additional \$815 million from the state Cal Grant program and over \$1 billion from the federal Pell Grant program help CSU undergraduate students cover tuition, fees and some personal expenses. The result is average loan debt levels that are well below the national average.

### **State University Grant Program**

To further the CSU's mission to provide an affordable, high-quality education to all students, the CSU created the State University Grant (SUG) program in 1982-83 to assist students who have the greatest financial need. Each year, the CSU awards need-based grants to eligible California residents and Dream Act applicants who enroll at CSU campuses in undergraduate, postbaccalaureate, teaching credential and graduate programs. Financial need is determined by the Expected Family Contribution (EFC) based on the Free Application for Federal Student Aid (FAFSA) application. Financial need is determined for Dream Act students through the California Dream Act Application. The SUG program has grown considerably since its inception, from \$4 million in 1982-83 to \$701 million in 2021-22. Nearly 140,000 students received a SUG award in 2019-20. As tuition increased and state investment in the CSU fluctuated, the CSU expanded the SUG program to help keep student costs to a minimum. Currently, more than 10 percent of the CSU's total operating budget is dedicated to financial aid for students with the greatest need. The SUG program remains one of the largest commitments in the CSU operating budget.



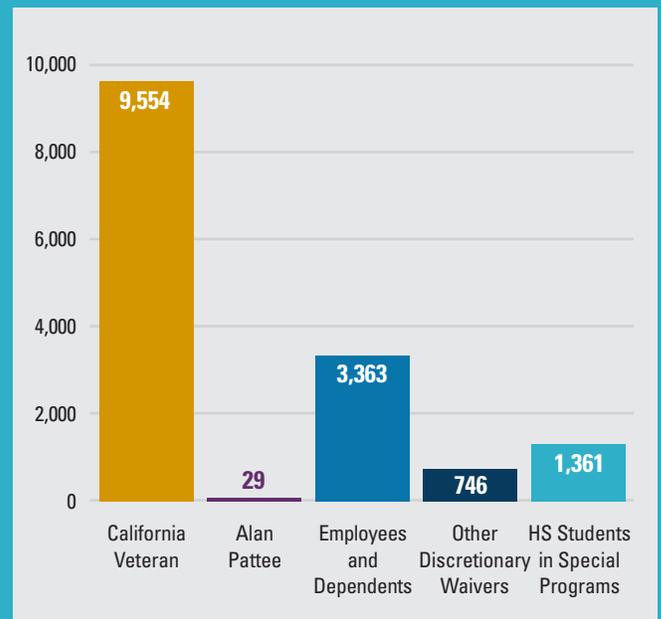
## TUITION WAIVERS

Six mandatory resident tuition waiver programs exist under current state law:

- California Veterans Waiver for children of disabled or deceased veterans (Education Code Section 66025.3)
- Alan Pattee Waiver for dependents of deceased law enforcement or fire-suppression personnel (Education Code Section 68120)
- California residents who were dependents of victims killed in the September 11, 2001, terrorist attacks (Education Code Section 68121)
- Current or former foster youth (Education Code Section 66025.3)
- Exonerated persons (Education Code Section 69000)
- Student trustees (Education Code Section 66602)

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

In 2020-21, 15,053 tuition waivers were granted to CSU students, totaling approximately \$75.9 million. The state has not provided any General Fund support for any CSU tuition waiver program since 1992-93.





# 23 California State University Campuses

**RESOLUTION OF THE BOARD OF TRUSTEES**

Approval of the 2022-2023 Operating Budget Request  
(RFIN 11-21-XX)

**RESOLVED**, that the future of California rests on the California State University’s ability to provide a high-quality, affordable, and accessible education to nearly 500,000 students each year; and be it further

**RESOLVED**, by the Board of Trustees of the California State University that the 2022-2023 Operating Budget Request is approved as submitted by the chancellor; and be it further

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

**RESOLVED**, that copies of this resolution and the 2022-2023 CSU Operating Budget Request be transmitted to the governor, to the director of the Department of Finance, and to the legislature.



**CSU** The California  
State University

401 Golden Shore, Long Beach, CA 90802  
[www.calstate.edu](http://www.calstate.edu)

**COMMITTEE ON FINANCE**

**California State University Annual Investment Report**

**Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

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

**Summary**

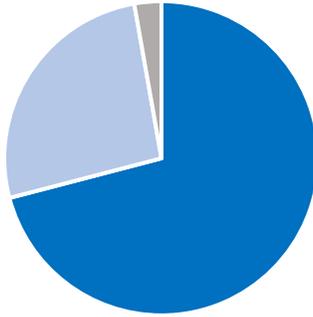
This item provides the annual investment report to the California State University Board of Trustees for the year ended June 30, 2021. The information in Attachment A will serve as the basis for an annual investment report to the California State Legislature and Department of Finance regarding CSU investments as required by Education Code § 89726.

**Background**

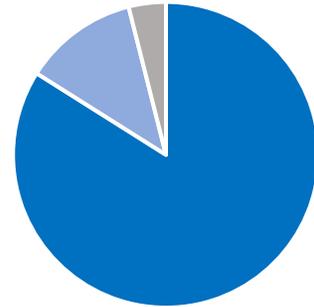
Pursuant to the California State University Master Investment Policy (included as Attachment B) CSU investments as of June 30, 2021 consisted of investments in the Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the State in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.22 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

**CSU Investments – Balances, Allocations, and Returns  
 June 30, 2021**

	<b>Balance</b>	<b>% of CSU Investments</b>	<b>Twelve Month Returns</b>
Liquidity Portfolio (SWIFT)	\$3.675 billion	70.9%	0.30%
Total Return Portfolio (TRP)	\$1.362 billion	26.3%	25.84%
Surplus Money Investment Fund (SMIF)	\$144.0 million	2.8%	0.46%
<b>CSU Investments</b>	<b>\$5.18 billion</b>	<b>100%</b>	



- Liquidity Portfolio (SWIFT) - 70.9%
- Total Return Portfolio (TRP) - 26.3%
- Surplus Money Investment Fund (SMIF) - 2.8%



- Fixed Income - 84.0%
- Equity - 12.1%
- Real Assets - 3.9%

**CSU Investment Portfolios**

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

**CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)**

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

As of June 30, 2021, the Liquidity Portfolio was managed through contracts with two investment management firms, US Bancorp Asset Management and Wells Capital Management, each of whom provided investment management services for the program. (See below under Additional Subsequent Developments/Next Steps regarding changes to the Liquidity Portfolio investment

managers as of July 1, 2021.) While the custodian, US Bank, holds the funds invested in the Liquidity Portfolio, for investment management purposes, additions to the portfolio are split evenly between the investment managers and invested according to permitted investments outlined in the Government Code of the State and the Liquidity Portfolio investment policy. Consistent with state law, the Liquidity Portfolio is restricted to high quality, fixed income securities.

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

Legislation effective January 1, 2017 expanded the CSU investment authority to allow investment in mutual funds (including equity mutual funds) and real estate investment trusts (REITs). The Total Return Portfolio was created to take advantage of the new investment authority.

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

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

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

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

An initial investment of \$33.5 million into the TRP was made on April 1, 2018, and additional investments allowed the TRP to reach the fiscal year 2018-2019 statutory limit of \$600 million in the first half of 2019. After June 30, 2019, a new investment schedule was adopted by the IAC and staff, with the goal of funding the TRP to as much as 30 percent of CSU investments by mid-2020. However, in April of 2020, the IAC approved a reduced investment schedule in the amount of \$20 million total between April and July of 2020, and in August of 2020, the IAC suspended further contributions to the TRP for the time being. Both of these actions were taken in order to

preserve liquidity in the CSU Liquidity Portfolio in response to the COVID-19 pandemic. The investment schedule may also be adjusted by the IAC at any time depending on market conditions.

Since the TRP Inception date<sup>1</sup> through June 30, 2021, the TRP investment earnings were approximately \$326.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 9.06 percent annualized (net of fees) or a cumulative \$282.4 million.

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

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

### **Reporting Requirements**

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

### **Subsequent Development regarding Fossil Fuel Investments**

Per Chancellor Joseph Castro's request at the May 2021 Board of Trustees meeting, the IAC, with assistance from staff and the CSU's investment advisor, Meketa Investment Group, reviewed and analyzed the risks and impacts of fossil fuel related investments in the CSU's investment portfolios. In conducting its review and analysis, the IAC was guided by its fiduciary obligation to prudently manage CSU investments, as well as the CSU's commitment to sustainability and environmental responsibility. This review and analysis also included engagement with students and an information agenda item and discussion at the IAC's August 2021 meeting.

At its October 6, 2021 meeting, the IAC, under delegated authority from the Board of Trustees, approved the following actions concerning fossil fuel related investments in the CSU's investment portfolios. Under delegated authority from the Board of Trustees, Chancellor Castro agreed to adopt and implement the IAC's actions.

1. Recommend CSU staff liquidate fossil fuel related bonds in the Liquidity Portfolio as soon as reasonable and restrict future fossil fuel investments for the Liquidity Portfolio and the Intermediate Duration Portfolio (IDP).

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

2. Transition out of the TRP's energy mutual fund and re-allocate those funds into other mutual funds within the TRP's real assets category, specifically real estate, materials, and infrastructure.
3. Due to current legislation that limits the TRP to mutual funds or REITs, which are commingled investment vehicles within which the CSU cannot selectively exclude fossil fuel investments without sacrificing the investment objectives of the CSU, the integrity of the TRP's asset allocation model, the skill and resources of its investment managers, or the reasonableness of fees, direct staff and the investment advisor to continue working as appropriate and feasible to further reduce fossil fuel exposures in the TRP.
4. Allow all CSU investment managers discretion to continue to invest in those businesses that are successfully transitioning to sustainable green business models.

The remaining amount is all held in commingled mutual funds and is more difficult to reduce due to the inability to control individual stock selection in mutual funds. Significantly reducing this remaining amount further will take years and may require legislation that, among other things, will allow the CSU to invest in a broader array of investment vehicles and that may allow the CSU to further refine, limit, or eliminate the CSU's exposure to fossil fuel investments without sacrificing the integrity of the CSU's overall investment objectives.

### **Additional Subsequent Developments/Next Steps**

With oversight from the IAC, staff will continue monitoring market conditions to determine if any changes in the TRP investment schedule are warranted. Staff also completed the Request for Proposal for investment managers for both the Liquidity Portfolio and the new IDP, consistent with the CSU Master Investment Policy. On July 1, 2021, two new investment managers for the Liquidity Portfolio, BlackRock Financial Management and Payden & Rygel, replaced Wells Capital Management and US Bancorp Asset Management, respectfully. The IDP launched on October 1, 2021, managed by three new investment managers, Western Asset Management Company, PGIM Fixed Income, and Income Research & Management. The next investment report to the Board of Trustees is scheduled for the March 2022 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending September 30, 2021.

At its October 2021 meeting, the IAC also approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to about \$113 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

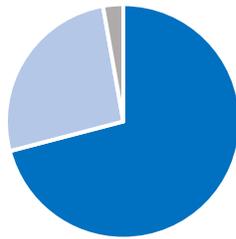
## CSU Annual Investment Report

### For the Fiscal Year Ended June 30, 2021

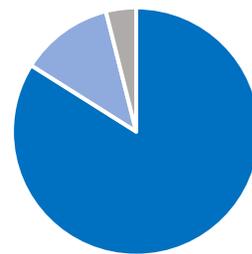
CSU investments as of June 30, 2021 consisted of investments in the CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.22 billion in bond proceeds, which by state law are required to be held by the state and are invested in SMIF.

#### Balances and Allocations as of June 30, 2021

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (SWIFT)	\$3.675 billion	70.9%
Total Return Portfolio (TRP)	\$1.362 billion	26.3%
Surplus Money Investment Fund (SMIF)	\$144.0 million	2.8%
<b>CSU Investments</b>	<b>\$5.18 billion</b>	<b>100%</b>



- Liquidity Portfolio (SWIFT) - 70.9%
- Total Return Portfolio (TRP) - 26.3%
- Surplus Money Investment Fund (SMIF) - 2.8%



- Fixed Income - 84.0%
- Equity - 12.1%
- Real Assets - 3.9%

For the year ending June 30, 2021, direct investment management fees<sup>1</sup>, advisory, and custodial fees totaled just under \$2.2 million, or about 0.044 percent (4.4 basis points) on CSU investments average balance for the year ending June 30, 2021.

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

**CSU Consolidated Investment Portfolio**

The performance returns below are for the CSU Consolidated Investment Portfolio which includes the Liquidity Portfolio (SWIFT) and the Total Return Portfolio (TRP).<sup>2</sup> The table also displays the separate portfolio returns of the TRP and the Liquidity Portfolio.

	<b>CSU Consolidated Investment Portfolio</b>	<b>CSU Total Return Portfolio (TRP)</b>	<b>CSU Liquidity Portfolio (SWIFT)</b>
1 Year Return	6.32%	25.84%	0.30%
3 Year Annualized Return	4.37%	11.09%	2.22%
5 Year Annualized Return	2.89%	N/A	1.61%
10 Year Annualized Return	1.83%	N/A	1.20%
Since Inception Return <sup>3</sup>	1.90%	11.21%	1.45%

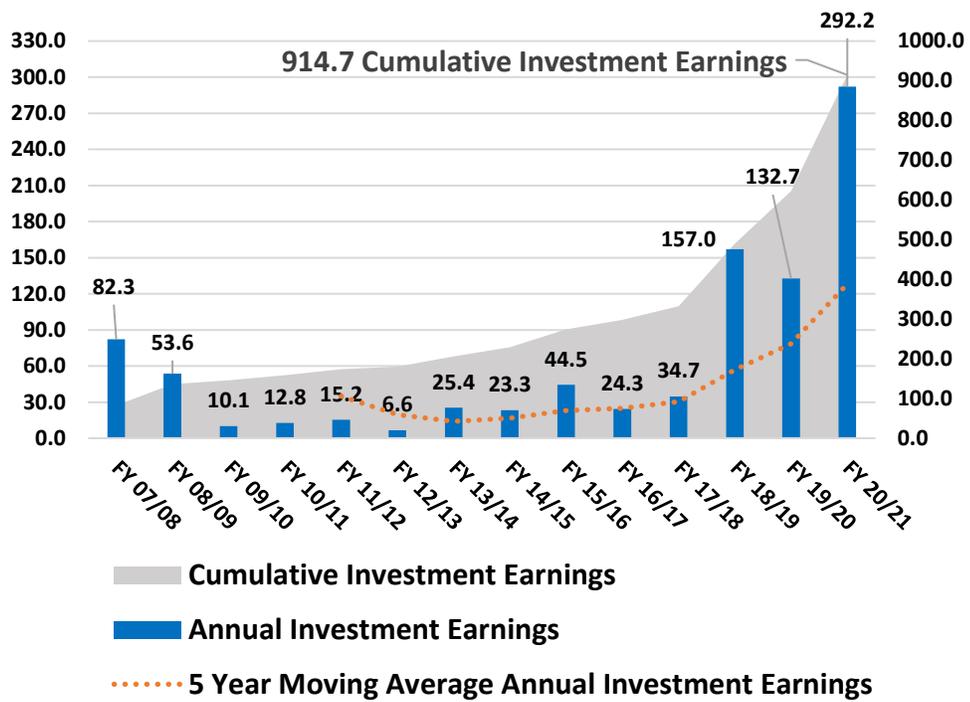
Since the TRP Inception date through June 30, 2021, the TRP investment earnings were approximately \$326.8 million. During this period, the TRP total return exceeded the Liquidity Portfolio (SWIFT) total return by 9.06 percent annualized (net of fees) or a cumulative \$282.4 million.

<sup>2</sup> CSU Consolidated Investment Portfolio returns will also include the Intermediate Duration Portfolio (IDP) once this portfolio is inception. CSU Consolidated Investment Portfolio returns exclude SMIF.

<sup>3</sup> Inception Date for the CSU Consolidated Investment Portfolio was July 1, 2007. Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007. TRP Inception Date was April 1, 2018. CSU Consolidated Investment Portfolio and CSU Liquidity Portfolio Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

*Investment Earnings from CSU Investments Supports  
 Campus Operations and Student Experience*

**Earnings from CSU Investments (\$ in millions)**  
**Annual Investment Earnings (left scale)**  
**Cumulative Investment Earnings (right scale)**



**CSU Liquidity Portfolio (Systemwide Investment Fund Trust or SWIFT)**

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

	<b>CSU Liquidity Portfolio</b>	<b>Benchmark<sup>3</sup></b>
1 Year Return <sup>4</sup>	0.30%	0.10%
3 Year Annualized Return	2.22%	2.36%
5 Year Annualized Return	1.61%	1.52%
10 Year Annualized Return	1.20%	1.07%
Annualized Since Inception Return <sup>5</sup>	1.45%	1.67%
Yield	0.23%	0.20%
Duration (Years)	1.26	1.48
Average Credit Rating	AA-	Aaa/AA+

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

Treasuries	32.4%	Cash Equivalents	10.6%
U.S. Corporate Bonds	25.4%	Certificates of Deposit	6.7%
U.S. Government Agencies	24.5%	Municipal Obligations	0.4%

<sup>3</sup> Benchmark for the CSU Liquidity Portfolio (SWIFT) is the Bank of America Merrill Lynch 0-3 Year Treasury Index.

<sup>4</sup> CSU Liquidity Portfolio (SWIFT) Returns reported gross of fees and as total return, including income and gains (realized and unrealized).

<sup>5</sup> Inception Date for the CSU Liquidity Portfolio (SWIFT) was July 1, 2007.

**CSU Total Return Portfolio (TRP)**

The purpose of the Total Return Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objective is to achieve a prudent return within a moderate risk level. Consistent with state law, the TRP is invested in mutual funds subject to registration by, and under the regulatory authority of the United States Securities and Exchange Commission or in United States registered real estate investment trusts.

**Annualized Investment Returns**



	<b>CSU Total Return Portfolio</b>	<b>Strategic Benchmark<sup>6</sup></b>	<b>Policy Benchmark<sup>7</sup></b>
3 Months Return	5.66%	3.52%	5.40%
1 Year Return	25.84%	9.16%	24.77%
3 Year Annualized Return	11.09%	7.19%	10.57%
Annualized Since Inception Return <sup>8</sup>	11.21%	7.12%	10.06%

In October 2021, the CSU Investment Advisory Committee approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to approximately \$113 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance. Consistent with state law, specifically Education Code Section § 89726, additional moneys earned through investments in the TRP shall be used only for capital outlay or maintenance, and shall not be used for ongoing operations.

<sup>6</sup> The TRP Strategic Benchmark is Inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.5% per annum.

<sup>7</sup> The TRP Policy Benchmark is a blend of passive indices whose weights match the TRP target asset allocation.

<sup>8</sup> TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	46.07%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	38.96%	Actively Managed Mutual Funds	26% <sup>9</sup>
Real Asset Mutual Funds	14.97%		

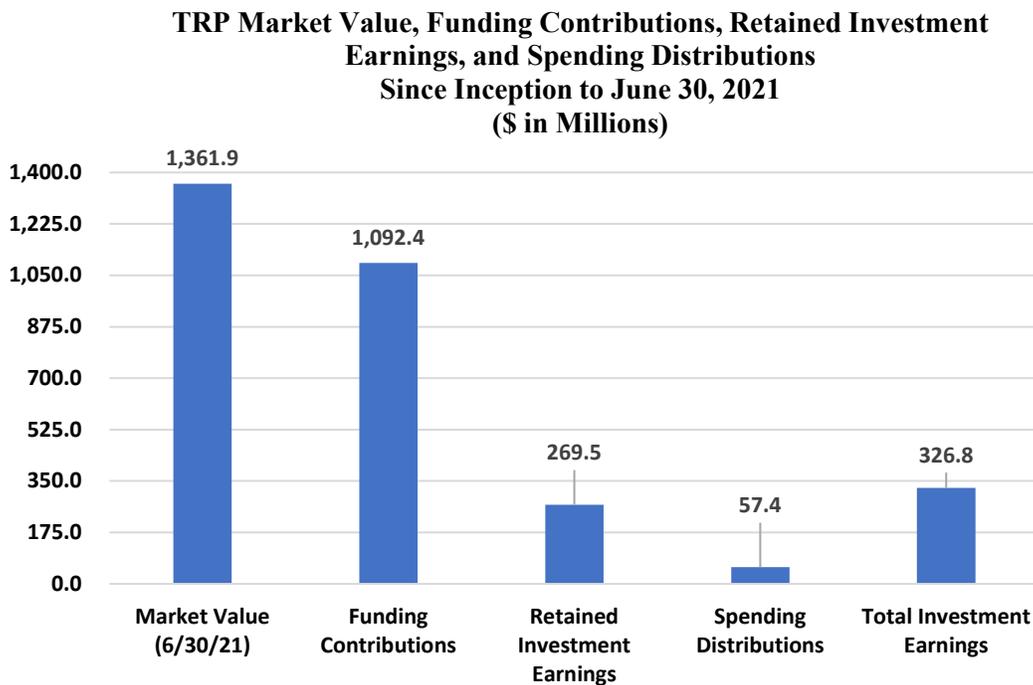
**Values, Holdings & Fees (CSU Total Return Portfolio)**

Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Universe Median Expense Ratio (Fee)
<b>Fixed Income</b>						
	Vanguard Total Bond Market Index Fund	VBMPX	299.1	21.97%	0.030%	0.435%
	Vanguard Inflation-Protected Securities Fund	VIPIX	67.8	4.98%	0.070%	0.370%
	Lord Abbett High Yield Fund	LHYOX	82.3	6.04%	0.610%	0.710%
	Pacific Funds Floating Rate Income Fund	PLFRX	40.7	2.99%	0.730%	0.755%
	Payden Emerging Markets Bond Fund	PYEIX	20.3	1.49%	0.690%	0.850%
	T. Rowe Emerging Markets Bond Fund	TREBX	20.4	1.50%	0.700%	0.850%
<b>Equity</b>						
	Vanguard Total Stock Market Index Fund	VSMPX	331.6	24.35%	0.020%	0.760%
	Vanguard Developed Markets Index Fund	VDIPX	159.8	11.74%	0.040%	0.890%
	Driehaus Emerging Markets Growth Fund	DIEMX	82.0	6.02%	1.190%	1.080%
	DFA Emerging Markets Value Fund	DFEVX	40.5	2.97%	0.410%	1.080%
	RWC Global Emerging Equity Fund	RWCEX	13.4	0.99%	1.250%	1.080%
<b>Real Assets</b>						
	Vanguard Real Estate Index Fund	VGSNX	96.9	7.11%	0.100%	0.880%
	Vanguard Energy Index Fund	VENAX	28.4	2.09%	0.100%	0.940%
	Vanguard Materials Index Fund	VMIAx	25.6	1.88%	0.100%	0.950%
	First State Global Listed Infrastructure Fund	FLIIX	52.9	3.89%	0.950%	0.980%
<b>Cash</b>			0.0	0.00%	NA	NA
<b>Total</b>			<b>1,361.9</b>	<b>100%</b>		

<sup>9</sup> The percent of Actively Managed Mutual Funds is likely to increase in the future while the percent of Passive Index Mutual Funds would decrease consistent with the TRP implementation plan.

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

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception on June 30, 2021. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.



**Surplus Money Investment Fund (SMIF)**

The Surplus Money Investment Fund (SMIF) is managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. The portfolio includes Certificates of Deposit, Treasuries, Commercial Paper, Corporate Bonds, and U.S. Government Agencies.

<b>Apportionment Annual Yield<sup>10</sup></b>	
Trailing 12 month as of 06/30/21	0.46%
Average (FYE 06/30/07 – FYE 06/30/21)	1.10%

<sup>10</sup> Annual Yield calculated by CSU Treasury Operations based on the quarterly apportionment yield rates published by the State Controller’s Office.



# Master Investment Policy For The California State University

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

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## **I. Scope and Purpose**

This California State University Master Investment Policy (“MIP”) governs the investment of California State University (“CSU”) funds. CSU investments are centrally managed on behalf of the CSU System and its campuses.

The purpose of the MIP, together with investment policies that govern individual Portfolios (as defined in Section IV) and are created pursuant to delegated authority contained herein, is to provide a framework for the investment of CSU funds consistent with the goals of the CSU Board of Trustees (the “Board”) and the educational mission of the CSU.

The MIP sets forth objectives, guidelines, and responsibilities that the Board deems to be appropriate and prudent in consideration of the needs of, and the legal requirements applicable to, the CSU’s investment program. The MIP is also intended to ensure that the Board, and any parties to whom the Board delegates authority, are fulfilling their fiduciary responsibilities in the oversight of CSU investments.

The MIP is a dynamic document and will be reviewed from time to time. The MIP will be modified, if necessary, to reflect the changing nature of the CSU’s assets and investment program, organizational objectives, and economic conditions.

## **II. Compliance with Law and Adherence to Policy**

CSU investments are to be managed in full compliance with all applicable laws, rules, and regulations from various local, state, federal, and international political entities that may impact the CSU’s assets, including but not limited to the provisions of the California Education Code and California Government Code applicable to the investment of CSU funds, and in accordance with the policy objectives, guidelines, and responsibilities expressed herein.

## **III. Background and Investment Objectives**

The investment objectives for the investment of CSU funds have been established in conjunction with a comprehensive review of current and projected financial requirements. The Board desires to provide the Chancellor, the Chancellor’s Staff, and the IAC (as defined in Section V) with the greatest possible flexibility to maximize investment opportunities. However, as agents of the Board, the Chancellor, the Chancellor’s Staff, and the IAC must recognize the fiduciary responsibility of the Board to conserve and protect the assets of the CSU investment program, and, by prudent management, prevent exposure to undue and unnecessary risk.

The following objectives shall govern the investment of CSU funds:

1. Safeguard the principal.
2. Meet the liquidity needs of the CSU.
3. Obtain the best possible return commensurate with the degree of risk the CSU is willing to assume in obtaining such return.

The Board acknowledges that these objectives may be weighted or prioritized differently for individual Portfolios depending upon the purpose of the Portfolio.

#### **IV. Investment Portfolios**

Consistent with its investment objectives, the Board has determined that CSU funds may be invested in three investment portfolios (individually, a “Portfolio” and together, the “Portfolios”) created by the CSU, with oversight by the Chancellor, the Chancellor’s Staff, and the IAC, and each with its own investment policy.

The three Portfolios and general purpose of each Portfolio are as follows:

##### **Liquidity Portfolio (Systemwide Investment Fund—Trust or “SWIFT”)**

The purpose of this Portfolio is to provide sufficient and immediate liquidity to meet the operating needs of the CSU. The investment objectives for this Portfolio shall be safety of principal and liquidity. The existing CSU Systemwide Investment Fund—Trust (SWIFT) shall serve as the Liquidity Portfolio and shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

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

The purpose of this Portfolio is to provide opportunity for modest, additional risk adjusted returns on CSU funds not needed for immediate liquidity. The investment objectives for this Portfolio shall be safety of principal, liquidity and return. The Intermediate Duration Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330 or 16430.

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

The purpose of this Portfolio is to provide opportunity for additional risk adjusted returns on CSU funds over a full market cycle. The investment objectives for this

Portfolio shall be to achieve a prudent total return within a moderate risk level. The Total Return Portfolio shall be comprised of investments authorized pursuant to California Government Code Sections 16330, or 16430 or California Education Code Sections 89724 or 89725.

The acceptable allocations for the Portfolios are as follows:

<b><u>Portfolio</u></b>	<b><u>Min – Target – Max</u></b>
Liquidity – Systemwide Investment Fund Trust (“SWIFT”)	<b>5% - 20% - 100%</b>
Intermediate Duration Portfolio (“IDP”)	<b>0% - 52% - 95%</b>
Total Return Portfolio (“TRP”)	<b>0% - 28% - 30%<sup>1</sup></b>

In addition, the CSU may invest any amount (from 0% to 100%), in any California State Treasury investment option, available now, or in the future, that the IAC and the Staff deem prudent, including, but not limited to:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

## **V. Roles and Responsibilities**

### **Board of Trustees**

The Board assumes fiduciary responsibility to conserve and protect the investment assets of the CSU, and by prudent management, to prevent exposure to undue and unnecessary risk. However, the Board also acknowledges investments are inherently risky with risk of loss and, as such, are viewed with a long-term time horizon.

As a fiduciary, the primary responsibilities of the Board are to:

1. Maintain and approve the MIP.

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<sup>1</sup> Percentage allocations to the TRP are subject to annual phase-in restrictions through June 30, 2020 per state law.

2. Ensure that CSU investments are prudently diversified in order to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume.
3. Report annually to the California state legislature and the California Department of Finance regarding the investment of CSU funds.

The Board shall have oversight responsibility for investment of the assets and has delegated investment authority to the Chancellor, the Chancellor's Staff, and the IAC.

#### **Chancellor and Chancellor's Staff**

As agents of the Board, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor responsible for CSU investments, and their designees (the "Chancellor's Staff"), recognize the fiduciary responsibility of the Board to conserve and protect the investment assets of the CSU and, by prudent management, to prevent exposure to undue and unnecessary risk.

The Chancellor and the Chancellor's Staff are hereby authorized to establish policies and procedures to implement the provisions of this MIP, including, but not limited to, the following activities:

1. Overseeing and implementing general administrative and investment operations for the Portfolios.
2. Informing the IAC on the overall investments of the CSU and each of the Portfolios to assist the IAC in fulfilling its duties.
3. Developing and implementing policies that are suitable for achieving the strategic objectives for each Portfolio, including coordination with the IAC in developing and implementing policies for the TRP.
4. Selecting, contracting with, and monitoring third party service providers, including, but not limited to, investment advisors, investment managers, and custodians. For the TRP, such actions will be based on the recommendations of the IAC.
5. Directing the investment of funds, including the ordering of purchase and sale transactions to, from and between the Portfolios to meet investment objectives and strategic asset allocations.

6. Monitoring and reviewing the performance of the Portfolios to their stated objectives.
7. Reporting to the Board regarding the investment of CSU funds as requested, but no less than quarterly.
8. Controlling and accounting for all investment, record keeping, and administrative expenses associated with the Portfolios.
9. Identifying the need for updates, monitoring the Portfolios for legal and policy compliance, and acting on the recommendations of the IAC, as appropriate.
10. All other duties designated or delegated by the Board or the IAC.

### **Investment Advisory Committee**

As required by state law, the CSU has created an Investment Advisory Committee (the "IAC"), to provide investment advice and expertise to the Board, particularly with respect to the management of the TRP.

The IAC shall be an advisory body and shall make recommendations, as appropriate, to the Board for approval or to the Chancellor and the Chancellor's Staff for implementation. The IAC shall be responsible for overseeing all aspects of the TRP and is hereby authorized to recommend policies and procedures for the creation and implementation of the TRP, including, but not limited to, the following activities:

1. Understanding the overall investments of the CSU and each of the Portfolios as informed by the Chancellor's Staff, investment advisors and/or investment managers.
2. Developing and approving an IAC charter to establish guidelines for operations of the IAC.
3. Developing, approving, and overseeing the implementation of an investment policy statement for the TRP.
4. Reviewing and approving target asset allocations and ranges for the TRP.
5. Monitoring and reviewing the performance of the TRP to its stated objectives.
6. Prudently reviewing, selecting, monitoring, and replacing investment management firms engaged to manage the TRP's assets.

7. Monitoring and supervising all service vendors and fees for the TRP.
8. Any other investment or administrative duties deemed necessary to prudently oversee the investment program for the TRP.

### **Prudence, Ethics and Conflict of Interest**

All participants in the investment process shall act responsibly. The standard of prudence applied by the Board, the Chancellor, the Chancellor's Staff, and the IAC, as well as any external service providers, shall be the "prudent investor" rule. The "prudent investor" rule in part, states, "A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill and caution. A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

Furthermore, all participants in the investment process shall use the same care, skill, prudence, and due diligence under the circumstances then prevailing that a prudent person acting in a like capacity and fully familiar with such matters would use in the conduct of an enterprise of like activities for like portfolios with like aims and in accordance and compliance and all other applicable laws, rules and regulations.

All investment personnel shall refrain from personal business activity which could create a conflict with proper execution of the investment program, or which could impair the ability to execute impartial investment decisions. All investment personnel shall disclose to the Chancellor's Staff or the IAC any material financial interests in financial institutions which conduct business within the jurisdiction and shall disclose any material financial investment positions which could be related in a conflicting manner to the performance of the Portfolios. All investment personnel shall report any potential conflicts of interest consistent with Government Code Section 87200. Further, the Chancellor shall report to the Board in writing any issues that could reflect any conflict in the performance of the Portfolios.

### **Document Acceptance of the Investment Policy Statement**

The Chancellor's Staff shall provide a copy of this MIP, and the relevant Portfolio investment policy, to each firm retained to provide investment services to the CSU and each such firm shall acknowledge in writing receipt of the document and accept its content.

## **VI. Environmental, Social and Governance Framework**

The Board acknowledges the importance of understanding the potential risks and value that environmental, social, and governance (“ESG”) factors may have on CSU investments. Therefore, the Board expects that the consideration of ESG factors shall be integrated into the investment decision processes of the CSU.

Approved:

The California State University Board of Trustees  
November 8, 2017