

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:00 a.m., Tuesday, July 24, 2018
Glenn S. Dumke Auditorium

John Nilon, Chair
Peter J. Taylor, Vice Chair
Jane W. Carney
Douglas Faigin
Emily Hinton
Jack McGrory
Hugo N. Morales
Lateefah Simon
Christopher Steinhauser

- Consent**
1. Approval of Minutes of the Meeting of May 15, 2018, *Action*
 2. Appointment of the California State University Investment Advisory Committee Chair, *Information*
 3. California State Polytechnic University, Pomona Lanterman Real Property Acquisition Update, *Information*
- Discussion**
4. 2018-2019 Final Budget, *Information*

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

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

May 15, 2018

Members Present

Peter J. Taylor, Chair
John Nilon, Vice Chair
Jane W. Carney
Adam Day
Hugo N. Morales
Jorge Reyes Salinas
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter J. Taylor called the meeting to order.

Public Comment

Rocky Sanchez of the California State University Employees Union made comments about the number of management positions that have been hired and asked for a review of former management being hired back as consultants. Ejmin Hakobian of CSU Los Angeles spoke about the need for change across the system including better utilization of technology to alleviate staff workload and streamline services for students.

Approval of Minutes

There was a request to amend the March 20, 2018 Committee on Finance meeting minutes to reflect a request from Trustee John Nilon for a future discussion outlining the options available to the trustees to establish a structural model for sustainable funding for the CSU. The minutes of the March 20, 2018 meeting were approved as amended.

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Dominguez Hills and California State University, Los Angeles

Trustee Taylor presented agenda item two as a consent action item. The committee recommended approval of the proposed resolution (RFIN 05-18-02).

Establishing a Tuition Rate for Doctor of Audiology Programs

Trustee Taylor presented agenda item three as a consent action item. The committee recommended approval of the proposed resolution (RFIN 05-18-03).

Implementation of Investment Authority for the California State University

An update on the implementation of the CSU's investment authority and the work of the CSU Investment Advisory Committee was provided. The trustees were informed that following a competitive bid process, Meketa Investment Group was selected as the CSU's investment advisor and that members of the Investment Advisory Committee served on the panel that interviewed and selected the finalists. The Investment Advisory Committee also completed a significant amount of work, including the approval of a charter and a policy governing the new investment portfolio. The initial investment of funds has been made in the new portfolio with the goal of making further investments in the portfolio to reach the 2018-2019 statutory limit of \$600 million during the first half of 2019.

Trustee Nilon requested that the Investment Advisory Committee bylaws be amended to allow the chair of the Finance Committee to designate another trustee to serve as the chair of the Investment Advisory Committee. Executive Vice Chancellor and Chief Financial Officer Steve Relyea agreed to do so.

Following the presentation, trustees made comments about the importance of the expanded authority for revenue generation. They asked questions about the investment strategy, target rate of return, acceptable risk level of investments, and \$600 million investment cap.

2018-2019 Operating Budget Update

An update was provided on the 2018-2019 state and CSU budget. The state has \$9 billion more in revenue than was projected. The governor continues to propose a \$92 million recurring allocation for the CSU which is still \$171 million short of the CSU's support budget request. An additional one-time allocation of \$100 million has also been proposed by the governor to address the CSU's deferred maintenance backlog.

It was reported that advocacy efforts by CSU constituents have been successful in increasing awareness and support within the legislature and will continue to be needed through the end of the budget cycle. The potential impacts of not receiving full funding of the CSU's budget request were reviewed, and could negatively affect the Graduation Initiative, enrollment, hiring, and student support services.

Following the presentation, trustees complimented the CSU advocacy strategy, in particular the coming together of the various constituency groups as one collective voice. They encouraged students and their families to continue contacting their legislative representatives. The trustees also had questions about the amounts requested and proposed for deferred maintenance. They asked if the \$100 million one-time allocation could be used to leverage bond sales, to which Assistant Vice Chancellor Robert Eaton responded that it could not be used because it was one-time funding and not available to pay debt service. Chancellor Timothy P. White informed the trustees that any budget shortfall would need to be divided amongst the campuses, with individual campus decisions made by the presidents. Additionally, he reminded the trustees that the chancellor has been delegated authority to adjust the budget plan after it has been approved by the trustees and final state decisions have been made. The trustees commented on the need for the state to invest more in the CSU, especially since there is a surplus in revenues this year.

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Appointment of the California State University Investment Advisory Committee Chair

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 California State University Board of Trustees with information concerning the appointment of the CSU Investment Advisory Committee Chair.

Background

At its September 2017 meeting, the CSU Board of Trustees established the CSU Investment Advisory Committee (IAC). In establishing the membership of the IAC, the board determined that three of the members would be ex officio: (1) the Chair of the Committee on Finance of the CSU Board of Trustees; (2) the Executive Vice Chancellor and Chief Financial Officer of the California State University; and (3) the Assistant Vice Chancellor, Financing, Treasury, and Risk Management for the California State University. In addition, the Chair of the Committee on Finance would serve as Chair of the IAC, and the Executive Vice Chancellor and Chief Financial Officer would serve as Vice Chair of the IAC.

Information Regarding the Appointment of the Investment Advisory Committee Chair

At the May 2018 Board of Trustees, Committee on Finance meeting, Trustee John Nilon requested that provisions be in place to allow a member of the Board of Trustees, other than the Chair of the Committee on Finance, to be appointed and serve as Chair of the IAC.

The California State University Investment Advisory Committee Charter, approved by the IAC in January 2018, contains provisions that address Trustee Nilon's request. Specifically, Chapter 3 of the Charter, under "Operation, IAC Composition", contains the following paragraph:

“At his or her discretion, the Chair of the Committee on Finance for the Board may elect to designate another Board member to serve on the IAC in place of the Chair of the Committee on Finance for the Board, but in no event shall such service of another Board member on the IAC exceed the term of Chair of the Committee on Finance for the Board.”

Appointment of Peter J. Taylor to Continue as Chair of the Investment Advisory Committee

For the fiscal year 2018-2019, Trustee John Nilon has been appointed Chair and Trustee Peter J. Taylor has been appointed Vice-Chair of the Committee on Finance for the Board of Trustees. With these appointments, Trustee Nilon would now become the Chair of the IAC, however, Trustee Nilon, in consultation with the Chair of the CSU Board of Trustees, has determined that it is in the best interests of the CSU for Peter J. Taylor to continue serving as the Chair of the IAC. To that end and pursuant to the provisions of the CSU IAC Charter, Trustee Nilon has designated Trustee Taylor to serve as the Chair of the IAC for the 2018-2019 fiscal year.

COMMITTEE ON FINANCE

California State Polytechnic University, Pomona Lanterman Real Property Acquisition Update

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Soraya Coley
President
California State Polytechnic University, Pomona

Summary

This information item provides the California State University Board of Trustees with an update on the Lanterman real property development at California State Polytechnic University, Pomona. The trustees last received an update on the development at the July 2017 meeting.

Background

In May 2015, the Board of Trustees authorized the chancellor to negotiate and execute the terms of a Memorandum of Understanding (MOU) with the state to accept interest in 287 acres of real property, known as the Lanterman Development Center (Center), located approximately one mile from the Cal Poly Pomona campus core. The Center was previously operated by the California Department of Developmental Services. In July 2016, the California Department of Finance and the CSU executed an MOU, which indicated the intent to transfer the Lanterman property to the CSU to support its educational mission and stated that the CSU will undertake development planning of the Lanterman property. At its July 2017 meeting, the Board of Trustees was informed of the campus decision to retain and develop the Lanterman site and that the campus would issue a Request for Qualifications/Request for Proposals to engage a master developer or team of developers to partner with the campus. On July 25, 2017, a letter was transmitted to the Department of Finance, which indicated that CSU would be retaining jurisdiction of the property in support of its higher educational mission.

Update on the Lanterman Real Property Strategy

During the fall of 2017, the campus issued a Request for Qualifications and, subsequently, a Request for Proposals to engage a master developer or a team of developers to partner with the campus to develop the Lanterman site, including the creation of a land parcel plan, an infrastructure program, a phasing plan, land use programming, a business plan, and associated California Environmental Quality Act (CEQA) documentation. The campus sought experienced development teams who possess a strong understanding of, and appreciation for, Cal Poly Pomona's mission, expertise with historic resources, and sensitivity to the campus priorities and needs of the surrounding communities.

The university selected four firms for campus interviews and undertook a process to reach consensus on a final master developer candidate. The finalist is FivePoint Holdings LLC (FivePoint) based in San Francisco, California. FivePoint designs and develops mixed-use master-planned communities primarily in coastal California and is a publicly traded company on the New York Stock Exchange.

Next Steps

Following the July 2018 Board of Trustees meeting, the campus plans to enter into an exclusive negotiation agreement with FivePoint that will provide the basis for the negotiation of a final agreement.

Prior to the execution of commitments for the development and use of the Lanterman site, projects will be presented for approval at future meetings of the Board of Trustees. In addition, any related environmental documents, master plans, amendments to the capital outlay program, schematic plans, financial plans, and other key business points will be also presented for board approval.

COMMITTEE ON FINANCE

2018-2019 Final Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The purpose of this agenda item is to inform the California State University Board of Trustees of final budget-related decisions made by the state of California and the Chancellor's Office affecting the CSU operating budget.

Background

In November 2017, the Board of Trustees approved the CSU 2018-2019 Operating Budget Request. That budget request called for an increase of \$282.9 million, including \$263 million from state funds and \$19.9 million of net student tuition revenue tied to funded enrollment growth. The approved uses of the increase are as follows:

Proposed Incremental Expenditures:

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| • Graduation Initiative 2025 | \$75.0 million |
| • Compensation | \$122.1 million |
| • Full-Time Equivalent Student Growth: 3,641 FTES | \$39.9 million |
| • Facilities and Infrastructure Needs | \$15.0 million |
| • Mandatory Costs | \$30.9 million |

Total Incremental Expenditures **\$282.9 million**

The governor's 2018-2019 combined January and revised May budget proposals provided a \$92.1 million recurring state general fund increase for the CSU operating budget and \$100 million in one-time funding for CSU deferred maintenance projects. In January 2018, the governor estimated significantly higher state revenues, when compared to the Budget Act of 2017 from six months prior. By the end of May 2018, the governor estimated even higher state revenues when compared to the January budget. Those proposals prioritized filling the state's rainy day fund to the maximum, funding significant recurring augmentations for elementary, secondary, and community college education and one-time spending on homelessness, mental health, and infrastructure.

The Senate and Assembly proposed an additional \$225.4 million of recurring funding above the governor's May 2018 proposal to fully fund the graduation initiative, employee compensation, mandatory costs and \$89.5 million for a three percent growth in student enrollment. Additionally, the houses adopted a variety of one-time augmentations sponsored by several lawmakers.

The final budget agreement between the governor and legislature provided a recurring increase of \$197.2 million from the state general fund. This includes \$75 million for year two of Graduation Initiative 2025 and \$122.2 million for general university purposes. In total, recurring state support for the CSU now stands at \$3.6 billion.

The final budget agreement includes one-time increases of \$169.2 million from the state general fund. Of this amount, \$120 million is for a one percent increase in enrollment limited to the next four years. The CSU will receive \$35 million for campus deferred maintenance projects. The balance of one-time funds support a variety of legislative priorities: undocumented and immigrant legal support services, anti-bias training, student basic needs, shark research and beach safety activities, support of the Mervyn M. Dymally African American Political and Economic Institute, and the California Council on Science and Technology Fellows program.

The state has completed its work on the budget for 2018-2019. The CSU appreciates the additional recurring and one-time funding provided by the legislature and governor in the final state budget agreement. This year's advocacy strategy and the persistent employment of that strategy by CSU stakeholders made a significant difference.

The CSU appreciates the additional \$197.2 million of recurring funds from the state, but that amount did not fully fund the Board of Trustees' operating budget request. As a result, some of the Board of Trustees' budget priorities will not be supported in 2018-2019. Specifically, new, recurring state funding will be used for activities related to the Graduation Initiative 2025 as well as for employee compensation and some, but not all of the CSU's mandatory cost increases.

Proposed Operating Budget Incremental Expenditure Plan

Graduation Initiative 2025

Approximately \$75 million recurring funds for year two of the Graduation Initiative 2025 will benefit all students and get many to degree sooner. These efforts will help improve four-year graduation rates for first-time freshmen, two-year graduation rates for transfer students, and close equity gaps. Equally important is that Graduation Initiative 2025 efforts will benefit CSU students who intentionally lengthen time to degree to balance family, education, and work commitments. It is anticipated that this funding will be used to offer more course sections, hire additional faculty, and provide students with additional academic and support services. The ambitious goals of Graduation Initiative 2025 will help CSU graduate significantly more students by 2025 and it demonstrates CSU's determination to do its part to ensure California has the college-educated workforce it needs.

Compensation

Approximately \$106.6 million will be used to cover compensation commitments made in collective bargaining agreements. Central to the student experience is the ability to interact, learn from, and receive guidance from outstanding faculty and staff. The CSU is proud of the 50,000 employees who are dedicated to students and their success. As such, the current commitments in compensation are a significant priority for the CSU in order to remain competitive to recruit and retain faculty, staff, and administrators who are committed to students' well-being and academic success.

Mandatory Costs—Partial

Approximately \$15.6 million will be used to meet anticipated mandatory costs that the university must pay regardless of the level appropriated by the state. These costs include recent increases to employee health care benefits and operations and maintenance of newly-constructed facilities. Without funding for mandatory cost increases, campuses would have to redirect resources from other program areas to meet these obligations.

Funded Student Enrollment

The final budget will provide \$120 million over four years for state-assisted enrollment in the CSU system. Traditionally, enrollment is supported by recurring funds. The innovative approach of funding enrollment with one-time funds is a significant change. As a result, the final plan on how best to utilize this funding is a work in progress.

Operating Budget Plan Omissions

Infrastructure Needs

There are numerous examples on every CSU campus of academic and plant facilities that are in need of repair or replacement. The systemwide deferred maintenance backlog cost is approximately \$2.0 billion and grows by approximately \$150 million per year. Due to the partial funding of the operating budget in 2018-2019, the CSU will not dedicate new permanent funding from the operating budget plan for annual debt service on longer-term bond-financed projects, as had been possible during 2014-2015 and 2015-2016. This marks the third straight year that the CSU has not been able to more aggressively address its infrastructure needs with additional, incremental funding from the state.

Instead, the CSU will use the one-time \$35 million provided by the state for deferred maintenance. Also, the Board of Trustees' approval in November 2016 of the multi-year bond authorization for capital and infrastructure needs is helpful today and will continue to be in the future.

CSU Share of Retirement Costs

Based on a recent Chancellor's Office analysis of revised CalPERS retirement rates, CSU's share of retirement costs are approximately \$5.9 million (the state supplies the funding for a preponderance of baseline retirement costs). Due to the partial funding of the operating budget in 2018-2019, the CSU will not dedicate new permanent funding from the operating budget plan for additional retirement costs. Without funding for retirement cost increases, campuses and the Chancellors Office will have to redirect resources from other program areas to meet these obligations.

State Minimum Wage Increase

When the CSU Operating Budget Request was being finalized last fall, it was determined that the CSU would have increasing costs because of the state's multi-year phase in of a minimum wage increase to \$15 dollars an hour. At that time, it was unclear how the terms of several open bargaining agreements would affect those costs. With terms now codified in new contracts and based on recent Chancellor's Office analyses of those contracts, state minimum wage cost increases have shifted to, and are funded by moneys supporting the compensation item above.

Summary

The governor signed the 2018-2019 budget act and the related higher education budget trailer bill on June 27, 2018. In terms of appropriations for the CSU, the enacted budget is generally consistent with the Board of Trustees' 2018-2019 Operating Budget Request. It provides a recurring programmatic increase of \$197.2 million from the state general fund as well as \$169.2 million of one-time funding for a variety of purposes, bringing state support for the CSU to \$3.6 billion out of a \$139 billion state general fund budget. This new funding will continue the process of investment in the students, faculty, staff, and campuses of the CSU.