

AGENDA

COMMITTEE ON FINANCE

Meeting: 3:20 p.m., Tuesday, May 21, 2024
Glenn S. Dumke Auditorium

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

- Consent**
1. Approval of Minutes, *Action*
 2. Approval to Issue Debt for the California Polytechnic State University, San Luis Obispo Football Center, *Action*
- Discussion**
3. California State University Quarterly Investment Report, *Information*
 4. 2024-2025 Operating Budget Update, *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**

March 26, 2024

Members Present

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

Wenda Fong, Chair of the Board
Mildred García, Chancellor

Trustee Adamson chaired and called the meeting to order.

Public Comment

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

Approval of the Consent Agenda

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

Item 2, California State University Annual Debt Report was an information item.

Item 3, California State University Quarterly Investment Report was an information item.

Item 4, Approval to Issue Debt for a Capital Project at California State University, Dominguez Hills was approved as submitted (RFIN 03-24-03).

Discussion Agenda

The committee had two items on the discussion agenda.

Item 5, EAB's 2024 Higher Education State of the Sector, Information

This information item provided an overview of EAB's State of the Sector, emphasizing the critical moment higher education is facing. The presentation revolved around the reevaluation of its purpose and value by students, faculty, staff, and society at large. Key concerns include challenges to the relevance of colleges and universities, manifested in critiques from mainstream media, concerns about "down-credentialing" from employers, and record-low trust in institutions according to public perception polls. Additionally, demographic declines, decreasing college-going rates, and rising student mental health issues pose significant threats to the mission and business model of higher education. EAB presented four key trends shaping the strategic and operational directions of institutions:

- Public perception of higher education value
- Enrollment and demographics
- Student readiness and well-being
- Sustainable business models

These trends highlight the immediate challenges and longer-term threats that require strategic planning and decisive actions from colleges and universities.

During the discussion, Sally Amoruso, Chief Partner Officer at EAB emphasized the CSU's unique opportunity for collaboration among universities to enhance service to the state and individual regions, urging a focus on changing local narratives and emphasizing the need for strategic planning at both individual university and system levels.

Trustee Brar and Trustee Vargas expressed interest in hearing about the Artificial Intelligence and Hybrid Campus key trends in EAB's State of the Sector report.

Item 6, Multi-University Collaboration and Cost Reduction Initiatives, Information

This item provided an overview of cost reduction strategies the CSU system and its universities have put in place or plan to implement, as well as ways universities are collaborating to streamline activities and be even more effective in delivering on the mission to provide students with a quality education into the future.

Trustee Faigin suggested providing periodic updates on major adjustments, quantified savings, and any increased costs to understand the full picture of the cost-saving efforts.

Trustee Gilbert-Lurie emphasized the importance of cost-effectiveness without compromising the system's infrastructure. Trustee Gilbert-Lurie recommended adding "non-essential" to the wording when talking about deferring maintenance projects.

Trustee Adamson concluded the business of the Committee on Finance.

COMMITTEE ON FINANCE

Approval to Issue Debt for the California Polytechnic State University, San Luis Obispo Football Center

Presentation By

Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury and Risk Management

Summary

This item requests that the California State University Board of Trustees authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and related debt instruments, including shorter term and variable rate debt, floating and fixed rate loans placed directly with banks, and bond anticipation notes (BANs) to support interim financing under the CSU commercial paper (CP) program, in an aggregate principal amount not-to-exceed \$31,595,000 to provide financing for the California Polytechnic State University, San Luis Obispo Football Center.

Background

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

California Polytechnic State University, San Luis Obispo Football Center

The California Polytechnic State University, San Luis Obispo Football Center (the “Project”) was presented to the Board of Trustees Committee on Campus Planning, Buildings and Grounds for the amendment of the 2023-2024 Capital Outlay Program and schematic approval during its March 2024

meeting. The Project will construct a two-story, 33,000 gross square foot facility dedicated to Cal Poly football student athletes. Utilizing Mustang Memorial Plaza as its primary entrance, the first-floor entrance will lead to a reception area that includes a collection of wall treatments and exhibits celebrating John Madden and more than 100 years of Cal Poly Mustang football.

The Project will include a player's lounge, locker room, shower and restroom facilities; a sports medicine center; a detached weight training facility; a changing room and showers for game officials; coaches' facilities including offices, meeting and conference rooms, lockers, and showers; and a team room configured with comprehensive multi-media functionality and tiered seating for approximately 130 occupants. A distinctive feature of the center's second-floor layout will be a viewing deck overlooking the stadium's south end zone.

The not-to-exceed principal amount of the proposed bonds is \$31,595,000, based on a total project budget of \$45,000,000 with funding of approximately \$15.6 million from donations. The campus will continue fundraising to help offset debt service costs. The campus has allocated \$3.2 million in recurring base budget operating funds to pay for debt service and provide a cushion to meet the 1.10 debt service coverage benchmark. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at about \$2.2 million) are expected to be funded from bond proceeds. The Project is scheduled to start construction in August 2024 with completion expected in September 2025.

The following table summarizes key information about this financing transaction.

Not-to-exceed principal amount	\$31,595,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	\$2,963,450
Projected debt service coverage ratio including the new project:	
Net revenue – All campus pledged revenue programs*:	1.31
Net revenue – Campus operating budget:	1.10

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

The not-to-exceed principal amount for the Project, the maximum annual debt service, and the financial ratios above are based on an estimated all-in true interest cost of 5.60 percent, which includes a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan assumes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a campus operating budget debt service coverage of 1.10 in fiscal year 2026-27, the first full year of operations, which meets the CSU benchmark of 1.10 for the program. Combining the Project projections with all other campus pledge revenue program projections yields a campus debt service coverage for the first full year of operations of 1.31, which is slightly below the CSU benchmark of 1.35 for a campus. The

campus projects the campus debt service coverage will improve and exceed the benchmark in two years, therefore staff recommends approval of the project.

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

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds, and/or the sale and issuance of related Systemwide Revenue Bond Anticipation Notes, and/or the issuance of related debt instruments, including shorter term debt, variable rate debt, floating rate loans placed directly with banks, or fixed rate loans placed directly with banks, in an aggregate principal amount not-to-exceed \$31,595,000 and certain actions relating thereto.
2. Provide a delegation to the chancellor; the executive vice chancellor and chief financial officer; the assistant vice chancellor, Financial Services; and the assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes, the revenue bonds, and the related debt instruments.

Approval of the financing resolutions for this project as described in this Agenda Item 2 of the Committee on Finance at the May 19-22, 2024, meeting of the CSU Board of Trustees is recommended for:

California Polytechnic State University, San Luis Obispo Football Center

COMMITTEE ON FINANCE

California State University Quarterly Investment Report

Presentation By

Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

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

Summary

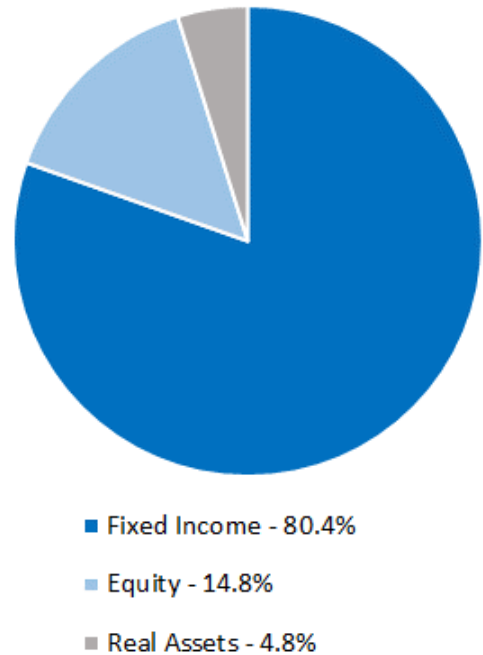
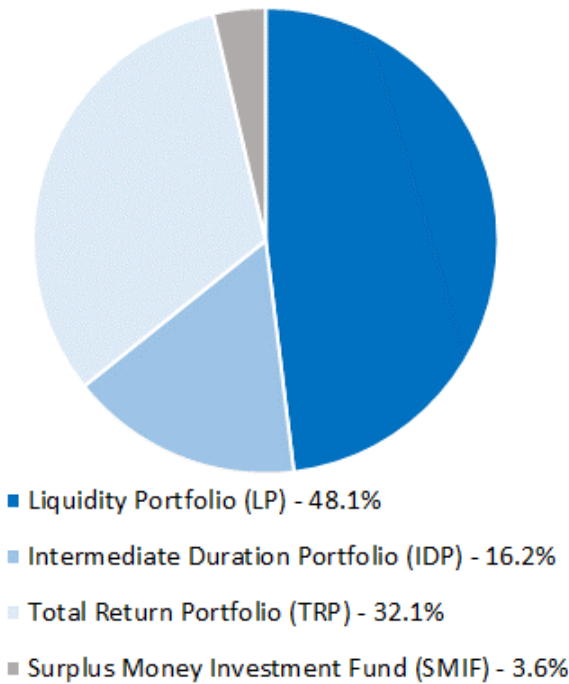
This item provides the quarterly investment report to the California State University Board of Trustees for the quarter ended December 31, 2023. The information in Attachment A provides the entire quarterly investment report regarding CSU investments as required by Education Code § 89726.

Background

The California State University Master Investment Policy is posted publicly to: <https://calstate.policystat.com/policy/11691689/latest>. Pursuant to the CSU Master Investment Policy, CSU investments as of December 31, 2023, consisted of investments in the Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). Except for amounts held at the state in SMIF, all CSU investments are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.52 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
 December 31, 2023**

	<u>Balance</u>	<u>% of CSU Investments</u>	<u>Twelve Month Returns</u>
Liquidity Portfolio (LP)	\$3.867 billion	48.1%	4.98%
Intermediate Duration Portfolio (IDP)	\$1.303 billion	16.2%	5.91%
<u>Total Return Portfolio (TRP)</u>	<u>\$2.584 billion</u>	32.1%	14.18%
CSU Investment Portfolios	\$7.75 billion		
Surplus Money Investment Fund (SMIF)	\$0.292 billion	3.6%	3.12%
Total CSU Investments	\$8.05 billion	100%	



CSU Investment Performance

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

CSU Liquidity Portfolio (LP)

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

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

CSU Intermediate Duration Portfolio (IDP)

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

CSU Total Return Portfolio (TRP)

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

Under State law, investment of funds in the TRP is subject to the CSU meeting certain conditions regarding investment oversight, reporting, and use of earnings, and may not be more than sixty-five 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	

With the passage of AB 2422, effective January 1, 2023, up to sixty-five percent of CSU investments may be invested in the TRP and the TRP may additionally invest in commingled funds and exchange-traded funds. Considering these legislative changes, in January of 2023 the IAC took two actions and in March of 2023 the Board of Trustees took one action. First, the IAC approved a recommendation to the Board of Trustees to revise the California State University Master Investment Policy. These recommended revisions were presented to and approved by the Board of Trustees at the March 2023 meeting. The IAC also approved a revised funding schedule for the TRP calling for an additional \$1.25 billion to be invested in the TRP from January of 2023 to December of 2024. At present, \$778 million of the additional \$1.25 billion has been invested in the TRP. The investment schedule may also be adjusted by the IAC at any time depending on market conditions and staff will ensure the TRP does not exceed its statutory limit as a percent of CSU investments.

Since the TRP Inception date¹ through December 31, 2023, the TRP investment earnings were approximately \$438.5 million. During this period, the TRP total return exceeded the LP total return by 4.47% annualized (net of fees) or a cumulative \$316.8 million, which was about 3.6 times higher than LP investment earnings.

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

¹ The TRP Inception Date was April 1, 2018.

Surplus Money Investment Fund (SMIF)

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

Reporting Requirements

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

Recent Actions/Next Steps

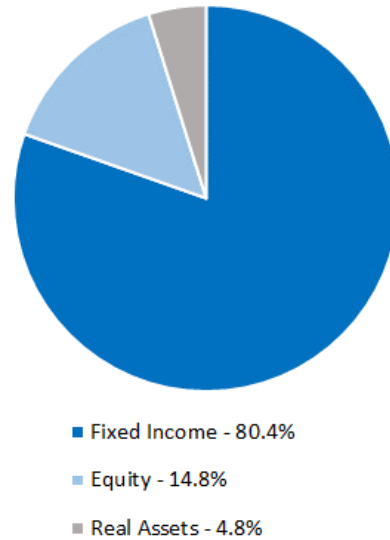
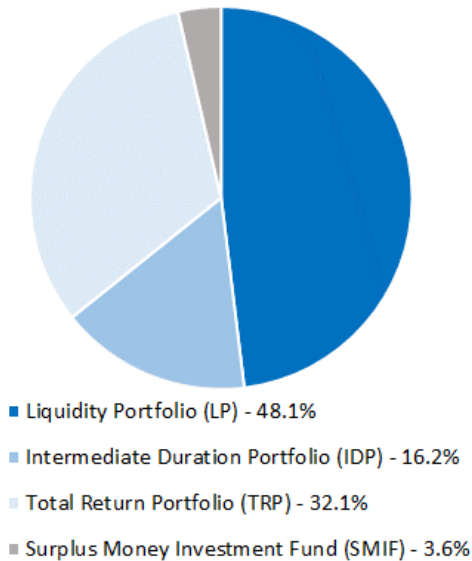
The next investment report to the Board of Trustees is scheduled for the September 2024 meeting and will provide information on the CSU Quarterly Investment Report for the fiscal quarter ending March 31, 2024.

**CSU Quarterly Investment Report
 For the Fiscal Quarter Ended December 31, 2023**

CSU investments as of December 31, 2023, consisted of investments in the CSU Liquidity Portfolio (LP), the Intermediate Duration Portfolio (IDP), the Total Return Portfolio (TRP), and the State of California Surplus Money Investment Fund (SMIF). All CSU investments (except for funds invested in SMIF) are held by US Bank, the custodian bank for the CSU. Neither state general fund nor CSU auxiliary funds are included in CSU investments. In addition, this report does not include approximately \$1.52 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 December 31, 2023

	<u>Balance</u>	<u>% of CSU Investments</u>
Liquidity Portfolio (LP)	\$3.867 billion	48.1%
Intermediate Duration Portfolio (IDP)	\$1.303 billion	16.2%
Total Return Portfolio (TRP)	\$2.584 billion	32.1%
Surplus Money Investment Fund (SMIF)	\$0.292 billion	3.6%
CSU Investments	\$8.05 billion	100%



For the six months ending December 31, 2023, direct investment management fees¹, advisory, and custodial fees totaled just under \$2.1 million, or about 0.027 percent on CSU investments' average balance for the six months ending December 31, 2023.

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

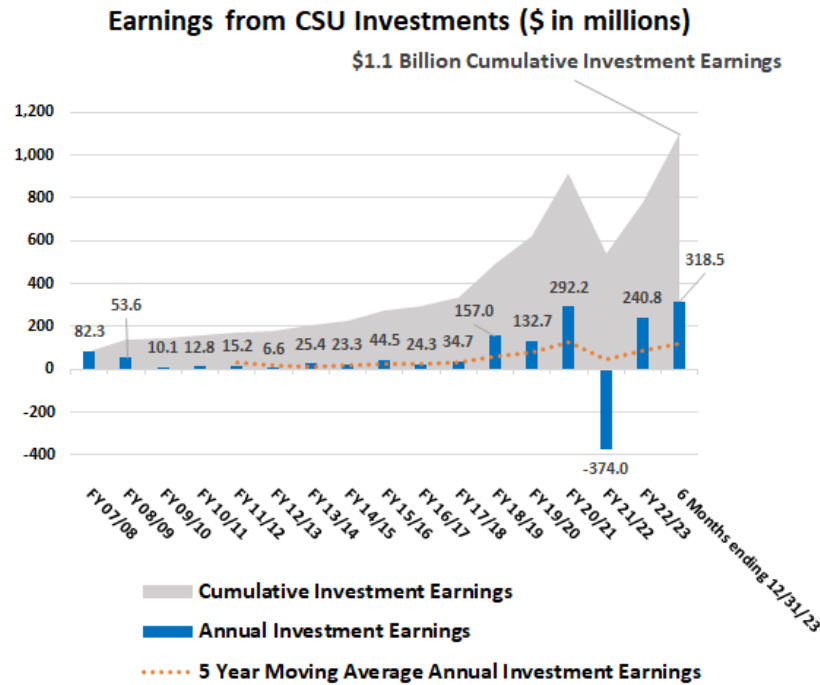
CSU Consolidated Investment Portfolio

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

	CSU Consolidated Investment Portfolio	CSU Total Return Portfolio (TRP)	CSU Intermediate Duration Portfolio (IDP)	CSU Liquidity Portfolio (LP)
1 Year Return	8.00%	14.18%	5.91%	4.98%
3 Year Annualized Return	1.52%	2.89%	N/A	1.02%
5 Year Annualized Return	2.93%	7.72%	N/A	1.69%
10 Year Annualized Return	1.90%	N/A	N/A	1.33%
Since Inception Return ³	1.75%	6.19%	-2.29%	1.41%

As of December 31, 2023, the TRP since inception investment earnings were approximately \$438.5 million. During this period, the TRP total return exceeded the LP total return by 4.47 percent annualized (net of fees) or a cumulative \$316.8 million, which was about 3.6 times higher than LP investment earnings.

Investment Earnings from CSU Investments Support Campus Operations and Student Experience



² CSU Consolidated Investment Portfolio returns exclude SMIF.

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

CSU Liquidity Portfolio (LP)

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

	<u>CSU Liquidity Portfolio</u>	<u>Benchmark⁴</u>
1 Year Return ⁵	4.98%	4.54%
3 Year Annualized Return	1.02%	0.59%
5 Year Annualized Return	1.69%	1.50%
10 Year Annualized Return	1.33%	1.14%
Annualized Since Inception Return ⁶	1.41%	1.53%
Yield	4.07%	4.60%
Duration (Years)	0.94	1.37
Average Credit Rating	AA-	AA+

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

Treasuries	59.67%	Agency MBS	1.92%
U.S. Corporate Bonds	25.77%	Cash Equivalents	0.99%
Commercial Paper	8.75%	CA Municipal Obligations	0.06%
U.S. Government Agencies	2.84%		

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

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

⁶ Inception Date for the LP was July 1, 2007.

CSU Intermediate Duration Portfolio (IDP)

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

	CSU Intermediate Duration Portfolio	Benchmark⁷
3 Months Return ⁸	5.80%	5.86%
1 Year Return	5.91%	5.65%
Annualized Since Inception Return ⁹	-2.29%	-2.28%
Yield	4.78%	4.60%
Duration (Years)	4.73	4.53
Average Credit Rating	A+	AA-

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

U.S. Corporate Bonds	54.4%	U.S. Government Agencies	1.4%
Agency MBS	29.6%	CA Municipal Obligations	1.2%
Treasuries	10.6%	Cash Equivalents	0.6%
Asset-Backed Securities	2.1%	Supranationals	0.1%

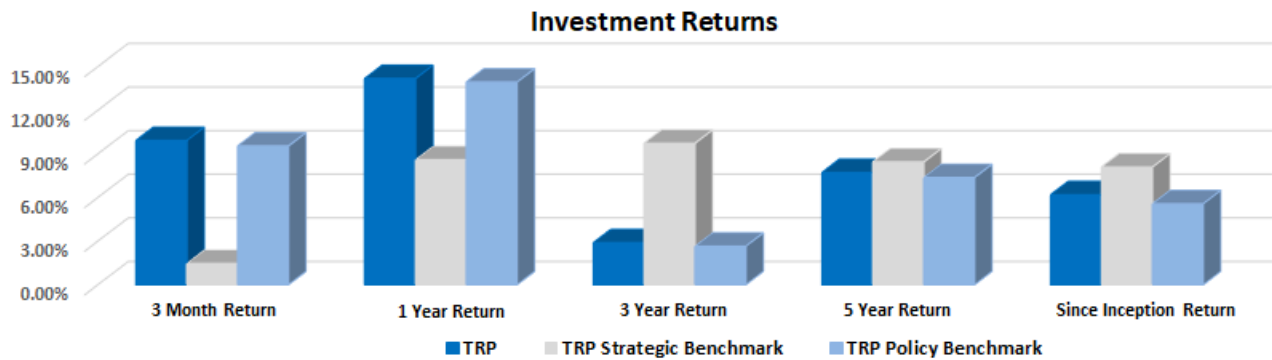
⁷ Benchmark for the IDP is 50% Bloomberg Barclays US Corporate 1-10 Year A or Better Ex-Yankee / 30% Bloomberg Barclays US MBS / 20% Bloomberg Barclays US Intermediate Treasury Index.

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

⁹ Inception Date for the IDP was October 1, 2021.

CSU Total Return Portfolio (TRP)

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



	CSU Total Return Portfolio	Strategic Benchmark¹⁰	Policy Benchmark¹¹
3 Months Return	9.92%	1.46%	9.54%
1 Year Return	14.18%	8.59%	13.94%
3 Year Annualized Return	2.89%	9.73%	2.65%
5 Year Annualized Return	7.72%	8.44%	7.37%
Annualized Since Inception Return ¹²	6.19%	8.09%	5.57%

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

¹⁰ The TRP Strategic Benchmark is inflation (Core Consumer Price Index) plus 4.5% per annum. The long-term rate of inflation is assumed at 2.6% per annum.

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

¹² TRP Inception Date was April 1, 2018.

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

Equity Mutual Funds	46.0%	Passive Index Mutual Funds	74%
Fixed Income Mutual Funds	39.0%	Actively Managed Mutual Funds	26% ¹³
Real Asset Mutual Funds	15.0%		

Values, Holdings & Fees (CSU Total Return Portfolio)

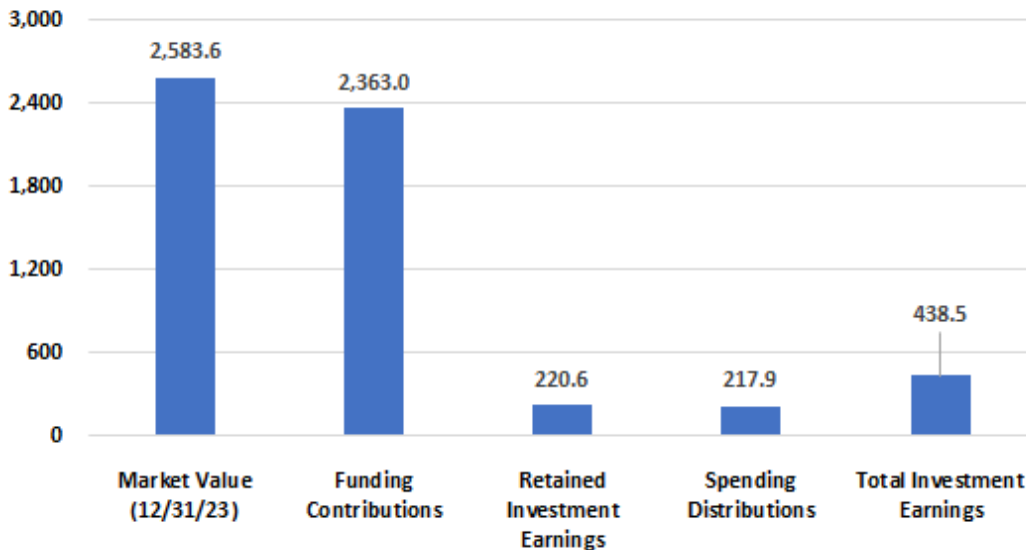
Asset Class	Strategy Name	Ticker	Value (millions)	% of Total Return Portfolio	TRP Fund Expense Ratio (Fee)	Median Fee Per Asset Class
Fixed Income						
	Vanguard Total Bond Market Index Fund	VBMPX	567.3	21.96%	0.03%	0.44%
	Vanguard Inflation-Protected Securities Fd	VIPIX	128.7	4.98%	0.07%	0.44%
	Lord Abbett High Yield Fund	LHYOX	0.0	0.00%	0.60%	0.78%
	American Century High Income Fund	NPHIX	140.1	5.42%	0.58%	0.78%
	Polen Opportunistic High Yield	DDJIX	15.6	0.60%	0.79%	0.78%
	Aristotle Floating Rate Income Fund	PLFRX	77.8	3.01%	0.70%	0.76%
	Payden Emerging Markets Bond Fund	PYEIX	38.8	1.50%	0.69%	0.80%
	T. Rowe Emerging Markets Bond Fund	TREBX	38.8	1.50%	0.70%	0.80%
Equity						
	Vanguard Total Stock Market Index Fund	VSMPX	620.1	24.00%	0.02%	0.75%
	Vanguard Developed Markets Index Fund	VDIPX	310.0	12.00%	0.04%	0.89%
	Driehaus Emerging Markets Growth Fund	DIEMX	154.4	5.98%	1.13%	1.01%
	DFA Emerging Markets Value Fund	DFEVX	77.7	3.01%	0.44%	1.01%
	Redwheel Global Emerging Equity Fund	RWCEX	25.8	1.00%	1.20%	1.01%
Real Assets						
	Vanguard Real Estate Index Fund	VGSNX	182.1	7.05%	0.10%	0.87%
	Vanguard Materials Index Fund	VMIAX	102.8	3.98%	0.10%	0.92%
	First Sentier Global Listed Infrastructure Fd	FLIIX	103.5	4.01%	0.95%	0.97%
Cash						
			0.0	0.00%	NA	NA
Total			2,583.6	100%	0.24%	0.74%

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

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

The following chart shows the TRP market value, total funded contributions, total retained investment earnings, total spending distributions, and total investment earnings since inception as of December 31, 2023. Total TRP investment earnings equal total TRP spending distributions plus total TRP retained investment earnings.

TRP Market Value, Funding Contributions, Retained Investment Earnings, and Spending Distributions Since Inception as of December 31, 2023 (\$ in Millions)



Surplus Money Investment Fund (SMIF)

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

Apportionment Annual Yield¹⁴	
Trailing 12 month as of 12/31/23	3.12%
Average (FYE 06/30/07 – 12/31/23)	1.19%

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

COMMITTEE ON FINANCE

2024-25 Operating Budget Update

Presentation By

Steve Relyea
Executive Vice Chancellor and Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The purpose of this item and subsequent presentation is to provide the California State University (CSU) Board of Trustees with the latest developments on the CSU budget plan for 2024-25. Additionally, the presentation will provide information to the Board of Trustees on tools and strategies universities are using to address fiscal challenges.

State Budget

Informational budget hearings on CSU-related topics were held by the state senate and assembly from February through May. The topics discussed were the governor's proposed deferral of the CSU's compact funding, CSU designated balances and reserves, student enrollment, financial aid, student housing, student basic needs, and Graduation Initiative 2025. Due to the state's substantial budget deficit estimated between \$38 billion and \$73 billion, the legislative budget committees did not focus on the CSU's operating budget plan and instead focused on the potential effects the state's deficit would have on CSU's overall operations.

The governor, senate pro tempore, and the assembly speaker developed an early action budget package in March and April 2024 to partially address the state's substantial budget deficit. The package included a consensus to defer the CSU compact funding to the 2025-26 budget year. As of the date of this writing, the state's plan is to statutorily enact the deferral this summer in the Budget Act of 2024.

Additional budget proposals and actions affecting the CSU could be forthcoming; the next opportunity would be mid-May 2024. The governor's May Revision proposal is expected to reflect changes to the governor's January proposed budget for 2024-25 including the latest economic forecasts and revisions to state budget expenditure priorities, including the CSU. It is anticipated that the governor will release the May Revision on or before May 14, 2024, which is after this item

is published. Therefore, details of the May Revision will be shared with the Board of Trustees at the May 2024 meeting during the budget presentation.

Final state budget decisions by the governor, assembly, and senate typically occur in the first two weeks of June of each year.

Addressing Fiscal Challenges

Currently, the CSU is encountering many fiscal challenges. The state's budget deficit limits or prevents the prospective delivery of new resources to the university to address the CSU's many budget priorities. The CSU is pleased to see consensus on the \$240.2 million deferral in the early action plan by the governor, senate, and assembly. However, no statute has been enacted to-date to appropriate one-time or ongoing \$240.2 million in 2025-26, which continues the concern and risk noted in the January 2024 Board of Trustees meeting agenda, presentation, and discussion. Additionally, staff and faculty compensation costs are significant in the current and budget years. As previously described, state funding and tuition revenue will not be sufficient to fully cover those costs, which will require universities to absorb approximately \$138 million in 2023-24 and between \$110 million and \$345 million in 2024-25 depending on the whether the compact deferral is enacted or not. Also, resident student enrollment across the system dipped in 2021-22 and 2022-23 due to COVID-19 circumstances and enrollment improved in 2023-24 by approximately 7,500 full-time equivalent students. Despite the 2023-24 enrollment growth, the CSU remains approximately four percent below target with several universities experiencing significant enrollment decline. Less tuition revenue from a smaller student population contributes to the fiscal challenge, but even more acutely on universities with significantly smaller student populations. These are only three of the many fiscal challenges that universities face today. Each university leadership team faces its own set of unique fiscal challenges as well as its own university-specific aspirational goals that require regular planning and adjusting.

As mentioned in the January 2024 Board of Trustees meeting agenda, the CSU has several tools to help address fiscal challenges. The most significant tool is time. Of the three challenges mentioned above—state budget deficit, compensation, and enrollment—system and university leaders have learned of the specific challenge and have been provided many months to develop and implement programmatic and financial mitigation plans. As an example, the CSU Enrollment Target and Budget Reallocation Plan provided universities eighteen months of lead time before any actions to realign funding among universities that reflect enrollment adjustments. Other examples are the availability of one-time reserves for unexpected developments and economic uncertainties as provided in the CSU reserves policy; governance structures that equip university leaders with the flexibility to make difficult decisions in the areas of course offerings, student services, hiring freezes, employee workload, and workforce levels; an effort with Deloitte Consulting to identify shared services opportunities among universities; and, in some cases

funding, such as systemwide funding, to supplement campus new student recruitment and retention efforts to help strengthen enrollment.

To provide the Board of Trustees a greater understanding of the tools and strategies with greater specificity in addressing the CSU fiscal challenges, the Chancellor's Office sought the assistance of the 23 universities in April 2024 in preparing a systemwide financial forecast for the CSU. The purpose is to quantify the scale of potential budget actions and possible effects for planning purposes. A summary of the results will be provided at the May 2024 Board of Trustees meeting.