

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 8:00 a.m., Wednesday, March 22, 2017  
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair  
Debra S. Farar, Vice Chair  
Jane W. Carney  
Adam Day  
Jean P. Firstenberg  
Hugo N. Morales  
Lateefah Simon

#### Consent Items

Approval of Minutes of the Meeting of January 31, 2017

1. California State University Annual Debt Report, *Information*

#### Discussion Items

2. Report on Risk Management at the California State University, *Information*
3. Conceptual Approval of a Public-Private Partnership to Develop an Extended Learning and Student Services Project on Real Property Adjacent to California State University, San Marcos, *Action*
4. Tuition Increase Proposal for the 2017-2018 Academic Year, *Action*

**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**

**January 31, 2017**

**Members Present**

Peter Taylor, Chair  
Debra Farar, Vice Chair  
Adam Day  
Hugo N. Morales  
Rebecca Eisen, Chair of the Board  
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order.

**Public Comments**

Elizabeth Cabral, CSU Dominguez Hills student and John Walsh, CSU San Marcos student spoke about increasing student debt and urged the trustees not to increase tuition. Jose Guevarra, CSU Los Angeles student commented about the fear of undocumented students on campus, and urged administration to fight for the safety of all immigrant students. Dulce Lopez, student at CSU Dominguez Hills and Patrick Dorsey, Associated Students Inc. president at Sacramento State spoke about the struggle that students face daily in order to attend the university. They shared that many students already face homelessness and food insecurities, and raising tuition will only add to their problems. Jen McClellan, CSU Northridge student spoke about the importance of restoring state funding and rolling back tuition costs. She provided a roadmap to free education for the trustees' review and encouraged open dialogue. Jennifer Eagan, California Faculty Association president spoke about the decrease in public funding for the CSU and referred to a report issued by the CFA. She commented that not all students qualify for Cal Grants and will be affected by an increase in tuition. Antonio Gallo, CFA member from CSU Northridge spoke about the state's disinvestment from higher education and argued against raising tuition on students.

**Approval of Minutes**

The minutes of the November 15, 2016 meeting were approved as submitted.

### **Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Long Beach and California State Polytechnic University, Pomona**

Trustee Taylor presented agenda item one as a consent action item. The committee recommended approval of the proposed resolution (RFIN 02-17-01).

### **Report on the Implementation of New Investment Authority**

Trustee Taylor presented agenda item two as a consent information item.

### **Report on the 2017-2018 Support Budget**

Assistant Vice Chancellor for Budget Ryan Storm provided an update on the state budget. The governor has proposed a \$157.2 million appropriation for the CSU, which is \$167.7 million less than what was requested by the board of trustees. This amount will only be enough to cover mandatory costs such as health benefits, and will not provide funding for many other trustee priorities. He stated it would be important to advocate for full state funding of the support budget request and highlighted a few of the methods available to advance advocacy efforts on behalf of the CSU.

Executive Vice Chancellor for Academic and Student Affairs Loren Blanchard also spoke about the importance of securing full funding of the CSU support budget, in particular for the goals of the Graduation Initiative 2025. The \$35 million one-time funding provided last year has allowed advancements in time to degree completion by providing additional course offerings and advising services to students. However, in order to continue making progress, funding cannot be one-time, but rather ongoing base support that will allow progress to continue.

CSU Chico President Gayle Hutchinson shared how the Chico campus has utilized its share of student success funding, including awarding \$500 winter session education grants for students to enroll in winter session classes.

Trustee Steven G. Stepanek asked what will be done with the Graduation Initiative work if full funding is not secured. Dr. Blanchard responded that it would not be possible to accomplish all of the goals and that efforts would need to be scaled down.

Trustee John Nilon asked how the CSU accounts for the possibility of declining state support when planning for the next year's budget. Executive Vice Chancellor and Chief Financial Officer Steve Relyea shared that planning by campus presidents and chief financial officers includes projecting revenues for current and future years as well as maintaining appropriate levels of reserves for capital and operational needs to help mitigate fluctuation in state appropriations.

### **Tuition Adjustment Proposal for the 2017-2018 Academic Year**

Mr. Steve Relyea reiterated the importance of securing full support budget funding from the state. If full funding is not secured, decisions on what will and will not be funded will need to be made, including the possibility of increasing tuition. Mr. Ryan Storm shared that in order to meet statutory requirements, the tuition increase proposal was shared with the California State Student's Association in September 2016. He added that consultation with various other stakeholders has also occurred since then.

Mr. Storm next provided background on the CSU fee policy and the trustees' authority in setting systemwide tuition fees. He shared that revenue from the proposed tuition increase would be used to offer additional courses and hire more faculty and staff. He spoke about the potential effects of the increase on students. Mr. Storm also noted that if approved in March, the fee increase could be rescinded or reduced, once final state budget appropriations are known. Mr. Relyea concluded by re-enforcing the CSU's commitment to work in partnership with all stakeholders to secure full funding by the state of California.

Trustee Douglas Faigin noted that revenue from the proposed tuition increase would only cover about half of the support budget request and asked how the other half would be secured. Executive Vice Chancellor Relyea answered that CSU would look first to the state for funding, but ultimately if not successful, will need to make up the difference with the use of one-time funds and by cutting non-mandatory areas such as enrollment growth and new facility space. Funding priority would be given to mandatory costs and a portion of the Graduation Initiative.

Trustee Faigin requested information about the full cost of attendance for CSU students, including living expenses. Director of Student Financial Aid Services Dean Kulju provided estimates for students living on campus, off campus, and commuting from home. He also reviewed the various financial aid programs, grants, and loans that are available to students.

Trustee Faigin next asked what the plan is if in future years our budget request is not funded by the state. Mr. Relyea commented that the trustees have the option to adopt the recommendation of the Sustainable Financial Model task force, which calls for annual modest and predictable fee increases that would avoid large spikes in price and allow students and families to plan accordingly.

Trustee Stepanek commented that it was important to know that if approved in March, the decision to increase tuition could be revisited in the summer if full state funding is secured. He commented that the Academic Senate's stance is opposed to the tuition increase proposal, and places funding responsibility on the state. He shared that some senators agreed with the multi-year planned increases, while others called for a complete overhaul of the state tax code.

Trustee Silas Abrego asked if financial aid is capped by the state. Mr. Kulju responded that the state Cal Grant entitlement program prioritizes awards to students just out of high school, however for older and non-traditional students, available funding is less and far more competitive.

Mr. Storm added that the Cal Grant program is funded by the state general fund and has historically been fully funded, however increasing costs in Cal Grant programs will need to be balanced with all other funding priorities of the state.

In response to Trustee Abrego's question about how accountability for the Graduation Initiative will be handled, Jeff Gold, Assistant Vice Chancellor for Student Success Strategic Initiatives, shared that the six initiative goals serve as a high-level framework from which to track progress. Each campus is currently updating their student success plans, which will include trajectories that indicate the yearly progress needed in order for the campuses to meet their goals. The CSU Student Success Dashboard will also leverage predictive models to help campuses gauge their progress along the way.

Trustee Jorge Salinas expressed concern for the effect a tuition increase will have on students, especially those needing to take loans to pay for their education. He requested to hear alternative options before considering a tuition increase.

Trustee Rebecca Eisen commented that the Graduation Initiative is a worthwhile effort that will ultimately reduce a student's time at the university that will translate into savings for both the student and the state.

Lieutenant Governor Gavin Newsom commented about the elimination of the Middle Class Scholarship, and asked how many CSU students currently receive this award. Mr. Kulju responded that approximately 40,000 students are recipients. He added that the number is expected to drop by approximately one third because some students will reach the four year award limit on the program. In addition, the award is not guaranteed year to year, and requires students to re-apply and establish eligibility for the program each year.

Mr. Newsom asked if any increases in campus based fees are anticipated that may add to student expenses. Mr. Storm responded that it is unknown because the decision to raise these type of fees is made at the campus level and with student consultation.

In response to Trustee Maggie White's question, Mr. Kulju clarified that 61 percent of CSU students have their full tuition covered by grants and waivers, and that this percentage does not include any loans. Mr. Kulju provided additional information on the various loan programs and repayment interest rates.

Trustee Taylor spoke about the need to review other funding models which would allow for better planning by students and administration.

Chancellor Timothy White spoke of the value of quality higher education and the opportunities it creates for students in their lifetime. He commented that sacrifices are needed by all in order to achieve the greater good, which is graduating and preparing students to enter California's workforce.

Trustee Taylor adjourned the meeting on Finance Committee.

## **COMMITTEE ON FINANCE**

### **California State University Annual Debt Report**

#### **Presentation By**

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

#### **Summary**

This item reports on the debt of the California State University Systemwide Revenue Bond program in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

#### **Background**

The Systemwide Revenue Bond (SRB) program, under the provisions and authorities of The State University Revenue Bond Act of 1947 (Education Code Sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with authority to establish procedures for the management of the SRB program consistent with the board's objectives for the use of debt. In turn, the chancellor has established procedures through the issuance of executive orders. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended by the board in November 2014 and is included as Attachment A. The current executive order governing the SRB program (Executive Order 994) is included as Attachment B.

The SRB program provides capital financing for projects of the CSU—student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities – approved by the board. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the bonds issued to finance the projects. A strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

Since the inception of the SRB program, the CSU has also issued commercial paper (CP) primarily to provide campuses with short term, lower cost capital financing on projects until long term bonds are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by Bond Anticipation Notes issued by the CSU. The CSU currently has a CP program in the amount of \$300 million, although both the board and the CSU Institute have authorized a CP program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in July 2017.

**SRB and CP Portfolio Profile**

As of June 30, 2016 and December 31, 2016, the outstanding SRB debt of the CSU was approximately \$4.9 billion and approximately \$4.8 billion, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.64%
Weighted Average Maturity:	15.9 Years
Interest Rate Mix:	95% Long Term Fixed Rate 5% Short Term Fixed Rate

As of December 31, 2016, outstanding CP was \$230.9 million at a weighted average interest rate of 0.73 percent

**SRB Operating Performance and Debt Service Coverage Ratios**

For the fiscal years ended June 30, 2014, June 30, 2015, and June 30, 2016, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2014</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>
Operating Revenues <sup>1</sup>	\$1,571	\$1,701	\$4,852
Operating Expenses <sup>1</sup>	<u>1,122</u>	<u>1,232</u>	<u>1,502</u>
Net Revenues	449	469	3,350
Annual Debt Service	\$259	\$266	\$274
Debt Service Coverage <sup>2</sup>	<b>1.73</b>	<b>1.76</b>	<b>12.23</b>

- (1) June 30, 2016 Operating Revenues and Operating Expenses reflect the addition of student tuition fee revenue to the SRB pledge of gross revenues and the addition of associated expenses, effective April 2016. Without these additions, debt service coverage for the year would have been 1.68.
- (2) The minimum benchmark for the system, as established by Executive Order 994, is 1.45.

**Series 2016A and Series 2016B1-3 SRB Issuance**

In April 2016, the CSU issued \$1,383,105,000 of Systemwide Revenue Bonds. Of this amount, \$729,160,000, including \$250,000,000 of three, five, and seven year put bonds (Series 2016B1-3), was issued to restructure State Public Works Board bond debt for cash flow savings. The remaining \$653,945,000 in bonds refinanced existing SRB debt, producing net present value savings of \$96 million, or 14 percent of the prior bonds. The refinancing of debt will save SRB programs across the system approximately \$5.7 million in combined cash flow per year.

**Series 2017A, Series 2017B, and 2017C SRB Issuance**

In March 2017 the CSU issued \$1,196,360,000 of SRBs (Series 2017A \$812,030,000 tax-exempt, Series 2017B \$335,155,000 taxable, and Series 2017C \$49,175,000 tax-exempt). Of this amount, \$1,080,470,000 was issued for new money projects at an all-in true interest cost of 3.72 percent. This new money component also included approximately \$576,000,000 for academic infrastructure and deferred maintenance. The CSU also issued \$115,890,000 in bonds to refund existing SRB debt, producing net present value savings of \$17.3 million. The refunding of debt will save SRB programs across the system approximately \$1.1 million in combined cash flow per year.



**CSU Policy for Financing Activities**  
**Board of Trustees' Resolution**  
**RFIN/CPBG 11-14-01**

**WHEREAS**, The Board of Trustees of the California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

**WHEREAS**, The Board recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; and

**WHEREAS**, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

**WHEREAS**, Within a policy framework, the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

**WHEREAS**, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings or restructurings; and

**WHEREAS**, The Board finds it appropriate to use the limited debt capacity of the CSU in the most prudent manner; and

**WHEREAS**, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

**RESOLVED**, by the Board of Trustees of the California State University as follows:

**Section 1. General Financing Policies**

**1.1** The State University Revenue Bond Act of 1947 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the "CSU Bond Acts") provide the Board of Trustees with the ability to acquire,

construct, finance, or refinance projects funded with debt instruments repaid from various revenue sources.

**1.2** The long-term debt programs of the Board of Trustees established pursuant to the CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

**1.3** The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

**1.4** The Trustees' debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

**1.5** The Trustees' programs shall be designed to improve efficiency of access to the capital markets by consolidating bond programs where possible.

**1.6** The Chancellor shall develop a program to control, set priorities, and plan the issuance of all long-term debt consistent with the five-year capital outlay program.

**1.7** The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

## **Section 2. Financing Structure of the CSU's Debt Programs**

**2.1** To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty, and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

**2.2** The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added,

and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

**2.3** The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

**2.4** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the Trustees, to take any and all actions necessary to issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such financing transactions.

**2.5** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

### **Section 3. Other Financing Programs**

**3.1** The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible for, or are inappropriate for financing under the CSU Bond Acts. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing, if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the CSU Bond Acts financing program.

**3.1.1** Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

**3.1.2** These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

**3.1.3** If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

**3.2** The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the

Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

#### **Section 4. State Public Works Board Lease Revenue Financing Program**

**4.1** The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

**4.2** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

#### **Section 5. Credit of the State of California**

**5.1** The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

## **Section 6. Tax Law Requirement for Reimbursement of Project Costs**

**6.1** For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

**6.1.1** Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

**6.1.2** Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

## **Section 7. Effective Date and Implementation**

**7.1** Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

**7.2** This resolution supersedes RFIN 03-02-02 and shall take effect immediately.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

October 23, 2006

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

**TO:** CSU Presidents

FRESNO

**FROM:** Charles B. Reed  
Chancellor

FULLERTON

**SUBJECT:** Financing and Debt Management Policy – Project Development and the Systemwide Revenue Bond Program Executive Order No 994

LONG BEACH

Attached is a copy of Executive Order No 994 relating to the CSU's Financing and Debt Management Policy.

LOS ANGELES

MARITIME ACADEMY

In accordance with policy of the California State University, the campus president has the responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

MONTEREY BAY

NORTHBRIDGE

If you have questions regarding this executive order, please contact Colleen Nickles, Senior Director, Financing & Treasury, at (562) 951-4570 or [cnickles@calstate.edu](mailto:cnickles@calstate.edu).

POMONA

SACRAMENTO

CBR/tr

SAN BERNARDINO

Attachment

SAN DIEGO

cc: Vice Presidents for Business/Administration  
Executive Staff, Office of the Chancellor

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

**THE CALIFORNIA STATE UNIVERSITY**  
**Office of the Chancellor**  
**401 Golden Shore**  
**Long Beach, California 90802-4210**  
**(562) 951-4570**

**Executive Order:** 994  
**Effective Date:** October 23, 2006  
**Supersedes:** Executive Order No. 876  
**Title:** Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program

**Section 1: General Policies Regarding Financing Activities of the CSU**

**1.1 Authority:** This policy statement provides information and procedures in connection with financing activities of campuses and auxiliary organizations. It is issued pursuant to Standing Orders of the Board of Trustees, Section 2, and the authority delegated to the Chancellor in the Trustees CSU Policy for Financing Activities, (RFIN 03-02-02; see Attachment B).

**1.2 General Rule:** Use of the capital markets to finance revenue-based, and in some limited cases, non-revenue-based non-state funded capital outlay projects of CSU campuses, auxiliaries, and other affiliated organizations shall be limited to the use of the Chancellor's Office tax-exempt or taxable commercial paper programs and the issuance of notes, bonds and other instruments, as approved by the Trustees, within the CSU Systemwide Revenue Bond Program as described below, hereafter referred to as the SRB Program. Additionally, the tax-exempt or taxable commercial paper program may also be used for the purpose of financing Chancellor's Office, campus, auxiliaries, and other affiliated organizations' personal property needs. The aspects of the Systemwide Revenue Bond Program and this policy are based on the fact that debt management is a dynamic undertaking, that evaluation of debt capacity and credit quality involves many different measures, and that the choice to use the specific criteria and measures in this policy may require change over time.

**1.3 Types of Debt:** The Trustees have traditionally issued variable-rate, short-term commercial paper for the construction period of a project, and fixed-rate, long-term debt for the permanent financing of a project. With the introduction of the commercial paper program use for personal property financing, the Trustees may not refinance these commercial paper issuances with long-term, fixed-rate debt, and the financed amounts will be amortized while the issuance remains in commercial paper.

Given this change in approach, the Trustees will establish a parameter that not more than 25% of its debt be unhedged variable rate debt, including commercial paper, to be consistent with rating agency expectations and market targets appropriate for the CSU's debt rating.

**1.4 Alternative Financing Activities:** An alternative financing structure to Section 1.2 above may be utilized if the Chancellor's Office or the campus is able to demonstrate significant benefits and if the Trustees approve the alternative structure. The Chancellor's Office or campus must not only demonstrate benefits for the use of an alternative structure, but must



also identify the detailed structure of the proposed financing. In reviewing the proposed structure, the Trustees shall evaluate such things as 1) impacts on the CSU's financial statements, 2) the extent to which the financing will be counted as a use of the Trustees' credit, 3) the relative cost of the proposed financing, 4) the proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB Program, and 5) any other short-term or long-term impacts to the Trustees' credit profile.

## Section 2: Definitions

**2.1 "Project":** Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (example; one or more dormitories constructed with one construction contract). Project may also be defined as personal property with a dollar value greater than \$100,000.

**2.2 "Stand-Alone Project":** For a campus, a Stand-alone Project is a campus self-supporting activity supported by an Established CSU Fee that provides the source for repayment of debt for only one campus-related Project (e.g. the first campus-operated student housing facility). For an auxiliary organization a Stand-alone Project is a single Project operated by the auxiliary that is supported by the project-related revenue, or all of the auxiliary organization's available revenue (e.g. the first auxiliary-operated bookstore facility).

**2.3 "Debt Program":** For a campus, a Debt Program is a campus self-supporting activity funded by an Established CSU Fee that provides the source for repayment of debt for more than one campus-related Project (e.g. two or more separately financed campus-operated student housing facilities). For an auxiliary organization, a Debt Program is a program operated by the auxiliary that provides the source for repayment of debt for more than one auxiliary-operated Project (e.g. two separately financed auxiliary-operated food service facilities). Note that a general revenue pledge of all available auxiliary organization revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.

**2.4 "Established CSU Fees":** The following fee categories established in the Education Code have been pledged to the repayment of bonds issued by the SRB Program:

- Parking Fees (Education Code Section 89701)
- Student Body Center Fees (i.e., Student Union Fees) (Education Code Section 89304)
- Rental Housing Fees (Education Code Section 89703)
- Health Center Facility Fees (Education Code Section 89702)
- Continuing Education Revenue Fund Fees (Education Code Section 89704)

**2.5 "Net Revenue Debt Service Coverage Ratios" (DSCR):** A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the systemwide and campus level for decisions about new debt and the management of debt (See Section 4).

**2.6 "Operating Expenses":** For a Project or Program, Operating Expenses are defined as all costs related to providing a good or service, including regular maintenance charges, expenses of reasonable upkeep, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Project or Program, and all other expenses incident to the operation of the Project or Program, but excluding depreciation expense and

Executive Order 994

other non-cash charges, general administrative expenses of the Board or the State, Extraordinary Expenses and Major Maintenance and Repairs, and Debt Service.

**2.7 "Extraordinary Expenses and Major Maintenance and Repairs":** For a Project or Program, Extraordinary Expenses and Major Maintenance and Repairs will not be included in the DSCR, and the expenses are expected to be paid from Building Maintenance and Equipment Reserves or from Prior Year Fund Balances.

**Note:** Operating Expenses, as defined in the SRB indenture, include extraordinary repairs in the calculation of debt service coverage; the indenture requires the Board to set rates, charges, and fees for all Projects so that Net Income Available for Debt Service is at least equal to Aggregate Debt Service for all indebtedness. Sections 2.5, 2.6, and 2.7 are intended for internal operations purposes and shall not result in a conflict with indenture requirements. Campuses are expected to monitor their Programs to ensure overall compliance with the indenture requirements for annual DSCR tests.

**Section 3: Systemwide Revenue Bond Program (SRB)**

**3.1 Trustee Approval:** Each issuance of debt instruments under the SRB Program shall be approved by the Trustees.

**3.2 Gross Revenue Pledge:** Bonds issued under the SRB Program are secured by a gross revenue pledge of all Established CSU Fees.

**3.2.1** Lawfully available revenue may be pledged from a campus, auxiliary, or other organization through a formal binding agreement if approved by the Trustees.

**3.3 Commercial Paper Program:** Within the capacity of the CSU Chancellor's Office commercial paper program, each non-state funded capital outlay or personal property project may receive acquisition or construction funding through the issuance of commercial paper.

**3.4 Auxiliary Organization Projects:** Except as indicated in Section 1.3, Projects of auxiliary or other organizations (special purpose governmental units, such as a joint powers authority) shall be financed through the SRB Program.

**3.4.1** Each auxiliary or other organization SRB project financing shall be supported by the execution of a financing lease between the auxiliary organization and the CSU with a legal structure that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.

**3.4.1.1** For auxiliary or other organizations with no existing debt obligations, the lease shall contain provisions that 1) pledge all available corporation revenue to the Trustees for payment of the lease obligations; 2) require deposit of all pledged revenues (i.e., all revenues) into a pledged "gross revenue fund" bank account; 3) establish criteria for issuance of additional bonds; and 4) covenant that the auxiliary or other organization will set rates or otherwise maintain pledged income that will generate the required net revenue (See Section 4.4).

**3.4.1.2** For auxiliary or other organizations with existing debt obligations, the lease shall contain provisions that 1) require the corporation to abide by the criteria of existing bonds for the issuance of "parity" debt; 2) establish that Trustees share in

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pledged revenue with all other bondholders on a parity basis; and 3) require that Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.

**3.4.1.3** The financing lease shall be considered parity debt with all other, existing auxiliary or other organization debt.

**3.4.1.4** The financing lease payment from the auxiliary or other organization to the CSU shall be calculated to include: 1) debt service associated with the bonds including the cost of participation in the commercial paper program, interest and principal on bonds issued to permanently finance the project and other debt management related costs of the CSU; and 2) any costs incurred by the auxiliary organization's campus for operation and maintenance for the financed facility. (See Executive Order No. 753)

**3.4.2** At each campus the aggregate annual direct and indirect debt service for other third-party financings and for auxiliary or other financings that are either part of or separate from the SRB Program is limited to a maximum amount of 25% of the respective allocation of debt capacity to the respective campus (See Section 5).

**3.5 Structure and Timing of Bond Transactions:** The structure and timing of each issuance of SRB bonds shall be determined by the Chancellor's Office.

**3.6 Allocation of Costs:** Debt service and other debt management costs shall be allocated to campuses on the basis of a formula determined by the Chancellor's Office.

#### **Section 4: DSCR Benchmarks**

**4.1 Systemwide (DSCR):** For the system, the DSCR is computed using the total of the gross revenue of the Established CSU Fee plus any pledged revenue supporting SRB capital lease payments from auxiliary or other organizations. Operating expenses and debt service for the computation consist of the total operating expenses and debt service relating to these programs. The systemwide DSCR should be maintained at or above 1.45. If the SRB systemwide DSCR falls below 1.45, the campus benchmarks may be changed to strengthen the credit position of the Program. (See also Attachment A)

**4.2 Combined Campus and Auxiliary Organizations (DSCR):** At the combined campus and auxiliary organization level, the DSCR is similar to the systemwide DSCR test except that the amounts of pledged revenue, operating expenses, and debt service are related to the combined pledged revenues of the campus and auxiliary organizations' Established CSU Fees plus pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program. The minimum requirement of the DSCR for a Combined Campus and its Auxiliary Organizations is 1.35.

**4.3 Campus Debt Program (DSCR):** The DSCR for a campus Debt Program must be equal to a minimum of 1.10. The DSCR for a campus Stand-alone Project must be equal to a minimum of 1.10. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific Debt Program or the Stand-alone Project.

**4.4 Auxiliary Organization Project and Debt Program (DSCR):** The DSCR for a campus auxiliary organization Debt Program must be equal to a minimum of 1.25. The DSCR for a campus SRB auxiliary organization Stand-alone Project must equal a minimum of 1.25. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program or the Stand-alone Project.

**4.5 DSCR and Effective Year:** The chief financial officer of a campus is responsible to implement plans and budgets so that the required DSCRs for campus CSU Established Fee programs and campus auxiliary organizations be supportable and maintained at or above the minimum level for the first operating year, and at or above the minimum for all subsequent years of operation for Stand-alone or Debt Program Projects.

## **Section 5: Debt Capacity**

**5.1 General Rule:** Financing shall not be recommended by the Chancellor's Office if the issuance of new bonds will cause the total amount of issued and outstanding SRB bonds to exceed the CSU's debt capacity as determined by the Trustees.

**5.2 Calculation of the CSU's Debt Capacity:** Debt service on all issued and outstanding SRB bonds shall not at any time exceed an amount that would cause the quality of the CSU's credit to fall below a minimum level as determined by the Trustees.

**5.3 Allocation of Debt Capacity to Campuses:** Capacity, as measured by debt service on campus debt, shall be allocated to CSU campuses as follows:

**5.3.1 Campus general allocation:** The aggregate debt service related to a campus' individual projects shall not exceed an amount computed from its net unrestricted expenditures times two-thirds (2/3) of the same ratio that the Trustees have recognized as appropriate for the system.

**5.3.2 Chancellor's Office special allocation:** With concurrence of the Trustees, the Chancellor's Office may allocate portions of up to an additional one-third (1/3) of the CSU's debt service capacity to individual campuses for special priority purposes.

## **Section 6: General Financial Planning Principles For Projects**

**6.1 Project Size:** The CSU SRB Program is intended to provide a mechanism to finance revenue based, and in some limited cases, non-revenue-based non-state capital outlay projects pursuant to the State University Revenue Bond Act of 1947 and the issuance of debt to the public through a complex legal structure and financial marketing process. As such, the Program is suitable for projects of greater than \$3 million, and with a useful life of greater than ten years. For personal property financed through the commercial paper program, financings should be \$100,000 to \$5,000,000, with a useful life of 1-8 years. See Section 7 for program-related costs that should be funded through a reserve plan rather than through the issuance of debt.

**6.2 Allocation of Debt Service:** The plan of finance for SRB Projects shall assume level debt service and allocation of long-term debt over 25 or 30 years unless the useful life of the asset

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financed is less. In some cases, the debt service may be structured to allow for accelerating debt service, bullet repayments of principal, shorter repayment terms, or other special arrangements as determined appropriate for a project. The Trustees will be notified in the Financing item at the time of approval if an alternative debt service repayment schedule will be utilized.

**6.3 Timing of Bond Sale:** The plan of finance shall assume the sale of long-term debt at the time of initiation of construction (i.e., including capitalized construction period interest) to meet net revenue debt coverage ratio tests.

**6.4 Interest Rate Assumptions:** The plan of finance for Projects shall incorporate a moderate interest rate contingency for unfavorable changes in interest rates between the time of the initial financial plan and the time long-term bonds will be sold.

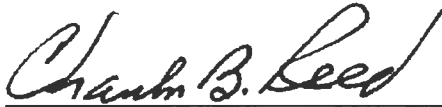
**6.5 Consistency of Computations:** Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

### Section 7: Reserves

**7.1 Reserve Development:** The campus president and chief financial officer are responsible for developing and maintaining a campus policy to provide reserves from Project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum, should address the following needs:

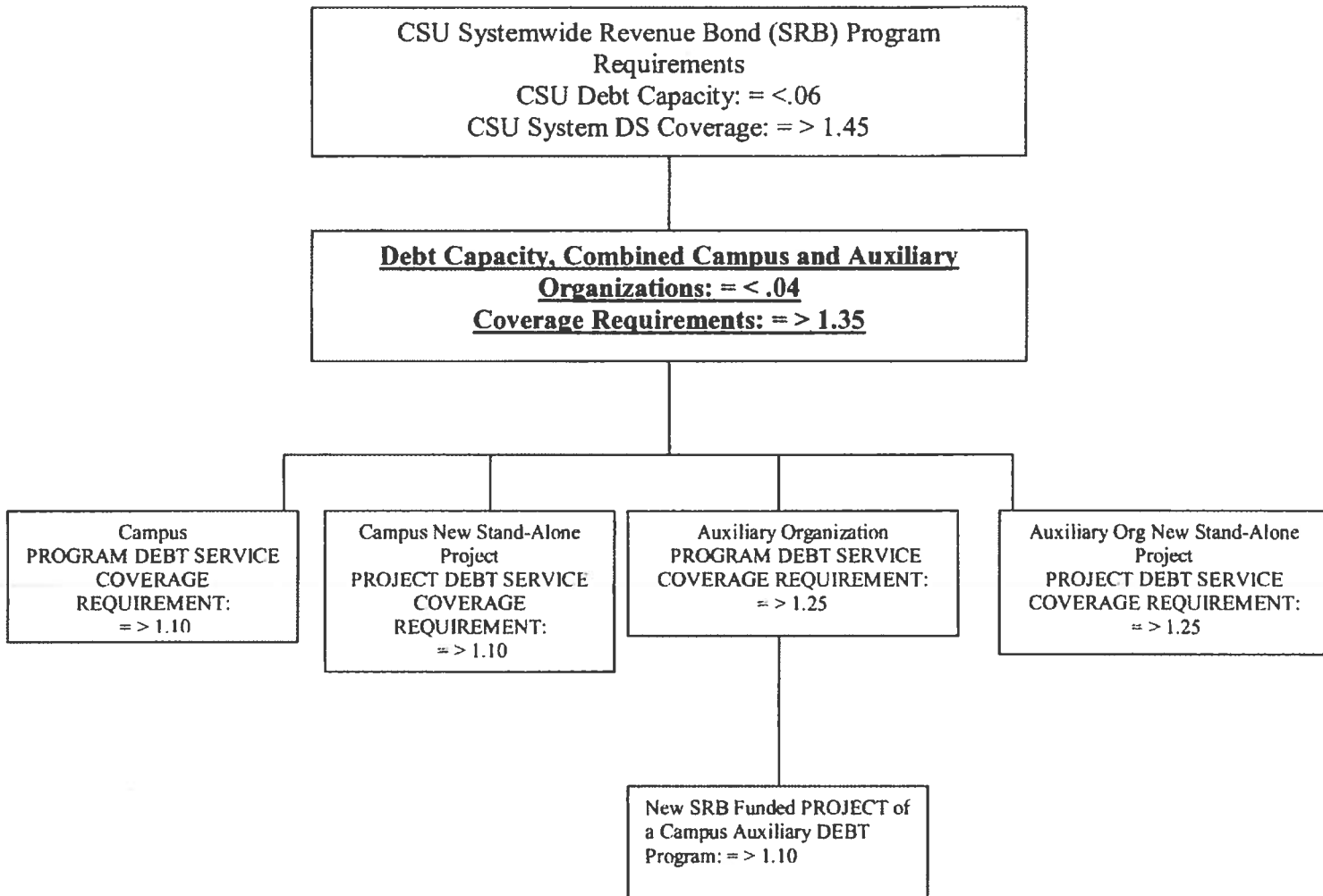
- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

**7.2 Reserve Review:** At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. For Major Maintenance and Repair/Capital Renovation and Upgrade Reserves, the reviews should include formal studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the reserve-funding plan.

  
Charles B. Reed, Chancellor

Date: October 23, 2006

**Attachment A**



## **Attachment B**

### **CSU Policy for Financing Activities Board of Trustees' Resolution RFIN 03-02-02**

**WHEREAS**, The Board of Trustees of The California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

**WHEREAS**, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

**WHEREAS**, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

**WHEREAS**, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the CSU and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

**WHEREAS**, The Board finds it appropriate to establish the lowest cost debt financing programs for the CSU, and to use the limited debt capacity of the CSU in the most prudent manner; and

**WHEREAS**, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

**RESOLVED**, by the Board of Trustees of The California State University as follows:

#### **Section 1. General Financing Policies**

**1.1** The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

**1.2** The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A"e category.

**1.3** The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

**1.4** The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

## **Section 2. Financing Program Structure of the CSU's Debt Program**

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (see Section 3 below).

2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

## **Section 3. Other Financing Programs**

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the Bond Act financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in



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the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

**3.1.2** These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

**3.1.3** If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

**3.2** The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

**Section 4. State Public Works Board Lease Revenue Financing Program**

**4.1** The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

**4.2** The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

**Section 5. Credit of the State of California**

**5.1.** The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness

of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

#### **Section 6. Tax Law Requirement for Reimbursement of Project Costs**

**6.1** For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

**6.1.1** Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

**6.1.2** Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

#### **Section 7. Effective Date and Implementation**

**7.1** Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

**7.2** This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on a individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.

## **COMMITTEE ON FINANCE**

### **Report on Risk Management at the California State University**

#### **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 about the insurance and risk management programs of the California State University.

#### **Organizational Structure of CSU Risk Management**

The insurance and risk management needs of the CSU are managed by the California State University Risk Management Authority (CSURMA), a joint powers authority formed by the CSU on January 1, 1997 to reduce and stabilize the cost of risk by broadening insurance coverage, increasing buying power, and providing quality risk management services to CSU campuses and auxiliaries. In addition, Systemwide Risk Management, a department of the Chancellor's Office, and risk management personnel at each campus, work closely with CSURMA to implement and monitor insurance and risk management programs throughout the CSU.

CSURMA is governed by a board of directors, comprised of up to forty members—up to thirty appointed by the CSU chief financial officer, including at least one representative from each campus, and ten elected by auxiliary organizations that also participate in CSURMA. Officers of CSURMA include a chair and vice chair elected by the board of directors, a treasurer appointed by the CSU chief financial officer, and a secretary/auditor who is the individual serving as the director of Systemwide Risk Management. The day-to-day business of CSURMA is managed by an executive committee consisting of seven CSU representatives and two auxiliary representatives elected from the board of directors, including the chair, vice chair, and treasurer.

Within CSURMA, there are two additional committees: the Auxiliary Organizations Risk Management Alliance, which oversees programs serving auxiliary organization needs, and the Athletic Injury Medical Expense (AIME) committee, which focuses on risk management needs associated with athletic programs and dovetails with NCAA coverage programs.

### **Insurance Programs and Financial Structure**

CSURMA provides insurance coverage for the CSU and its auxiliaries in a number of areas, including:

- General liability
- Property
- Workers' compensation
- Cyber risk
- Disability and unemployment
- Athletic injury
- Student internships
- Construction
- Foreign travel
- Fidelity
- Student travel
- Auto
- Errors and Omissions
- Fine arts

CSURMA negotiates with and purchases insurance from third party insurance providers for its programs at amounts appropriate for the program. However, depending upon the cost and terms of insurance for particular programs, CSURMA also self-insures up to certain amounts, relying upon third party insurance above those amounts. To assist in determining the appropriate amount of coverage and self-insurance reserve levels on its main programs, CSURMA engages independent actuaries to prepare actuarial studies.

Based upon the total amount of coverage needed, the required self-insurance reserve levels, the amount of expected premium cost for each program, and administrative costs, CSURMA collects premiums from the campuses and auxiliaries based upon metrics appropriate for the program (e.g. workers compensation is based upon payroll) and, in some cases, adjusted for campus or auxiliary loss history. In addition, for some programs, campuses and auxiliaries can choose deductible levels that adjust their premium.

Each year, following a review of actual and expected claims, any adjustments to required self-insurance reserve levels, and the amount of expected premium cost for each program, CSURMA determines if funds can be refunded to campuses and auxiliaries. Due to the success of risk management efforts at the campuses and auxiliaries, CSURMA has been able to refund approximately \$133 million of premium over the last ten years.

Amounts held by CSURMA to fund self-insurance reserves and other needs are invested in securities allowed by state law and consistent with CSU investment policy. At the end of the fiscal year ended June 30, 2016, CSURMA had total assets of approximately \$181 million, with approximately \$170 million held in reserves.

### **Risk Management Programs**

In addition to insurance for the campuses and auxiliaries, risk management programs are an integral component for managing the overall cost of risk at the CSU. CSURMA, Systemwide Risk Management, campuses, and auxiliaries continually work together to reduce the number of risk incidents, as well as the impact—both insurable and uninsurable—of such incidents should they occur. The sharing of best practices through systemwide affinity groups, development and maintenance of sound policy, regular training, sponsorship of risk management grant programs, and use of third party advisors or vendors are all tools utilized by the CSU to manage risk.

### **Evaluation of a Captive Insurance Option**

The joint powers authority structure of CSURMA has allowed the CSU to significantly lower its overall cost of risk. Another structure that the CSU is currently evaluating is a captive insurance option, whereby the CSU creates its own insurance company. While a joint powers authority structure and a captive structure share many similarities, a captive provides two key benefits compared to a joint powers authority:

- Ability to invest reserves in a broader array of investment options, thereby providing the potential to earn a higher return on existing assets; and
- Ability to offer insurance products to third parties, such as CSU employees, students, and alumni, thereby providing a potentially lower cost of insurance to the third parties, while providing CSURMA with an additional revenue stream to meet risk management objectives.

A captive option would require additional administrative cost, including significant regulatory compliance and reporting due to its status as an insurance company. One option under consideration is partnering with the University of California and utilizing its existing captive to test the captive option and reduce cost.

Staff will continue to evaluate a captive option to see if such an option can be beneficial to the CSU.

## **COMMITTEE ON FINANCE**

### **Conceptual Approval of a Public-Private Partnership to Develop an Extended Learning and Student Services Project on Real Property Adjacent to California State University, San Marcos**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and Chief Financial Officer

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

Karen Haynes  
President  
California State University, San Marcos

#### **Summary**

This item requests conceptual approval to pursue a public-private partnership to construct a new Extended Learning and Student Services Building on privately owned land adjacent to the California State University, San Marcos campus. If the concept is approved, the proposed partnership project would return to the board for final approval of the real property development agreement.

#### **Background**

Over the last five years, CSU San Marcos has experienced strong enrollment growth and increased demand for academic programs, particularly in the Extended Learning program. Over the next ten years, enrollment in credit programs is expected to grow five to seven percent annually and by 20 percent annually in non-credit programs. In 2015, the campus engaged a third party real estate advisory firm to conduct an analysis of space needs over the next five years. The analysis determined a need for additional space to accommodate the projected growth, and based upon the analysis, the campus estimates that it will require an additional 86,000 gross square feet (GSF) of new or expanded Extended Learning space and an additional 34,000 GSF of core campus academic and student support service space by 2019-2020.

The campus has considered several options to accommodate the additional space needs, including development on-campus utilizing traditional CSU delivery and financing methods under the Systemwide Revenue Bond program, and development through a public-private partnership structure, either on or off campus.

## **Project Description**

The campus has identified an opportunity with a developer and land owner, North City Development (also known as “University Village San Marcos” or “UVSM”) which will construct a 135,000 GSF building on approximately two acres of land owned by UVSM directly adjacent to the campus.

The project will include a 500-600 space parking structure, 15,000 GSF of retail space, and 120,000 GSF of academic and student support space to be occupied and operated by various campus programs. Currently, the project cost is estimated at approximately \$70 million. Additionally, the developer will construct a pedestrian bridge at its sole cost to connect the new building with the campus.

On behalf of the campus, University Auxiliary Research and Services Corporation (UARSC), a campus auxiliary organization in good standing, is expected to enter into an agreement with UVSM. Under the agreement, UARSC and UVSM will jointly create a special purpose entity to facilitate the financing and construction of the project. Upon completion of the project, UARSC will lease the academic space from the special purpose entity for a term of thirty years. At the end of the thirty year lease term when the financing debt has been paid off, ownership of the project will be shared under a condominium structure, whereby ownership of the academic space and a pro-rata share of the land, parking, and other physical components of the project will transfer to CSU San Marcos, and UVSM will own the retail space, along with the remaining pro-rata share of the land, parking, and other physical components of the project. Under the condominium structure, the campus will ultimately own approximately 90% of the project and UVSM will own approximately 10% of the project.

UVSM will contribute the land and will be responsible for arranging the financing and constructing the project. UVSM will also be responsible for all costs associated with environmental and entitlement processes and for all costs associated with operating and maintaining the retail space. UARSC and the campus will be responsible for operating, and maintaining the academic space. Operating and maintenance costs for the rest of the project will be shared on a pro rata basis. The pedestrian bridge will be maintained by the city.

## **Financing**

The campus Extended Learning and Parking programs will contribute \$10 million of reserves toward the construction of the project. UVSM, through the special purpose entity, will issue bonds to finance the balance of construction costs. UARSC’s payments under the thirty year lease will be set at an amount to cover the debt service on the bonds. In turn, UARSC will receive payments from the campus Extended Learning and Parking programs to meet the lease payments to UVSM, thus the bond financing will rely upon CSU’s credit strength.

## **Educational Benefits**

With this project, the campus has an opportunity to partner with the private sector to provide instructional classrooms and laboratories, thereby providing relief for bottleneck courses and enhancing student pathways to graduation. Four academic programs with faculty offices will be located in the building, along with space for the growing Extended Learning programs, Global Education, the American Language and Culture institute, and other support service departments. The campus sponsored programs auxiliary will be relocated providing closer access to support faculty research. Importantly, the secondary effects of vacated space on the campus creates additional capacity for various campus uses, including the emerging engineering program, additional classroom space, and faculty offices. Student success centers will be brought together in one location, including the Academic Success Center, STEM Center, Math Lab, Language Learning Center, and Writing Center, along with the faculty and staff that support them.

## **Due Diligence**

As the project moves forward, amendments of the non-state capital outlay program, any proposed schematic plans, financial plans, and proposed key business points of the finalized development plan will be presented at future meetings for approval by the Board of Trustees.

## **Recommendation**

The following resolution is presented for approval:

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

1. Approve the concept of a public/private partnership for the construction of academic facilities on privately owned land adjacent to the CSU San Marcos campus;
2. Authorize the chancellor, the campus, and UARSC to enter into negotiations for agreements as necessary to develop a final plan for the public/private partnership as explained in Agenda Item 3 of the March 21-22, 2017 meeting on the Committee on Finance;
3. Will consider the following additional action items relating to the final plan:
  - a) Certification of Final California Environmental Quality Act (CEQA) documentation.
  - b) Approval of a development and financial plan negotiated by the campus and the developer with the advice of the chancellor;
  - c) Approval of an amendment to the Non-State Capital Outlay Program;
  - d) Approval of the schematic design.



## **COMMITTEE ON FINANCE**

### **Tuition Increase Proposal for the 2017-2018 Academic Year**

#### **Presentation By**

Timothy White  
Chancellor

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

The California State University (CSU) Board of Trustees is considering all possible funding strategies as part of the 2017-2018 support budget plan. The CSU's first priority and commitment is to pursue full funding from the state and to work with partners across the system to make the case in Sacramento for the level of new funding that supports student success as reflected in the CSU 2017-2018 Support Budget Request. However, to ensure the university can meet its 2017-2018 budget priorities, the Chancellor's Office recommends that the trustees adopt a tuition increase at the March 2017 meeting. If adopted, the increase would generate \$77.5 million in net revenue, after spending an additional \$38 million on State University Grants to students. The tuition increase would take effect beginning in fall 2017 and would align with the timeline and requirements of the Working Families Student Fee Transparency and Accountability Act (Act).

The CSU remains committed to keeping costs as low as possible for students. Several financial aid grant and waiver programs cover the full cost of tuition for more than 60 percent of all CSU undergraduate students. Because these programs are designed to pay the full cost of tuition, the proposed tuition increase would have no financial effect on more than 255,000 undergraduate students.

#### **Background**

The trustees have the sole authority to establish and adjust systemwide tuition. In order to increase tuition in a fiscal year without state appropriation cuts, the CSU must follow a precise timeline and meet several requirements outlined by the Act codified in 2012 by Assembly Bill 970. The

following steps have been taken, the Chancellor's Office prepared and delivered to the California State Student Association (CSSA) the "Possible 2017-2018 Tuition Proposal for Consideration" on September 29, 2016, with information about the proposal available online at <http://www.calstate.edu/tuition-increase>. A consultation meeting between CSSA executive leadership and Chancellor's Office representatives to discuss the proposal followed on October 5 and subsequent meetings occurred on October 26 and November 6, 2016. Next, the Act requires public notice of the proposed tuition increase, followed by a meeting of the trustees to discuss the proposal and gather public comment (the January 31–February 1, 2017 meeting and agenda materials met this requirement).

### **Justification for the Proposed Tuition Increase**

Over the last two decades, state tax revenues that support public higher education institutions have fluctuated significantly, with a trend toward a decrease in real dollars, across the country and in California. This decline came as states responded to the condition of the economy and shifted public dollars to other priorities.

The decrease in public investment has come at a time of increased student and industry demand for bachelors, masters, and other advanced degrees. Universities including the CSU have responded over the past two decades by making programmatic cuts while increasing tuition and fees in order to balance budgets. These cuts, coupled with shifting of costs from states to students and the connected reduction in educational opportunities for students were unfortunate, yet necessary steps to continue to operate quality educational programs.

State support made up 80 percent of the CSU support budget in the mid-1990s and now makes up closer to 50 percent in 2016-2017, with the remaining revenue provided by tuition and fees. In spite of this fiscal trend, the CSU has remained committed to providing students a high-quality education and admitting qualified students from California's high schools and community colleges.

Over the last four years CSU advocacy efforts coincided with an important increase in state tax revenues, which recovered by \$33.2 billion between the low point of the recession and today. However, it is only as of 2016-2017 that the CSU is funded at prerecession levels of 2007-2008, despite serving 20,000 additional students.

Over the past four years, the CSU has made support budget requests to reinvest in the most critical priority areas. However, the CSU's request was fully funded only once in these last four years. Put another way, the state has not provided a total of \$425 million of recurring funding requested by the CSU since the recovery began.

The governor's multi-year funding plan for the CSU from 2013-2014 through 2016-2017 provided increases in general fund support with a caveat requirement that tuition be held at 2011-2012 levels. These state funds have allowed modest recoveries in course sections, faculty and staff hires, and technology and infrastructure, while providing employees with salary increases for the first time since the beginning of the recession.

Based on information in the governor's January budget proposal, the governor proposed an increase of \$157.2 million to the CSU support budget for 2017-2018. This continues the limited and incremental nature of investment that has dominated state funding for the CSU during California's recovery.

### **2017-2018 CSU Support Budget**

The final support budget request, as adopted by the trustees, concluded that priority areas would require \$324.9 million in additional state investment. The governor proposed allocating \$157.2 million in new funding to the CSU in his January budget proposal. This leaves a \$167.7 million funding gap between anticipated state funding and the real needs of the university. The proposed tuition increase would generate \$77.5 million in revenue systemwide, after a one-third set-aside of \$38 million that would increase the State University Grant pool to help cover the cost of the increase for students who receive the grant.

The trustees' priorities detailed in the 2017-2018 support budget request will continue the CSU's commitment to the Graduation Initiative 2025, maintain access to the university, increase compensation for faculty and staff, attend to the highest priority academic infrastructure and deferred maintenance needs, and fund mandatory cost obligations. The current funding assumptions from the state fall short of providing the necessary resources to properly invest in each of the following Board of Trustees priorities.

1. *Graduation Initiative 2025*: The CSU is committed to improving time to degree for all our students, including doubling the four-year graduation rate from 19 percent to 40 percent, achieving a 70 percent six-year graduation rate, shortening time to degree for transfer students, and eliminating the achievement gap among low income and underserved students. The tools and strategies that will help support more students earn degrees in a timely manner are directly tied to the ability to invest new funding to offer more courses, increase tenure-track faculty hiring, improve student-advisor ratios, install eAdvising platforms, enhance college readiness, and use of data to ensure resources are dedicated to the most important factors leading to overall student success.

2. *Funded Enrollment Growth:* The CSU confers the most baccalaureate degrees in the state and contributes to the California workforce in significant ways. Increased enrollment funding contributes to new sections of high-demand courses, hiring new tenure-track and temporary faculty, providing more academic and student support services, and bolstering overall institutional support and operation of the campus to serve additional students. With a total student body of more than 470,000 students, the CSU continues to see increased demand from qualified applicants each year.
3. *Facilities & Campus Infrastructure:* Leading-edge academic facilities support quality degree programs setting the stage for CSU graduates to be workforce ready and equipped to excel in their chosen field. A significant portion of CSU facilities are dated and in need of renovation. Specifically, 55 percent of all CSU buildings are more than 40 years old. While the CSU has maintained its buildings as best as it could with available resources, the state funded most of the costs associated with the construction and maintenance of academic buildings and physical infrastructure. The state shifted this obligation to the CSU in 2014, making facilities a significant consideration when developing and implementing the CSU support budget. Dedicating a portion of the CSU support budget to facilities and infrastructure is essential to address the most pressing needs on campuses.
4. *Employee Compensation:* Central to the student experience is the ability to interact, learn from, and be guided by outstanding faculty and staff. The CSU is proud of the thousands of employees who are dedicated to students and their success. As such, compensation increases 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.
5. *Mandatory Costs:* Mandatory costs are the expenditures in the operating budget that increase annually due to inflation and other state, federal, or statutory mandates that apply to the CSU. These include changes in the cost of health care and retirement for employees, changes in state and federal wage laws, and the increased cost of operating and maintaining new facilities. Without funding for mandatory cost increases, campuses would have to make cuts and redirect resources from other program areas to meet these obligations.

### **Proposed Tuition Increase**

The state budget cycle is asynchronous from the planning decisions of the CSU, as well as the planning that current and potential students must undertake to prepare for the 2017-2018 academic year. The outcome of the 2017-2018 state budget cycle will not be known until June 2017. Therefore in order to provide students and families adequate time to plan, the tuition increase proposal is presented as an action item at this meeting. If the trustees approve a tuition increase at this meeting, the tuition increase would go into effect beginning in the fall 2017 term and apply to the full 2017-2018 academic year.

The proposed tuition increase, of \$270 per resident undergraduate student will take the annual tuition price from \$5,472 per undergraduate student to \$5,742 and will generate up to \$77.5 million of net revenue in 2017-2018 to support the trustees' budget priorities. Similar increases are proposed to non-resident tuition, as well as graduate, doctoral, and teacher credential programs.

### **Potential Impact to Students and Mitigation of Impact on Students with Financial Need**

The CSU remains committed to keeping costs as low as possible for students. More than 60 percent of all CSU undergraduate students receive grants and waivers to cover the full cost of tuition (over 255,000 undergraduates). Nearly 80 percent of all CSU students receive some form of financial assistance. The CSU does not expect these percentages to change as the result of a potential tuition increase.

### **Financial Aid Awareness**

Campuses use many ways to inform students and families of the availability of financial aid. Each campus maintains a robust internet site that provides information to students and families. They also communicate with students on a regular basis by sending reminders and notices of key application periods and deadlines. Financial aid and cost of attendance information is also available via [www.CSUMentor.edu](http://www.CSUMentor.edu) (the admission application site) and [www.calstate.edu](http://www.calstate.edu). Families also receive financial aid information as part of student outreach, the admission process, and orientation events. Workshops both on and off campus are also provided to prospective and current students and their families.

### **State Grants and Waivers**

A student who receives a Cal Grant tuition award would not be affected by a potential tuition increase because the award amount for this state program is designed to pay the entire tuition cost. This would include students utilizing the California Dream Act Application. Similarly, a student who receives a state-mandated tuition fee waiver would not be affected by the potential tuition increase because these state programs are also designed to waive the entire cost of tuition.

### **Institutional Grants**

The State University Grant (SUG) is available to undergraduates, teacher credential candidates, and graduate students. A student who receives a full SUG would not be affected by a potential tuition increase because this CSU-administered institutional aid program waives the entire tuition charge. For students who do not receive the maximum award to cover the full tuition cost and absent any other financial aid, SUG may cover the potential increase in tuition. However, individual SUG awards vary by student. CSU doctoral programs and graduate business

professional programs also offer need-based grant programs similar to SUG. As part of the proposed tuition increase, systemwide SUG funding would grow by approximately \$38 million to accommodate eligible students' additional need resulting from the tuition increase.

### **Federal Grant and Loans**

Federal programs, such as the Pell Grant or loan programs may partially or fully cover tuition and may partially or fully cover any potential tuition increase.

The maximum full-time Pell Grant award is \$5,815. If tuition is increased by an additional \$270 per year, CSU tuition would be \$5,742, which means a resident undergraduate student who qualifies for the maximum Pell Grant award would still have the entire cost of tuition covered by this program. Pell Grant award amounts can vary based upon income and enrolled units. For students who do not receive the maximum award, and absent any other financial aid, the Pell Grant may partially cover the potential increase in tuition. However, individual Pell Grant awards vary by student.

Loan programs can also be used to cover tuition costs for a student. Based on CSU financial aid packaging policies in which grants and waivers are applied first, and loans second, it is unlikely that student loan debt would increase materially, if at all, in order to pay for a potential increase.

### **Employment**

CSU financial aid policies do not include or establish a minimum workload expectation for students. Student may work to cover tuition and other college-related expenses and if they qualify, can participate in the federal work-study programs for this purpose. For students who work to meet their full cost of attendance, at the current minimum wage of \$10.50 per hour, a resident undergraduate student would have to work approximately 33 additional hours per academic year—equivalent to 1 hour per week—to cover a \$270 increase in tuition (assuming taxes and other withholdings).

### **Student Indebtedness**

While 49 percent of all CSU students graduate with some loan debt for college-related expenses, the amount of the debt is substantially lower than the California and national average, as shown in the table below.

<b>AY 2013-14</b>	<b>Amount of Debt</b>	<b>% with Debt</b>
<b>National Average</b>	\$28,950	69%
<b>California Average</b>	\$21,382	55%
<b>CSU Average</b>	<b>\$14,388</b>	<b>49%</b>

Average indebtedness would increase slightly if a student needs to borrow additional funds to cover the proposed tuition increase. For example, if a student borrows an additional \$270 a year for four years of enrollment (total \$1,080), the anticipated monthly payment upon graduation would increase by approximately \$13, based on the maximum interest rate and a standard 10-year repayment schedule. Similarly for six years of enrollment (total \$1,620), the anticipated monthly payment would increase by approximately \$19. Average indebtedness at the CSU would still be significantly lower than the California and national average.

**Purpose/Use of New Tuition Revenue**

State general fund and student tuition and fees are the two primary revenue sources that support general operations of the university including instruction, academic support, student services, institutional support, operations and maintenance of academic facilities, and institutional financial aid. The current support budget is made up of approximately 56 percent state general funds and 44 percent student tuition and fees.

Now that the trustees have finalized the budget plan and submitted it to the state for consideration, it is the responsibility of the governor and legislature to determine the appropriate amount of state general fund for the CSU. Subject to final trustee decisions, and subsequent action by the governor and legislature on the CSU budget, revenue generated by a potential tuition increase would be used in combination with state funding to support the categories of incremental expenditure increases in the following table.

<b>2017-2018 Support Budget Request</b>	
<b>Incremental Expenditures</b>	<b>In Millions</b>
<b>Graduation Initiative 2025</b>	\$75.0
<b>Enrollment Growth: 3,600 FTES</b>	\$38.5
<b>Compensation: Existing Contracts</b>	\$139.1
<b>Compensation: New Contracts &amp; Non-Represented Employees</b>	\$55.1
<b>Academic Facilities &amp; Infrastructure Needs</b>	\$10.0
<b>Mandatory Costs</b>	\$26.0
<b>Total</b>	<b>\$343.7</b>

<b>Anticipated Incremental Revenue if Tuition Increase is approved</b>	
<b>General Fund:</b>	
<b>Administration's Funding Plan</b>	\$157.2
<b>Tuition Revenue:</b>	
<b>Net Tuition from Enrollment Growth</b>	\$18.8
<b>Total</b>	<b>\$176.0</b>
<b>CSU Remaining Need</b>	<b>\$167.7</b>

### **Addressing Support Budget Shortfall**

In January 2017, the governor's budget proposed a \$157.2 million increase for the CSU, consistent with the governor's funding plan for the CSU. This amount is approximately a two percent increase in total operating funds, and is \$167.7 million short of the trustees' support budget request to the state.

As a result, the CSU has three primary approaches for addressing its fiscal priorities in the coming year. These approaches are not mutually exclusive and may be combined in varying proportions by the end of the budget process. In general, the three approaches are described below.

#### Increase state funding to cover the full support budget request

The CSU's first priority and commitment is to pursue this course. The CSU is working with partners across the system including students, faculty, staff, business, union leaders, alumni, and friends to advocate in Sacramento for full funding that will support student success. With the historic gains made in four-year and six-year graduation rates, the aggressive targets set out in Graduation Initiative 2025, and the state recently focusing on these same goals, CSU arguments for increased state funding have never been stronger. While additional state funding is the preferred course, the state allocation will not be known until a final budget agreement is reached in June 2017.

#### Increase tuition to partially cover the support budget request while continuing to advocate for more state funding

The tuition increase of \$270 per resident undergraduate student will take the annual tuition price from \$5,472 per student to \$5,742 and will generate approximately \$77.5 million of new revenue to support the 2017-2018 budget plan. Similar, increases are proposed to non-resident tuition, as well as graduate, doctoral, and



teacher credential programs. While the revenue raised from a tuition increase would not fully fund the support budget request, it would allow for a significant investment in Graduation Initiative 2025, coupled with continued advocacy efforts to fully fund the rest of the trustee support budget request.

In lieu of additional state funding or a potential tuition increase, reduce programs and services, both academic and non-academic

The CSU's required financial obligations exceed anticipated new revenues for 2017-2018. If additional funding is not secured, many priority areas of the support budget would be reduced or eliminated while campuses would have to redirect funding from existing programs, services, and priorities. Fewer course sections would be available to students, average unit load would go down, and ultimately it could take longer for students to graduate.

Efforts by the Chancellor's Office and campuses to identify and employ administrative efficiencies and effectiveness will continue to be a high priority, regardless of the approaches taken to increase state support. However, it is important to manage expectations and dispel misconceptions about improved efficiency and effectiveness. With the 2017-2018 support budget plan funding gap of approximately \$167.7 million, these efforts will have a very small impact. Past successes have yielded on average, savings and cost avoidance of tens of millions of dollars per year. CSU anticipates that several, single-digit million-dollar cost savings and cost avoidance opportunities could culminate in 2017-2018, but will not significantly narrow the budget gap. Lastly, it is not always possible to align cost savings or avoidance with annual budget cycles, making it difficult to plan and redirect resources from one function to another.

CSU will examine ongoing investments to ensure they are in line with the mission of the university so that the money invested in CSU by the state and students is spent thoughtfully and with student success at its core.

### **Proposed Systemwide Tuition and Fee Increases for the 2017-2018 Academic Year**

The proposed systemwide tuition and fee rate increases below consider the longstanding trustee policy to maintain differential pricing between undergraduate and graduate/postbaccalaureate tuition and fee levels.

Undergraduate, Credential and Graduate Programs

Table 1 shows the current and proposed tuition levels for undergraduate, credential, and graduate programs.

<b>Table 1: Undergraduate, Credential and Graduate Tuition per Academic Year</b>			
	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Dollar Change</b>
<b>Undergraduate Programs</b>			
6.1 or more units	\$5,472	\$5,742	\$270
0 to 6.0 units	3,174	3,330	156
<b>Credential Programs</b>			
6.1 or more	6,348	6,660	312
0 to 6.0	3,684	3,864	180
<b>Graduate and Other Post-Baccalaureate Programs</b>			
6.1 or more	6,738	7,176	438
0 to 6.0	3,906	4,164	258

Summer rates would increase beginning with the summer 2018 term.

Doctoral Programs

The following table shows the current and proposed tuition rates for the three doctoral programs offered by the CSU.

<b>Table 2: Doctoral Program Tuition Per Academic Year</b>			
	<b>Current Rate</b>	<b>Proposed Rate</b>	<b>Dollar Change</b>
Doctor of Education	\$11,118	\$11,838	\$720
Doctor of Nursing Practice	14,340	15,270	930
Doctor of Physical Therapy	16,148	17,196	1,048

State laws (Education Code 66042.1 and 66040.5) require the tuition for the Doctor of Physical Therapy program and for the Doctor of Education program to be no higher than that of the University of California (UC). The law does not limit the tuition that may be assessed for the CSU Doctor of Nursing Practice program and does not link the CSU tuition and UC tuition and fees for doctoral nursing programs.

Non-Resident Students

Non-resident tuition is in addition to applicable systemwide tuition. Table 3 shows the current and proposed per semester and per quarter unit rates for non-resident students, who also pay state university tuition.

<b>Table 3: Non-Resident Tuition</b>				
	<b>Current Per Semester Unit Rate</b>	<b>Current Per Quarter Unit Rate</b>	<b>Proposed Per Semester Unit Rate</b>	<b>Proposed Per Quarter Unit Rate</b>
Non-Resident Tuition	\$372	\$248	\$396	\$264

Graduate Business Professional Program

The Graduate Business Professional Fee is in addition to applicable systemwide tuition. The board resolution authorizing this fee requires that whenever the board takes action to increase tuition for graduate students, the same increase will be made to the Business Professional Fee. Table 4 shows the current and proposed per semester and per quarter unit rates.

<b>Table 4: Graduate Business Professional Fee</b>				
	<b>Current Per Semester Unit Rate</b>	<b>Current Per Quarter Unit Rate</b>	<b>Proposed Per Semester Unit Rate</b>	<b>Proposed Per Quarter Unit Rate</b>
All Students	\$254	\$169	\$270	\$180

**Further Information and Summary of Public Comment**

In order to provide students and their families with as much information as possible for planning purposes, the <http://www.calstate.edu/tuition-increase> website includes information on the proposal. It provides information about the proposed tuition increase, general and campus specific financial aid resources, and other information.

The webpage also provides the opportunity for public comment. Comments were collected from the webpage and from public comment provided during the January 31, 2017 Board of Trustees meeting. Most comments opposed the tuition increase proposal. A few respondents indicated they understand the need for the increase, but they believe the state should be the primary funding source for the CSU. Other respondents raised issues that were unrelated to the tuition increase proposal, and outside of the university's control.

Public feedback fell into three main themes: 1) overall affordability, time to degree and student debt, 2) transparency in the use of new revenue to support students, and 3) the state's responsibility to fund the CSU rather than charging students higher tuition.

**Conclusion**

The CSU’s first priority continues to be to secure full funding from the state by working with partners across the system to make the case in the capitol for the level of new funding that supports student success. However, to ensure the university has the revenue available to meet its 2017-2018 priorities, especially those of the Graduation Initiative 2025, the CSU must act now on the tuition increase. The proposed increase seeks to balance the need to keep tuition affordable, add \$38 million to the State University Grant pool, yielding and add enough revenue to make meaningful investments in new courses, new faculty and the necessary academic and student services to support students on their path to graduation.

This action item requests that the trustees adopt a tuition increase to support the 2017-2018 trustee budget plan. If the proposal is adopted at the March 2017 Board of Trustees meeting, it will take effect in fall 2017 and meet the timeline and requirements of the Working Families Student Fee Transparency and Accountability Act. In addition, the CSU will publish approved increases in communications to students and on campus websites in order to provide advance notice to current and prospective students and their families. As advocacy efforts for the 2017-2018 budget are underway, it is the CSU’s priority that the state fully-fund the CSU’s support budget request in lieu of a tuition increase.

**Recommendation**

The following resolution is presented for approval:

**RESOLVED**, By the Board of Trustees of the California State University that the following 2017-2018 academic year schedule of systemwide tuition and per-unit fees be approved, effective fall term 2017:

<b>Undergraduate, Graduate and Credential Tuition</b>	<b>2017-18</b>
<b>Undergraduate Programs</b>	
6.1 or more units	\$5,742
0 to 6.0 units	3,330
<b>Credential Programs</b>	
6.1 or more	6,660
0 to 6.0	3,864
<b>Graduate and Other Post-Baccalaureate Programs</b>	
6.1 or more	7,176
0 to 6.0	4,164

Doctoral Program Tuition	2017-18
Doctor of Education	\$11,838
Doctor of Nursing Practice	15,270
Doctor of Physical Therapy	17,196

Non-Resident Per-Unit Tuition	
Semester Campuses	Quarter Campuses
\$396	\$264

Graduate Business Professional Program Per-Unit Fee	
Semester Campus Rate	Quarter Campus Rate
\$270	\$180

The systemwide tuition and fees provided in the above table are for the academic year. The applicable per term fee schedules consistent with these academic year fees for campuses based on a semester or quarter calendar for regular students (6.1 units or more per term) and part time students (up to 6.0 units per term), and for the academic year are provided on the System Budget Office webpage.

And, be it further

**RESOLVED**, The chancellor is delegated authority to further adopt, amend, or repeal the systemwide tuition and fee rate increase(s) if such action is required by the state budget act approved for 2017-2018 or by other state law, and that such changes made by the chancellor are communicated promptly to the trustees.