

## AGENDA

**COMMITTEE ON FINANCE**

**Meeting:** 10:00 a.m., Tuesday, March 20, 2018  
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair  
John Nilon, Vice Chair  
Jane W. Carney  
Adam Day  
Hugo N. Morales  
Jorge Reyes Salinas  
Lateefah Simon

<b>Consent</b>	<ol style="list-style-type: none"> <li>1. Approval of Minutes of the Meeting of January 30, 2018, <i>Action</i></li> <li>2. California State University Annual Debt Report, <i>Information</i></li> </ol>
----------------	---

**Discussion**

3. Doctor of Audiology Tuition Rate, *Information*
4. Status of the Sustainable Financial Model Task Force Report Recommendations, *Information*
5. 2018-2019 Operating Budget Update and Consideration of Expenditure and Revenue Options, *Information*

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

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

**January 30, 2018**

**Members Present**

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

Trustee Peter J. Taylor called the meeting to order.

**Public Comment**

Representatives of the California State University Employees Union spoke about the need for equal pay for women. They also expressed concern over the possible contracting out of custodial services at CSU Dominguez Hills. Ms. Lilian Taiz of the CFA urged everyone to come together and fight for additional funding from the state. Representatives from Students for Quality Education made comments regarding the tuition fee increase proposal and urged the trustees and administrators to lobby strongly for a sustainable funding source for the CSU.

**Approval of Minutes**

The minutes of the November 7, 2017 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, Los Angeles and California State University Maritime Academy**

Trustee Taylor presented agenda item two as a consent action item. The committee recommended approval of the proposed resolution ((RFIN 01-18-01).

**University Operational Effectiveness Initiatives**

Information about the CSU's efforts to reduce expenses and increase its operational effectiveness was shared. Examples of special systemwide projects and initiatives were reviewed, including projects with Amazon and the University of California for information technology and purchasing. Reports from external sources citing several CSU campuses as best value colleges were shared.

Following the presentation, trustees made comments regarding affordability of textbooks and e-textbooks. They also asked questions about alternate insurance models, cloud based technology, and process improvement strategies.

**2018-2019 Operating Budget and Consideration of Expenditure and Revenue Options**

The 2018-2019 Governor's Budget outlook and proposal for the CSU was reported. The governor is proposing a \$92 million dollar allocation for the CSU, which is \$171 million short of the trustees' support budget request. Various options for addressing the funding gap were shared.

Following the presentation, trustees made comments about the effects that not receiving full state funding would have on fair compensation for faculty and staff, enrollment, and wrap around services provided to students. They encouraged all stakeholder to create new ways to communicate the importance of adequately funding the CSU and increase pressure on the governor and elected officials in the legislature. The trustees offered various possible solutions such as multi-year tuition, increase in non-resident tuition, limiting enrollment to the top 33 percent of California high school graduates, and consideration of structural reform to secure a dedicated funding source, such as a tax, for the CSU. The trustees requested an update on the use of the 2017-2018 tuition fee increase revenue and the effect of the tuition increase on students.

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. The chancellor has established such 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 approved by the trustees, including student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other academic facilities. Revenues from these programs and revenues approved by the trustees, 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 June 2020.

### **SRB and CP Portfolio Profile**

As of June 30, 2017 and December 31, 2017, outstanding SRB debt of the CSU was approximately \$5.8 billion and approximately \$5.7 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:	3.65%
Weighted Average Maturity:	15.2 Years
Interest Rate Mix:	96% Long Term Fixed Rate 4% Short Term Fixed Rate

As of December 31, 2017, outstanding CP was \$110.4 million at a weighted average interest rate of 0.98 percent

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

For the fiscal years ended June 30, 2015, June 30, 2016, and June 30, 2017, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2017</u>
Operating Revenues <sup>1</sup>	\$1,701	\$4,852	\$4,939
Operating Expenses <sup>1</sup>	<u>1,232</u>	<u>1,502</u>	<u>1,688</u>
Net Revenues	469	3,350	3,251
Annual Debt Service	\$266	\$274	\$301
Debt Service Coverage <sup>2</sup>	<b>1.76</b>	<b>12.23</b>	<b>10.80</b>

(1) June 30, 2016 and June 30, 2017 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.

(2) The minimum benchmark for the system, as established by Executive Order 994, is 1.45.

### **Activity since the March 2017 Annual Debt Report**

The CSU has neither issued new debt nor refinanced existing debt since the last debt report to the trustees at the March 2017 meeting.

**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

CHICO

DOMINGUEZ HILLS

EAST BAY

FRESNO

FULLERTON

HUMBOLDT

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

NORTHridge

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

October 23, 2006

**MEMORANDUM**

**TO:** CSU Presidents

**FROM:** Charles B. Reed  
Chancellor

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

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

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.

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).

CBR/rr

Attachment

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

**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

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

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

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.

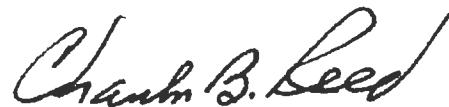
**6.5 Consistency of Computations:** Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

#### **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:

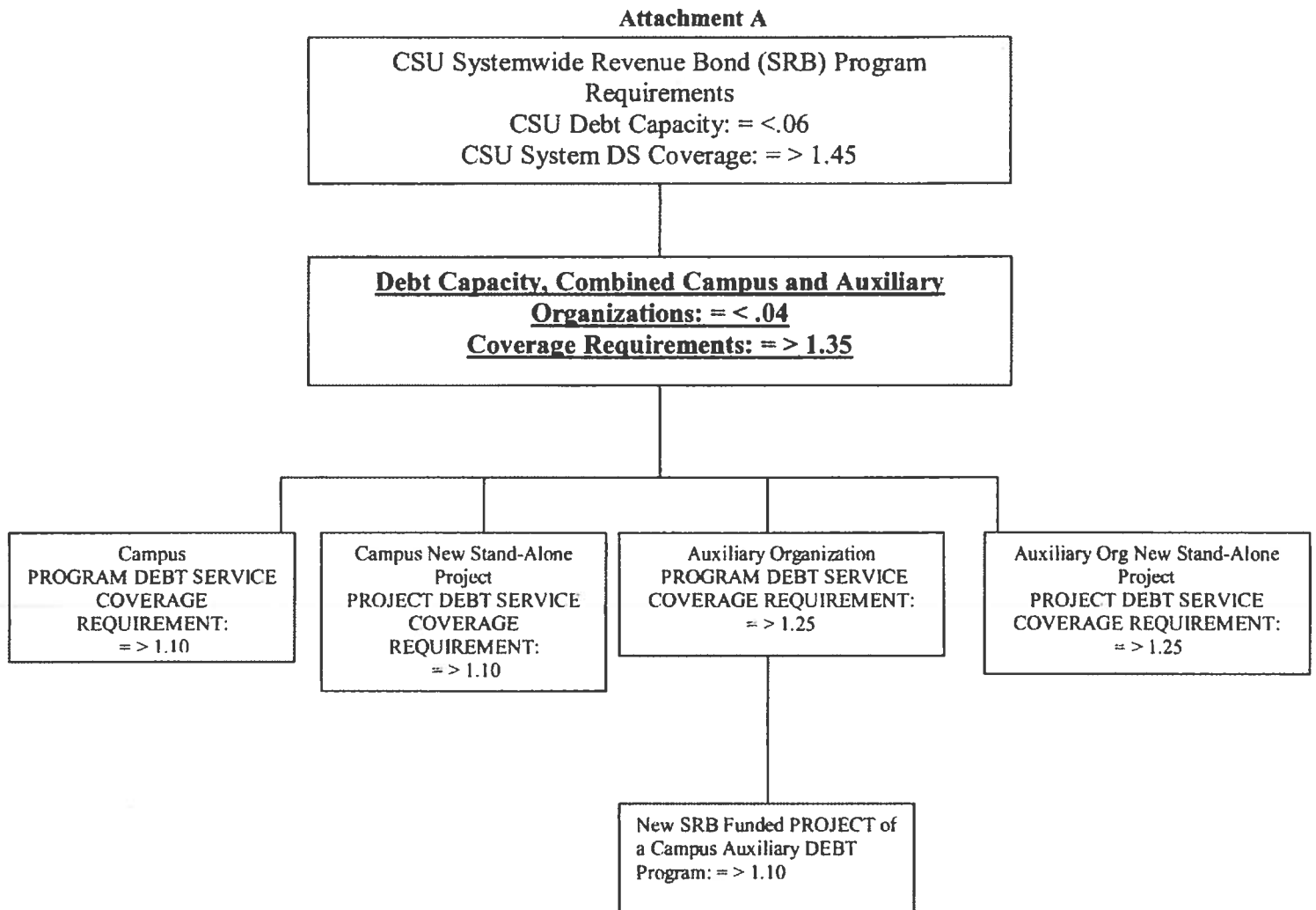
- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

**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 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

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**

### **Doctor of Audiology Tuition Rate**

#### **Presentation By**

Ryan Storm  
Assistant Vice Chancellor for Budget

#### **Summary**

This item proposes a California State University (CSU) Doctor of Audiology (AuD) tuition rate in order to implement the provisions of Assembly Bill (AB) 2317 (Mullin), which authorized the CSU to offer AuD degree programs independent from partnerships with other institutions. At the March 2017 board meeting, the Board of Trustees approved changes to the CSU Academic Master Plan to include development of AuD program proposals at four campuses (REP 03-17-02). The proposed tuition rate is required to offer the AuD without diminishing the quality of support for CSU undergraduate programs.

#### **Background**

Pursuant to Education Code § 89700, the CSU Board of Trustees has the authority to establish, adjust, and abolish systemwide tuition and fees. This agenda item recommends adoption of a tuition rate for new audiology degree programs that the chancellor may approve in response to recent authorizing legislation. On September 29, 2016, Governor Jerry Brown signed into law AB 2317, which through Education Code § 66041 expanded the degree-granting authority of the CSU to include AuD degree programs. Prior to the passage of this legislation, the CSU could only offer AuD programs in joint partnership with the University of California (UC) or with California's private institutions of higher education. CSU AuD programs will focus on the preparation of audiologists to diagnose, manage, and treat a patient's hearing, balance, or ear problems.

The U.S. Bureau of Labor Statistics (BLS) forecasts that audiologists will be in high demand, with employment opportunities between 2016 and 2026 growing much faster than the average for all jobs nationally. Advancements in diagnosis and treatment for patients across the lifespan may increase the job growth in audiology. For example, routine neonatal hearing screening and the early identification and diagnosis of hearing disorders, as well as advances in more appealing and effective hearing aid design may lead to a greater need and increased demand for audiologists. Most audiologists work in healthcare facilities, such as physicians' offices, audiology clinics, and hospitals. Some work in schools, school districts, or in health and personal care stores.

A 2016 BLS report cites an average mean salary of \$94,760 for audiologists practicing in California, one of the 10 highest audiology-wage states in the country.



Education Code § 66041.1 stipulates that the CSU shall provide any startup and operation funding needed for AuD programs from within existing budgets and without diminishing the quality of program support offered to CSU undergraduate programs. Enrollment in these programs shall not diminish enrollment growth in undergraduate CSU programs, and funding of the programs shall not result in reduced undergraduate enrollments.

There are currently only two AuD programs offered in California: the joint San Diego State University (SDSU) and University of California, San Diego (UCSD) program and one offered by University of the Pacific. Per Education Code § 66041.1(c), the CSU may charge AuD tuition no higher than the rate charged for students in state-supported UC AuD programs, including the joint SDSU-UCSD AuD program. The four-year SDSU-UCSD program has an estimated program cost of \$81,082 for students who entered in fall 2017. The only other AuD program in California is offered at University of the Pacific, where the three-year program costs \$123,390 to complete.

The proposed AuD tuition rate supports curriculum development and delivery, faculty resources, highly specialized faculty, doctoral advising and mentoring, program administration, facilities, equipment, and library resources and a small student-to-faculty ratio required in doctoral programs. Tuition also supports provisions to carry out professional mandates and national professional accreditation, and the creation of our regional accreditor's required "doctoral culture," typified by academic rigor, intellectual exchange, and a research-and-scholarship environment appropriate to a doctoral-granting institution.

Based on program-cost analysis conducted in consultation among the Chancellor's Office and CSU AuD campuses, the CSU Doctor of Audiology tuition rate for 2018-2019 is recommended to be assessed at \$7,371 per term for the four-year, 11-term program, or \$14,742 per academic year. Tuition for the summer term will be the same as for a fall or spring term. At that scheduled rate, the total tuition price for the four-year AuD program would be \$81,081. Fall 2018 is the earliest term by which an approved AuD program could begin instruction.

## **Conclusion**

The tuition recommendation includes the following:

1. The tuition rate will be established as the CSU Doctor of Audiology Tuition for students enrolled in CSU AuD degree programs.
2. Students enrolled in AuD degree programs shall be subject to campus-based mandatory fees.
3. Students will be assessed the AuD tuition rate each term, irrespective of the number of units taken.

4. Proposals to the trustees to increase the CSU Doctor of Audiology tuition rate will be based on program costs and/or price increases for the joint SDSU/UCSD AuD program.
5. AuD degree programs are full-time study programs, planned for postbaccalaureate students who are not yet qualified to begin careers as audiologists. Based on these considerations, the mandatory financial aid set-aside from student AuD tuition will be 25 percent of the tuition revenue collected for this program. Set-aside funds not distributed for need-based aid shall be applied toward program operational costs.

The recommended AuD tuition will generate sufficient revenue to fund program costs while keeping CSU doctoral programs in audiology as affordable as possible, given the high cost to offer the programs. An agenda item to approve the CSU Doctor of Audiology tuition rate will be presented for board approval at the May 15-16, 2018 Board of Trustees meeting.

## **COMMITTEE ON FINANCE**

### **Status of the Sustainable Financial Model Task Force Report Recommendations**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

#### **Summary**

In October 2014 Chancellor Timothy White formed a task force co-chaired by two campus presidents and the executive vice chancellor and chief financial officer. The charge to the task force was to propose a sustainable financial model for the university, recognizing the changes in state funding of higher education, our inability to meet demand by qualified students, and critical faculty and facility needs for instruction and support. The report of the Sustainable Financial Model for the California State University Task Force was presented to the Board of Trustees in draft form at the January 2016 meeting, revised based on that discussion, and presented in final form at the March 2016 meeting.

In fall 2017, the chancellor formed a workgroup “to obtain updates on initiatives related to the task force report recommendations and consider other related recommendations that support the financial strength of the university.” Attachment A to this item is the letter sent by the workgroup to the chancellor summarizing results of the workgroup meetings and providing the current status of each of the twenty-one recommendations included in the March 2016 task force report.

## Memorandum

**Date:** February 22, 2018

**To:** Timothy P. White  
Chancellor

**From:** Peter Taylor  
Trustee

Steve Relyea  
Executive Vice Chancellor and Chief Financial Officer

**Subject:** Status of the Sustainable Financial Model Task Force Report Recommendations

In Fall 2017, you brought together a workgroup “to obtain updates on initiatives related to the task force report recommendations, and consider other related recommendations that support the financial strength of the university.” Members of the workgroup included:

Jane Carney, Trustee

John Nilon, Trustee

Lateefah Simon, Trustee

Peter Taylor, Trustee

Emily Hinton, Trustee

Leroy Morishita, President, California State University, East Bay

Tom McCarron, Vice President, Business and Financial Affairs and Chief Financial Officer, San Diego State University

Christine Miller, Chair, Academic Senate of the California State University

Chris Mallon, Assistant Vice Chancellor, Academic Programs and Faculty Development

Steve Relyea, Executive Vice Chancellor and Chief Financial Officer

This memorandum describes results of discussions of the workgroup, provides the current status of the each of the twenty-one recommendations included in the March 2016 task force report, and notes other related recommendations by the workgroup that support the financial strength of the university.

### Overview

The final task force report provided recommendations across five major areas including resource allocation, administrative effectiveness, managing costs, and revenue generation all in the context of supporting a quality education and student achievement. For each area, the final report included

#### CSU Campuses

Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

Chancellor White  
February 22, 2018  
Page 2 of 13

a brief review of the background challenges, provided a conceptual proposal to address the challenges, summarized the rationale for the proposal, and provided specific recommendations. Since the March 2016 publication of the final report of the Sustainable Financial Model for the California State University Task Force, substantial progress has been made to implement recommendations included in the report. The twenty-one recommendations are arranged in Table 1 by duration and purpose emphasizing short-term expense reduction, long-term revenue generation, or long-term expense reduction.

*Table 1.*  
*Task Force Report Recommendations by Duration and Purpose*

Recommendations Emphasizing Short-Term Expense Reduction

1. Student Access - Early Start
7. Improve Administrative Systems
10. Internal Allocations for Enrollment
11. Capital Financing Policy

Recommendations Emphasizing Long-Term Revenue Generation

5. Research and Grants
9. Public Private Partnerships (P3)
12. Capital Financing Fees
15. Alternative Measures for Allocation
18. Expand CSU's Investment Authority
19. The Critical Role of Philanthropy
20. Tuition model
21. Market Based Non-Resident Tuition Rates

Recommendations Emphasizing Long-Term Expense Reduction

2. Student Access – Redirection
3. Student Access – Technology
4. Student Access – Facilities
6. Policies and Procedures
8. Maximize Use of Facilities
13. Capital Financing Policy
14. Capital Financing Reserves
16. Health Premiums and Pension Benefit Costs
17. State University Grant Allocation Procedures

Chancellor White  
February 22, 2018  
Page 3 of 13

## **Detailed Status of Recommendations**

Following is a restatement of each recommendation included in the original report, shown in italics, and a brief summary of actions taken regarding each recommendation. Most of the recommendations have been completed or are considered on an on-going basis as part of the annual budget process and two of the recommendations are in-process, meaning that efforts are underway to implement aspects of the report recommendation. The remaining recommendations warrant ongoing revaluation as state fiscal circumstances evolve.

### **Recommendation 1. Supporting a Quality Education - Student Access Early Start**

Category: Short-Term Expense Reduction

*“First, build on current efforts to reduce the need for additional English and mathematics preparation for entering freshmen, within the context of the new Common Core State Standards and new K-12 assessments. The workgroup should also explore new intersegmental strategies to further reduce the numbers of admitted students who are not ready for college level work to enhance systemwide implementation of best practices, such as current Summer Bridge and Early Start Programs, and to increase the number of students completing their college preparation work prior to beginning their coursework in the fall.”*

Executive Order 1110 was issued on August 2, 2017 concerning assessment of academic preparation and placement in first-year general education written communication and mathematics/quantitative reasoning courses implements key aspects of this recommendation beginning in fall 2018 with implementation of all changes to the Early Start Program not later than fall 2019.

### **Recommendation 2. Supporting a Quality Education - Student Access Redirection**

Category: Long-Term Expense Reduction

*“Second, develop a robust process that provides options for students who are CSU-eligible but unable to attend campuses that are at enrollment capacity. A CSU admissions redirection program would provide denied eligible students, who find their preferred campus is at capacity, with options to attend another CSU campus. The taskforce recognizes that many students are place-bound and it may be difficult to attend another CSU campus. A review of regional demand and local service area policies will facilitate the conversation about where and when to redirect applications and help balance enrollment demand and capacity across the system.”*

Chancellor White  
February 22, 2018  
Page 4 of 13

A new student application system was implemented for Fall 2018 applications, which allows applications to be redirected among the 23 campuses. Policy recommendations were presented to the Board of Trustees for information at the January 2018 meeting. The proposed policies for redirection apply to all CSU-eligible undergraduate applicants who have not been admitted to a CSU campus and will be presented to the Board of Trustees for action at the March 2018 meeting.

### **Recommendation 3. Supporting a Quality Education - Student Access Technology**

Category: Long-Term Expense Reduction

*“Third, identify a set of best practices for campuses to adopt in using technology and data-driven decision making to enhance student retention and progress to degree. These new techniques can support early identification of problems, enhance advising strategies, support students who are facing challenges, and encourage students to graduate as soon as they acquire sufficient units.”*

Most campuses have implemented data-driven decision-making capabilities, including the development and implementation of enhanced advising and automated course planning. Ongoing efforts continue, including the consideration of a comprehensive systemwide student information system.

### **Recommendation 4. Supporting a Quality Education - Student Access Facilities**

Category: Long-Term Expense Reduction

*“Fourth, identify scheduling and online instructional approaches that maximize the use of our facilities given campus facility capacity limitations. Analysis should be done to determine to what extent these problems could be alleviated by alternative scheduling including extending the instructional week, offering a full summer term, and expansion of Friday and Saturday classes. Consideration of alternative scheduling approaches should take into account the costs and benefits of space utilization, faculty and administrative staffing, utilities, infrastructure, and maintenance needs.”*

Coordinating academic schedules across the CSU system is one way to provide students with additional options. Toward this end, two more campuses will complete the transition to semester systems in Fall 2018, with the final campus to complete the phased-in transition in Fall 2020, leaving only one campus on the quarter system. Campuses are also expanding summer term enrollment on a limited basis to facilitate graduation requirement completion, as limited funding is made available for enrollment growth. Further expansion of summer session requires funding for enrollment growth and is unlikely to occur without additional funding.

Chancellor White  
February 22, 2018  
Page 5 of 13

## **Recommendation 5. Supporting a Quality Education - Research and Grants**

Category: Long-Term Revenue Generation

*“The task force recommends that the Office of Research Initiatives and Partnerships at the Chancellor’s Office collaborate with campus Research and Sponsored Programs offices to identify and implement strategies designed to expand funding opportunities from federal, state, local, and private entities to support the CSU’s mission regarding research, scholarship, and creative activities.”*

An additional position has been authorized in the Chancellor’s Office to support more focused efforts to obtain federal research grants. Significant growth in the number and size of federal and state grants has already occurred from expanded collaborative approaches.

## **Recommendation 6. Administrative Effectiveness - Policies and Procedures**

Category: Long-Term Expense Reduction

*“The task force recommends that a workgroup be appointed to review California codes and regulations, as well as all CSU policies and procedures with a financial or operational impact and recommend changes to the chancellor for consideration. In some cases, proposed changes may require action by the Board of Trustees. A comprehensive evaluation is critical to assure that the resulting recommendations strive to remove bureaucratic regulations and impediments regarding all aspects of the CSU’s financial and administrative operations.”*

A workgroup comprised of campus chief financial officers and Chancellor’s Office staff has been formed to identify potential statutory and regulatory changes that would have positive financial and operational consequences. Potential changes identified initially include statutory changes to remove existing fund restriction to allow more flexible utilization of auxiliary enterprise resources to support the academic mission, regulatory changes to permit the CSU to participate in Community Choice Aggregation (CCA) electricity purchase programs to reduce utility costs, and budget act changes to exempt CSU capital projects from Department of Finance review. Recommended changes will be presented to the Board of Trustees for consideration as part of future legislative programs.



Chancellor White  
February 22, 2018  
Page 6 of 13

## **Recommendation 7. Administrative Effectiveness - Improve Administrative Systems**

Category: Short-Term Expense Reduction

*“The task force recommends the chancellor charge separate workgroup(s) to evaluate and develop a set of recommendations on: existing and potential improvements in applications software and hardware support that can enable better administrative services while containing or reducing costs; cost reduction strategies in the areas of strategic procurement, multi-segment collaboration, and network infrastructure; current statutes and regulations that restrict efforts to reduce energy consumption and costs, and becoming more self-reliant with conventional and renewable energy sources; and, cost reduction strategies in the area of library management systems.”*

Development and implementation of the Common Human Resource Management System (CHRS) continues with formal design proposals scheduled to begin in spring 2018. Recent changes made to the systemwide data center serving all 23 campuses have resulted in enhanced operational capability at a reduced cost. Statutory changes will be proposed in response to recommendation 6 to facilitate more efficient and less costly utility acquisitions.

## **Recommendation 8. Administrative Effectiveness - Maximize Use of Facilities**

Category: Short-Term Expense Reduction

*“The task force recommends that campuses and the system explore the viability of year-round operations on select campuses and address issues such as faculty hiring and deployment processes, the application and admission process, and financial aid across the full college year. In addition to operational considerations, campuses will need to re-envision campus culture and academic pathways to promote student success under the year-round model. Such change must be accomplished in partnership with faculty and within the framework of the collective bargaining environment. Year-round operations may be an optimal forward-looking path for some CSU campuses.*

*Enrollment growth achieved through year-round operations should not come at the expense of growth for other campuses following the traditional academic-year model and the state should provide supplemental enrollment growth funding to support expansion of the summer term.”*

Campus are expanding summer term enrollment on a limited basis to facilitate graduation requirement completion, as limited funding is made available for enrollment growth. Further

Chancellor White  
February 22, 2018  
Page 7 of 13

expansion of summer session requires funding for enrollment growth and is unlikely to occur without additional funding.

### **Recommendation 9. Administrative Effectiveness - Public Private Partnerships (P3)**

Category: Long-Term Revenue Generation

*“The task force endorses increased consideration and use of public-private partnerships to advance the CSU's mission, with careful attention to potential risks, meaningful consultation, and campus governance policies, as well as compliance with systemwide policies. In challenging times and with limited resources, public-private partnerships provide tested alternative tools to deliver facilities, generate revenue, and potentially transfer some project risks to private partners. The success of public-private partnerships depends upon a sound business plan with realizable revenues, a committed and knowledgeable team of personnel, and senior leadership to support its purpose in meeting institutional objectives.*

*While the task force reached general consensus on this recommendation, one member was cautious about the involvement of private profit-driven entities in campus development activities, which may conflict with the educational mission of the campus.”*

The number and scope of public private partnership projects presented to the Board of Trustees for approval has increased dramatically since the original report was published. A dedicated professional has been hired in the Chancellor's Office to coordinate and support these complex projects; systemwide master enabling agreements with financial, developmental and design professionals have been issued to enable campuses to hire expertise when required, and a workgroup of campus chief financial officers and chancellor's office staff has been formed to identify opportunities to improve processes used to evaluate, propose, and obtain approval of public-private and public-public partnership projects.

### **Recommendation 10. Resource Allocation - Internal Allocations for Enrollment**

Category: Short-term Expense Reduction

*“The task force recommends that the chancellor modify the internal resource allocation methodology to address the funding of enrollment growth in a direct and transparent manner. Ideally, a fixed dollar amount should be allocated to campuses for every additional full-time equivalent student (FTES) and allocations for enrollment growth should not be reduced as other revenue sources grow. As a separate part of the allocation methodology, the chancellor may allocate additional*

Chancellor White  
February 22, 2018  
Page 8 of 13

*funds to support specific needs of campuses to address financial or physical infrastructure challenges.”*

Changes in campus allocations were made beginning with the 2016-2017 budget to make enrollment growth funding more transparent, direct, and predictable.

### **Recommendation 11. Resource Allocation - Capital Financing Policy**

Category: Short-term Expense Reduction

*“CSU policy should acknowledge the new capital financing authorities and the impact on operating revenues by providing each campus with the flexibility and authority to allocate available resources to meet its operating and capital needs. CSU policy should allow each campus to establish the priority of its needs, within the broader mission priorities established by the Board of Trustees.”*

The Board of Trustees approved a revised capital funding policy in conjunction with approval of the 2017-2018 capital outlay program that directed capital funding to campus priorities in accord with Board priorities.

### **Recommendation 12. Resource Allocation - Capital Financing Fees**

Category: Long-term Revenue Generation

*“In consultation with key stakeholders including students, faculty, and the state, the CSU should pursue ongoing and one-time state funds, as well as future general obligation bonds with debt service paid by the state general fund. The task force deliberated on possible solutions in the event that additional state support is not provided for capital needs, including consideration of a capital facilities fee to sustain safe and adequate facilities. While additional capital funding is critical, as a result of consultation with faculty, students, and legislative representatives, the task force determined that the recommendation to consider a future capital facilities student fee was inconsistent with the principles of state-funded public higher education. Passing the cost along to students puts pressure on affordable access to a high-quality education. The buildings that make up the CSU were built by the state and should be maintained by the state for future use by California students. As a result, the task force decided not to recommend further consideration of a capital facilities student fee.”*

Chancellor White  
February 22, 2018  
Page 9 of 13

Although the task force did not recommend moving forward with a capital facilities fee, further reevaluation of a dedicated capital fee may be warranted in the future as state funding parameters evolve.

### **Recommendation 13. Resource Allocation - Capital Financing Policy**

Category: Long-term Expense Reduction

*“CSU policy should require that each campus contribute funding towards the cost of campus capital projects in an amount at least equal to an established minimum percentage for each project, taking into consideration specific campus circumstances and project characteristics.”*

The Board of Trustees approved a revised capital funding policy in conjunction with approval of the 2017-18 capital outlay program that required campuses to begin establishing reserves at least equal to 10% of the cost of capital projects approve for funding from systemwide revenue bond financing.

### **Recommendation 14. Resource Allocation - Capital Financing Reserves**

Category: Long-term Expense Reduction

*“CSU policy should require that each campus set aside cash reserves annually, over and above the amount needed to meet debt service payments, to support such debt service payments in an amount at least equal to an established minimum percentage of annual debt service.”*

A reserve policy was issued by the executive vice chancellor and chief financial officer that allows campuses to establish designated reserves for short-term requirements, operational needs, and capital requirements.

### **Recommendation 15. Resource Allocation - Alternative Measures for Allocation**

Category: Long-term Expense Reduction

*“The task force recommends that the CSU consider additional measures for funding and that the chancellor direct committees and workgroups to further analyze and develop a set of potential student success and completion measures.”*

Chancellor White  
February 22, 2018  
Page 10 of 13

Changes in campus allocations were made beginning with the 2016-2017 budget to consider factors such as campus size, number of PELL eligible students, and progress made regarding Graduation Initiative 2025 goals.

#### **Recommendation 16. Managing Costs - Health Premiums and Pension Benefit Costs**

Category: Long-term Expense Reduction

*“The CSU should conduct a comprehensive assessment of all major cost categories, including an evaluation of the structure and cost of health care and retirement programs within the context of a total compensation strategy to ensure the long-term viability of these programs relative to the overall financial condition of the CSU.”*

Recent changes in collective bargaining agreements extend the vesting period required to qualify for post-employment health benefits from five to ten years. Public Employees’ Retirement Law sets defined benefit retirement levels for state employees and retirement benefits provided for in the law can be changed through legislation.

#### **Recommendation 17. Managing Costs - State University Grant Allocation Procedures**

Category: Long-term Expense Reduction

*“The task force recommends that the chancellor or his designee set the discretionary parameters for the State University Grant program as part of the budget allocation process that allows campuses, at a minimum, to continue to meet existing student financial need.*

*The task force also recommends the Chancellor’s Office monitor the rate of growth of tuition discounts from 2015-2016 to 2017-2018. During this period, the Chancellor’s Office should review and consider options for the program, including expansion of the Cal Grant Program to provide additional need-based grants to students. If the rate of growth of tuition discounts is not slowed, more significant changes in the state university grant program, possibly requiring changes in Board of Trustees’ policy, should be considered, including renaming the program to more accurately describe the use of tuition discounts rather than grants-in-aid. Any changes to the program will seek to minimize cost to the university while meeting the financial need of CSU students.”*

Chancellor White  
February 22, 2018  
Page 11 of 13

State University Grant funding and allocation procedures were reviewed as part of the 2017-2018 tuition increase and campus allocations were adjusted to reflect tuition rate adjustments. Similar reviews will be completed each fiscal year based on budget and tuition considerations.

### **Recommendation 18. Revenue - Expand CSU's Investment Authority**

Category: Long-term Revenue Generation

*"The task force recommends the CSU seek legislative changes that will expand its investment authority, establish an investment advisory committee to the board and enhance investment performance reporting. Furthermore, the task force recommends that the CSU incorporate environmental, social, and governance principles as part of its investment policy."*

*While the task force reached a strong consensus on the recommendation to expand CSU's investment authority, one member expressed concern that broadening investment options may result in a loss of principal and expose the CSU to inappropriate market risk."*

The Board of Trustees established the new investment advisory committee at the September 2017 meeting and approved the master investment policy during the November 2017 meeting that implements the new investment authority. A status report is included in the March 2018 Committee on Finance agenda that describes specific investment program implementation steps that are underway.

### **Recommendation 19. Revenue - The Critical Role of Philanthropy**

Category: Long-term Revenue Generation

*"The task force recommends that the CSU develop strategies to increase its investment in alumni, corporate and foundation relations; to focus on the support of quality programs and facilities; and to increase applied learning opportunities."*

The most recent annual report on philanthropic support was presented to the Board of Trustees at the January 2018 meeting. The agenda item reported a record-breaking \$501 million in new gift commitments (gifts received and pledges) in 2016-2017, achieving more than 30 percent increases in both alumni and parent giving, with an additional 6,800 alumni making gifts compared to the prior year.

Chancellor White  
February 22, 2018  
Page 12 of 13

## **Recommendation 20. Revenue - Tuition model**

Category: Long-term Revenue Generation

*“The task force recommends that the Board of Trustees conduct an annual review of tuition as part of the budget preparation process. The intent would be to move away from the past practice of large and unpredictable tuition spikes and move towards a practice of smaller, planned tuition adjustments over time. The result would be fairer to students because it would not penalize students who happened to enter CSU at the unanticipated implementation of a large tuition increase. Coupled with significantly increased general fund investment by the state, including identification of new dedicated revenue streams, small increases in tuition will improve the ability of the CSU to provide affordable access to a high-quality education for a growing number of students. This recommendation is not intended to result in automatic annual tuition adjustments but rather an annual review of tuition rates by the Board of Trustees in conjunction with development of the annual budget.”*

During consideration of the tuition increased for 2017-2018, the Board of Trustees discussed 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. The trustees determined that tuition rates and support budget needs should be reviewed annually in the context of the available state support.

## **Recommendation 21. Revenue - Market Based Non-Resident Tuition Rates**

Category: Long-term Revenue Generation

*“The task force recommends that the Board of Trustees and chancellor give CSU campuses the authority to propose campus-specific, market-based tuition for non-resident domestic and international students. The task force proposes that increases in these non-resident tuition rates apply to incoming students so that currently enrolled non-resident domestic and international students would not be impacted. The CSU should continue to closely monitor enrollment of nonresident and international students to ensure their numbers do not increase disproportionately to California students.”*

The Chancellor’s Office is considering a pilot program on a single campus that would restrict non-resident enrollment at or below existing levels and charge non-resident students an additional campus-based fee by cohort. The additional revenue would be used to help eliminate the achievement gap.

Chancellor White  
February 22, 2018  
Page 13 of 13

### **Other Related Recommendations of the Workgroup**

In addition to reviewing the status of the twenty-one recommendations made in the Sustainable Financial Model report, the workgroup considered several other ideas to support the financial strength of the CSU in light of changes in state funding of higher education in California. The workgroup discussed approaches that would provide designated state revenue streams to support higher education including oil severance taxes, estate taxes, or levies on purchases of cannabis and cannabis products. The workgroup also considered the challenges faced in developing and implementing a state initiative to implement a new statewide tax and suggested that staff explore further how an initiative might be crafted and a coalition developed to support the long-term effort.

The workgroup also carefully considered cost categories that should be reviewed including modifications to the state university grant program designed to limit the growth of institutional financial aid, a careful and thorough review of discretionary or outdated programs, enrollment reductions, and modifications to defined benefit programs that provide lower cost alternatives.

Lastly, the workgroup emphasized the need to develop a multi-year budget forecast to support more effective planning, including the development of a long-term tuition and fee policy that would improve the ability of students and their families to plan as well as provide additional revenue to support a quality education.



## **COMMITTEE ON FINANCE**

### **2018-2019 Operating Budget Update and Consideration of Expenditure and Revenue Options**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

Loren J. Blanchard  
Executive Vice Chancellor  
Academic and Student Affairs

Ryan Storm  
Assistant Vice Chancellor  
Budget

#### **Summary**

There are three purposes for this item and subsequent presentation.

One purpose is to share the report to the state regarding progress on Graduation Initiative 2025. Specifically, the report describes the new investments in the initiative in the current academic year. A copy of the report is included with this item as Attachment A.

Another purpose is to provide the trustees with the latest developments by the state on the California State University (CSU) budget plan for 2018-2019. Informational budget hearings were held by the senate and assembly in Sacramento in February and March, no action was taken. It is unlikely that the governor, assembly, and senate will take any budget action until late May.

Another purpose is to facilitate additional trustee discussion about CSU expenditure and revenue options. At the January 2018 meeting, the trustees discussed options and scenarios that included seeking additional state funding, not investing in certain elements of the trustees' 2018-2019 budget plan, a possible tuition increase, and potential reductions to campus programs and services. Trustees indicated a desire to continue their discussion on these topics at the March 2018 meeting.

Additional information will be presented at the March 2018 meeting to facilitate continuing discussion on these topics by the trustees.



Academic and Student Affairs  
401 Golden Shore, 6th Floor  
Long Beach, CA 90802-4210

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

Loren J. Blanchard, Ph.D.  
Executive Vice Chancellor

Tel: 562-951-4710  
Email [lblanchard@calstate.edu](mailto:lblanchard@calstate.edu)

January 17, 2018

Honorable Holly Mitchell, Chair  
Joint Legislative Budget Committee  
State Capitol, Room 5080  
Sacramento, CA 95814  
ATTN: Ms. Jennifer Troia

Mac Taylor  
Legislative Analyst  
925 L Street, #1000  
Sacramento, CA 95814

Michael Cohen, Director  
Department of Finance  
State Capitol, Room 1145  
Sacramento, CA 95814

Daniel Alvarez  
Secretary of the Senate  
State Capitol, Room 3044  
Sacramento, CA 95814

Diane Boyer-Vine  
Legislative Counsel  
State Capitol, Room 3021  
Sacramento, CA 95814

E. Dotson Wilson  
Chief Clerk of the Assembly  
State Capitol, Room 3196  
Sacramento, CA 95814

## **RE: CSU Graduation Initiative 2025 Progress**

Provision 1.3 of Item 6610-001-001 of the Budget Act of 2017 requires the California State University (CSU) to report to the Legislature no later than January 15, 2018, regarding (a) Opportunities for campuses to make more courses available by reducing the number of units earned in excess of degree requirements **AND** (b) The specific activities undertaken, and spending for each activity undertaken, to meet the state's goals for student success, including activities to close achievement gaps by improving outcomes for low-income students, first-generation college students, and students from underrepresented minority groups.

In response to this requirement, enclosed is a report detailing efforts undertaken by the CSU in support of Graduation Initiative 2025. Should you have any questions about this report, please contact Nathan Evans, chief of staff and senior advisor, Academic and Student Affairs at (562) 951-4624 or [nevans@calstate.edu](mailto:nevans@calstate.edu).

### **CSU Campuses**

Bakersfield  
Channel Islands  
Chico  
Dominguez Hills  
East Bay

Fresno  
Fullerton  
Humboldt  
Long Beach  
Los Angeles  
Maritime Academy

Monterey Bay  
Northridge  
Pomona  
Sacramento  
San Bernardino  
San Diego

San Francisco  
San José  
San Luis Obispo  
San Marcos  
Sonoma  
Stanislaus

CSU Graduation Initiative 2025 Progress  
January 17, 2018  
Page 2

Sincerely,

A handwritten signature in black ink, appearing to read "Loren J. Blanchard". The signature is fluid and cursive, with the first name "Loren" and last name "Blanchard" clearly distinguishable.

Loren J. Blanchard  
Executive Vice Chancellor

LJB:nse

Full report posted to [www.calstate.edu/budget/fybudget/legislative-reports/](http://www.calstate.edu/budget/fybudget/legislative-reports/)

- c:     Members, California State Legislature (if applicable)  
       Paul Steenhausen, Principal Fiscal & Policy Analyst, Legislative Analyst's Office  
       Timothy P. White, Chancellor, California State University  
       Loren J. Blanchard, Executive Vice Chancellor, Academic and Student Affairs  
       Garrett Ashley, Vice Chancellor, University Relations and Advancement  
       Ryan Storm, Assistant Vice Chancellor for Budget  
       Kathleen Chavira, Assistant Vice Chancellor, Advocacy & State Relations  
       Kara Perkins, Executive Budget Director  
       Nathan Evans, Chief of Staff and Senior Advisor, Academic and Student Affairs



## Graduation Initiative 2025 Progress

---

### *Student Success Activities and Opportunities*

# 1 INTRODUCTION

---

The California State University (CSU) is more than a year into Graduation Initiative 2025, its ambitious plan to ensure student success, increase graduation rates and eliminate achievement and equity gaps for all students. Through this initiative, the CSU is ensuring that all students have the opportunity to graduate in a timely manner, positively impacting their lives, families and communities. In doing so, the CSU will continue to fulfill its founding mission to produce the graduates needed to power California's future prosperity.

As the nation's largest and most diverse four-year public university system, the CSU plays an essential role in driving the economy and innovation in California and the United States. Indeed, half of California's teachers earn their credentials through the CSU and more than half of all California bachelor's degrees in agriculture, public administration, engineering, criminal justice and business are earned at the CSU.

The CSU's role in California's higher education framework has never been more important. According to the Public Policy Institute of California, the state faces a deficit of 1.1 million bachelor's degrees by 2030. With sufficient annual investment of new general funds to grow enrollment and support student success, Graduation Initiative 2025 will allow the CSU to meet its share of the projected workforce need, graduating an additional 500,000 students by 2025. The achievements would mark a doubling of four-year graduation rates.

While every student will benefit from the collective effort driving Graduation Initiative 2025, the CSU is specifically measuring progress based on six systemwide goals:

- A 40 percent 4-year freshman graduation rate
- A 70 percent 6-year freshman graduation rate
- A 45 percent 2-year transfer graduation rate
- An 85 percent 4-year transfer graduation rate
- Elimination of the graduation rate gap between Pell-eligible students and their peers
- Elimination of the graduation rate gap between underrepresented minority students and their peers.

To achieve the CSU's Graduation Initiative 2025 goals, all 23 campuses developed and are implementing individual student success plans. Simultaneously, the CSU is making systemwide changes to be even more innovative and strategic to better support students. The CSU is focused on six operational priority areas that have a tremendous impact on student success and completion, particularly addressing graduation rate gaps:

- **Academic preparation:** The CSU will provide all students, including those who arrive academically underprepared, the opportunity and support needed to complete 30 college-level semester units – 45 quarter units – before beginning their second academic year.
- **Enrollment management:** The CSU will ensure that students are able to enroll in the courses they need, when they need them.
- **Student engagement and well-being:** The CSU will continue to address the well-being of all CSU students while fostering a strong sense of belongingness on campus.

- **Financial support:** The CSU will ensure that financial need does not impede student success.
- **Data-driven decision making:** The CSU will use data-rich evidence to identify and advance the most successful academic support programs.
- **Administrative barriers:** The CSU will identify and remove unnecessary administrative impediments.

Over the past year, the CSU has made great progress toward its Graduation Initiative 2025 goals, aided by the state's \$35 million in one-time funding. Nearly 99,000 CSU students earned their bachelor's degree in the 2016-17 academic year. This represents an all-time high for the CSU, with an additional 7,000 students crossing the commencement stage compared to the previous year.

The progress demonstrated over the past year is due to the hard work that is occurring on campuses and systemwide as the CSU moves forward with Graduation Initiative 2025. This includes strengthening advising services to help students develop efficient academic paths, hiring more tenure-track faculty to teach additional courses and strategically targeting academic support services to students who need it most.

Provision 1.3 of Item 6610-001-001 of the Budget Act of 2017 requires the CSU to report to the Legislature no later than January 15, 2018, regarding (a) Opportunities for campuses to make more courses available by reducing the number of units earned in excess of degree requirements **AND** (b) The specific activities undertaken, and spending for each activity undertaken, to meet the state's goals for student success, including activities to close achievement gaps by improving outcomes for low-income students, first-generation college students, and students from underrepresented minority groups.

## 2 MEETING THE STATE'S GOALS FOR STUDENT SUCCESS

---

CSU investments in Graduation Initiative 2025 are categorized into three broad areas that aim to support student success and graduation for all students, and to close the achievement gaps for low-income students, first-generation students and students from underrepresented minority groups:

- Hiring additional tenure-track faculty and offering more course sections
- Hiring new advisors
- Investing in student and academic support programs to close the achievement gap

At the close of the fall 2017 term, CSU campuses reported on these areas with total new investments of more than \$88 million. Campuses re-prioritized existing budgets, and with the addition of \$75 million in new funding for the 2017-18 fiscal year, were able to achieve the goals endorsed by the CSU Board of Trustees to hire 400 new faculty, offer 3,000 additional course sections, add academic advisors and invest in programs specific to reducing time to degree and closing the achievement gap.

### 2.1 FACULTY HIRING AND OFFERING MORE COURSE SECTIONS - \$46 MILLION

The CSU continues to hire new tenure-track faculty, including replacing those faculty who retire or leave for other opportunities. Adding net-new faculty to improve tenure density within our faculty ranks, while also ensuring we have enough faculty to meet the needs of our student course demands, is critical as we work toward our Graduation Initiative 2025 goals. New tenure-track faculty and lecturers are key

to achieving the second goal of offering more sections so average unit load can increase for all undergraduates.

### **2.0.1 Tenure-Track Faculty Hiring**

For the 2017-18 academic year, preliminary data show that more than 700 new tenure-track faculty were hired, with another 700 searches underway. Of those, approximately 25 percent represent new positions above retirements and separations. This equates to nearly 400 new tenure-track faculty positions already added across the CSU in 2017-18, with an estimated total cost of just over \$46 million.

### **2.0.2 Adding Course Sections**

With the addition of new faculty, each campus can offer additional course sections. As a result, students have more access to the classes they need to graduate and are able to enroll in more units each term. In addition to tenure-track faculty, campuses hire thousands of lecturers to teach anywhere from one to five sections per term. In the 2017-18 academic year, campuses have added more than 3,200 new course sections.

In one example, CSU Sacramento's "Finish in Four" and "Through in Two" programs encourage students to earn a degree in four years (for first-time freshmen) or two years (for transfer students). As a result of the campus' efforts, the number of first-year students taking 15 units or more during fall semester has risen from 27 percent in 2013 to 84 percent in 2017. To help ensure these students can enroll in the courses they need, CSU Sacramento added 658 course sections this past year.

## **2.2 INVESTING IN ADVISING - \$18.2 MILLION**

One of the primary strategies for improving completion rates is providing greater access for students to their advisors to have a clear roadmap to graduation. As a student moves through their academic career at the CSU, the ability to regularly meet with an advisor and get timely information about course opportunities and scheduling are critical to success. Even with stronger technology-based tools available, regular engagement and communication with an advisor is a best practice for student success, especially for first-generation students.

With Graduation Initiative 2025 funding for 2017-18, campuses are continuing to reduce their student-to-advisor ratios. In so doing, 142 advisors have already been hired, and another 86 searches are open or will open in the coming months. These 228 new staff members will be a critical component in closing achievement gaps and helping all students navigate through general education and into their majors. The investment in these new positions totals more than \$18 million.

Campuses are also thinking more strategically about how best to ensure students can access advising. For example, San Diego State is changing its class registration process, moving registration earlier in the semester. Beginning with the fall 2018 semester, this change will make it easier for students to meet with advisors and develop academic schedules during critical pre-registration periods.

## **2.3 STUDENT AND ACADEMIC SUPPORT PROGRAMS - \$24.2 MILLION**

Campuses continue to develop and refine their academic and student support programs to ensure that they are meeting the changing needs of their unique student populations. In 2017-18, with an emphasis on closing achievement gaps, campuses are spending approximately \$24.2 million on these efforts.

### **2.0.1 Focusing on Academic Support**

Student academic support – including learning centers, tutoring centers, supplemental instruction and the redesign of high-demand, high-failure rate courses to improve student outcomes – remain institutional priorities. CSU campuses have shown the value of these efforts on improvement of student course outcomes, with the largest gains often attained by students from historically underserved communities.

### **2.0.2 Investing in Mentoring Programs**

Campuses have invested in mentoring programs (peers, alumni, faculty, staff and administrators) that allow for development of greater connectivity to the university and its community. Students gain a better sense of how their experiences, challenges and opportunities are like those experienced by their mentors and at the same time gain the advantage of potential paths to success that might otherwise have gone unseen. These programs increase academic and social integration with the university and have been shown to improve student outcomes for all students and particularly for students from historically underserved communities.

Campuses have invested in mentoring programs created in response to the recognized national need to address African American and Latino males' success, persistence and graduation rates. For example, Cal Poly Pomona used a portion of its funding to invest in its Project SUCCESS. Now in its second year, Project SUCCESS is mentoring male African American and Latino students, connecting them with faculty, staff, alumni and the community to help them successfully navigate the educational process.

### **2.0.3 Incentivizing Intercession and Summer Session Enrollment**

Offering courses in winter/spring intercession and summer session provides students additional opportunities to enroll in the classes they need for graduation, allowing a student to increase the number of units they complete each year if they so desire. Campuses are offering seniors nearing graduation financial support or incentives to encourage enrollment in intercession and summer session. This financial support – beyond the traditional student financial aid package – enables students to complete their degree in the summer when they otherwise would have been delayed at least one additional term.

Based on available resources, CSU campuses have shown the value of financial incentives on a small scale, with larger gains made by students from historically underserved communities. At Fresno State, for example, micro-grants are available to students who are on track to graduate but face unexpected financial challenges, particularly during their last planned term of enrollment.

### **2.0.4 Reducing Administrative Barriers**

CSU campuses have also invested to reduce administrative barriers that can keep an otherwise qualified student from graduating. Through coordinated communication to – and proactive tracking of – students nearing graduation, graduation planning outreach and improvements to graduation evaluation and processing, these efforts have provided gains for students from historically underserved communities who may not otherwise understand the administrative requirements that need to be met before an earned degree is awarded.



### 2.0.5 Addressing Student Well-being

Food insecurity and housing insecurity impact many CSU students, just as each affect countless communities across the state and nation. When a students' basic needs are not addressed, it can have an impact on their personal and academic growth. Campuses have provided leadership, coordination, strategic planning and communication to address and ensure appropriate basic needs services and programs for students experiencing food or housing insecurity.

All 23 CSU campuses have a food pantry or food distribution program for students. For example, CSU Bakersfield opened its food pantry in September 2017, and by November 3, nearly 600 students had utilized the pantry. Additionally, campuses have developed emergency housing programs, and many have launched websites that list local housing and food resources available to students.

### 2.0.6 Targeted Support

To address and support the unique circumstances and needs of specific student groups, campuses have developed targeted efforts enabling them to be more responsive to their student populations. This includes staffing and support for new or expanded Dream Centers for undocumented students on more than two-thirds of CSU campuses. It also includes new and expanded initiatives for minority male outreach and support programs as well as other targeted retention programs and personalized academic support services.

### 2.0.7 Data-driven Decision Making

The CSU is making additional investments in campus data fellows programs to enhance data literacy and build educational research expertise among faculty and staff. These programs engage diverse campus constituents in meaningful inquiries to enhance student success and facilitate cross-unit/division collaboration. These efforts promote a culture of data-driven decision making through education and communication.

Data-informed campuses can identify, address and resolve issues affecting all students. For example, CSU Fullerton used a portion of its funding to develop a data dashboard that will better predict course demand, improving student access to the classes required for graduation.

### 2.0.8 Nurturing a Sense of Belonging on Campus

Campuses promote, foster and enhance self-advocacy, empowerment and leadership among students from historically underrepresented backgrounds. Integrated into programming on all campuses are efforts to raise awareness of the social, political, economic, historical and cultural realities of the CSU's diverse student populations. Student centers on CSU campuses build a strong foundation that enrich cultural identity and develop a sense of family within the campus. A sense of identity and belonging promotes retention and degree completion.

## 3 INCREASING AVAILABLE COURSES BY REDUCING THE NUMBER OF UNITS EARNED IN EXCESS OF DEGREE REQUIREMENTS

---

Like institutions nationwide, the CSU regularly assesses the average and range of units taken by students completing baccalaureate degrees at their institutions. Calculations of units completed at graduation are complex, particularly considering averages across multiple institutions and an expansive

range of academic disciplines. With nearly 100,000 graduates each year, the CSU “average” represents only a high-level aggregation of the multiple pathways taken to earn a bachelor’s degree.

The CSU has taken many steps in the last five years to prioritize and emphasize the most expeditious pathways to degree, make students’ options and choices clearer, and to address areas in which the CSU could make a policy or process change to reduce administrative barriers. These efforts are integral parts of Graduation Initiative 2025, and the CSU will continue to make improvements to better serve students and provide efficient pathways to graduation.

### 3.0.1 Advisement

The CSU has improved advisor-to-student ratios and increased access to technology-enabled advising resources (eAdvising) across the system. As a result, the CSU has improved the messages and reinforcement students receive as they navigate their respective paths to degrees and made significant improvements in course availability, scheduling and sequencing.

In 2013, while all CSU campuses had rudimentary degree audit systems to allow students to verify completion of total units and basic degree requirements, only three campuses provided term-specific degree planning tools for students. By 2017, 20 campuses had implemented or are implementing degree-planning systems, with the remaining three campuses planning an implementation after their quarter-to-semester conversions are complete.

During the same period, all campuses implemented student scheduling software, allowing students to maximize their class schedule each term and better manage time constraints. For example, the [College Scheduler](#)—designed by a Chico State alumnus—is used at 21 CSU campuses and is one of many e-advising strategies used by the CSU to help place students in classes that fit their academic needs and busy schedules.

As more students begin their education at the CSU with access to these critical tools, we expect to see small, sustained and incremental decreases in excess units over time. Collectively, each of these efforts provide opportunities for individual students to make more timely progress toward their degree and accumulate only those units necessary for graduation.

### 3.0.2 Academic Programs

Through several years of intentional efforts, the CSU has successfully reduced nearly all baccalaureate degree requirements to the minimum of 120 semester units. In 2016-17, 96 percent of the more than 2,600 baccalaureate degree options and concentrations required exactly 120 semester units.

Efforts to provide more structured, formal degree pathways have also expanded across the CSU in recent years. As the CSU and the California Community Colleges work to increase the number of students transferring with a completed Associate Degree for Transfer (ADT), this will impact the total number of units completed by transfer students pursuing a CSU baccalaureate degree. The ADT pathway provides students with the opportunity to earn a bachelor’s degree by completing 60 semester units at a California community college prior to transfer and then completing 60 semester units in a similar degree program after transfer to a CSU campus. The share of new transfer students completing ADT pathways increased from 14 percent in 2014-15 to 30 percent in 2016-17. Currently, there are more than 99,000 pathways available through the ADT between the 114 California community colleges and 23 CSU campuses.

CSU campuses have also implemented and expanded the California Promise Program and similar pledge programs to provide clear, articulated plans for students who elect a structured and predictable degree plan. The California Promise Program enables CSU campuses to establish pledge programs for new students who are both interested and able to complete baccalaureate degrees in four years if they enter as freshmen, or two years as transfer students. Students who commit to enter either the four-year or two-year pledge are given priority registration for each academic year enrollment period and provided with routine academic advisement. To remain in the program, students must meet with their advisors as prescribed, develop an enrollment plan and complete 30 semester units (or the quarter equivalent) within each academic year, including summer. Participating campuses may stipulate additional requirements as well.

While some CSU campuses had existing pledge programs, the California Promise Program was formalized through legislation in September 2016. Growth in student participation is expected to result in increasing numbers of students completing baccalaureate degrees with fewer, if any, excess units.

### 3.0.3 Institutional Policies

The CSU has also taken steps to examine institutional policies and practices which impact educational equity, retention and degree completion. Work groups, comprised of students, faculty, staff and external constituents, have been tasked with examining each of the six operational priorities driving Graduation Initiative 2025 efforts to identify opportunities for institutional change to improve student success. In addition, systemwide policies directly impacting baccalaureate degrees have been reviewed and revised. For example, two executive orders (EO) were issued in August 2017 that address other policy-related barriers that could lead some students to earn excess units.

[EO 1100](#) revised systemwide General Education (GE) breadth requirements to: (1) provide clarity, (2) ensure equitable opportunity for student success and (3) facilitate timely graduation. The revised policy requires double-counting of courses which satisfy both major and GE requirements and ensures equivalent degree requirements for CSU students, regardless of entry as a first-year freshman or transfer student.

[EO 1110](#) institutes the use of multiple measures for placement in GE mathematics and English courses, so that more students begin their first semester earning units that count toward graduation.

Together, these policy changes help students streamline the path to degree, and remove policy barriers that affect student course-taking patterns.

## 3.2 REDUCING TOTAL UNITS EARNED – A SAMPLE MODEL

As the CSU continues a multifaceted approach to improve degree completion and decrease average units completed by students, it is important to consider the context and scale of the CSU. With nearly 500,000 students, the impacts of each effort will be incremental.

To illustrate the scale of the CSU, a sample model is shared to approximate the resulting full time equivalent student(s) (FTES) and class sections generated by a reduction of one earned unit by 100,000 students earning a baccalaureate degree. For comparison, in 2016-17, 98,771 bachelor's degrees were earned by CSU students. One hundred thousand degree recipients earning one fewer semester unit results in 100,000 'saved' units. These saved units would equate to 3,333 FTES preserved.

Course sections vary in size and FTES generation. For this sample, we assume a three-semester unit undergraduate course with 25 students as an approximation of an average CSU course section. The 3,333 FTES represents 1,333 additional course sections that could be offered in summer, fall, winter or spring across the 23 campuses. While the ability to offer 1,333 course sections across the CSU would provide real opportunities for students, it represents an increase of only one percent in total class sections systemwide during a college year. Assuming the additional sections are distributed proportionally across CSU campuses, increases would range from three at CSU Maritime Academy to 115 at CSU Fullerton spread across the entire college year.

### 3.3 CHANGES IN ENROLLMENT PATTERNS

Over the past five years, across the CSU, average unit load for undergraduate degree-seeking students has increased from 13.1 (fall 2013) to 13.3 (fall 2017). At the same time, undergraduate enrollments have grown from 387,000 to just over 426,000. While a two-tenths increase in units per student seems small, when combined with an increase in undergraduate students enrolled, it results in the need for more than 600,000 additional units or 40,000 additional FTES. Over that same period, state budgets provided new baseline resources for only slightly more than 5,000 of these FTES.

### 3.4 COMPLEXITIES

Student course-taking behavior and paths to degree reflect multiple and sometimes competing considerations. Some of the factors affecting course-taking behavior and total units taken over a typical undergraduate academic career include:

- Entry as a first-year student versus as a transfer student
- Student academic interests, including external requirements for certification or licensure
- Timing of declaration of a major and changes of major
- Academic advisement
- Financial aid and academic progress requirements
- General education or unique campus or degree requirements
- Course availability and sequencing
- Preparation for graduate or post-baccalaureate education
- Participation in academic research, co-curricular or extra-curricular activities
- Work commitments
- Family and other non-academic obligations and commitments.

Beyond the personal choices and preferences of students, external factors impacting student behavior also exist. Federal and state financial aid unit requirements for need-based grant aid remain an often-conflicting matter for students. To receive need-based grant aid, a student must enroll in six or more units for a partial financial aid award or twelve or more for full allocation, regardless of the actual number of units needed for the term.

With strong financial and academic advising, academic support and clear degree plans, students ultimately determine their own curricular path and, as a result, the total number of units earned at the time of their graduation.

### 3.5 LOOKING AHEAD

Each year, CSU campuses assess the average and range of units taken by students completing baccalaureate degrees. As a result of actions taken by campuses and systemwide – coupled with ongoing Graduation Initiative 2025 efforts – units per earned degree in the CSU should continue to decline in the near term in small and incremental, but measurable, ways.

Campus investments in academic advisors and the use of degree-planning and advisement tools coupled with course and space management tools should result in improved student progress to degree. Increased student participation in more structured degree plans, such as the ADT and California Promise Program will also likely contribute to ongoing, incremental decreases in excess units completed. Further, purposeful campus efforts to ensure strong starts by new undergraduates through improved orientations and student communications focused on timely degree should further reduce units per earned degree. And finally, elimination of pre-baccalaureate quantitative reasoning and written communication courses in favor of supported baccalaureate credit courses should also provide additional declines in units per earned degree.

## 4 CONCLUSION

---

When Chancellor Timothy P. White officially launched Graduation Initiative 2025 in January 2016, he contended that “a student’s chances of graduating should not be determined by their family income or their ethnicity but by their willingness to work hard and our determination to help them achieve their goals.”

Two years later, the CSU is even more focused on providing all students the opportunity and support to be successful, earn a degree in a timely manner and reach their life and career goals. This report details a number of actions taken systemwide and by campuses, including investments in additional faculty, advisors and courses, and efforts to provide students efficient pathways to a degree. While expansive, the actions described in this report represent only a fraction of the ongoing and innovative work occurring throughout the entire CSU in support of this initiative.

Through the continued efforts of the CSU and its faculty and staff – reliant upon predictable, sustainable and sufficient state investment – Graduation Initiative 2025 will continue to improve outcomes for all students, allowing them to grow, innovate, teach and build an inclusive and prosperous California.