

## AGENDA

### COMMITTEE ON FINANCE

**Meeting: 2:30 p.m., Tuesday, January 23, 2001**  
**Glenn S. Dumke Conference Center**

William Hauck, Chair  
Murray L. Galinson, Vice Chair  
Neel I. Murarka  
Dee Dee Myers  
Frederick W. Pierce IV  
Ali C. Razi  
Stanley T. Wang

#### Consent Items

Approval of Minutes of Meeting of November 8, 2000

#### Discussion Items

1. Status Report on the 2001/2002 Support Budget, *Information*  
National Sports Complex at California State University, Dominguez Hills,  
*Information*
2. The California State University Debt Capacity Study, *Information*
3. Approval of Implementation of a Commercial Paper Financing Program for  
the California State University, *Action*
4. Approval for the Issuance of the Debt Instruments Supported by Bonds of the  
California State University Housing Revenue Bond System For an  
Apartment Complex at California State University, Fullerton, *Action*
5. Approval for the Issuance of Debt Instruments Supported by Humboldt State  
University Student Union Revenue Bonds, *Action*
6. Auxiliary Organization Tax Exempt Financing for San Diego State  
University, *Information*
7. Real Property Development Project for San Jose State University for a  
Classroom and Office Complex Project, *Action*
8. Real Property Development Project at San Jose State University for a  
Campus Housing and Retail Village Project, *Action*
9. Real Property Development Project at California State University,  
Northridge for the Los Angeles Unified School District Academy High  
School, *Action*
10. Real Property Development Project at California State Polytechnic  
University, Pomona for the International Polytechnic High School, *Action*
11. Real Property Development Project for California State University, Hayward,  
Internet Switching Center, *Action*

**MINUTES OF MEETING OF  
COMMITTEE ON FINANCE**

**Trustees of The California State University  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California 90802**

**November 8, 2000**

**Members Present**

Laurence K. Gould, Jr., Chair of Board, ex officio  
William Hauck, Chair  
Neel I. Murarka  
Frederick W. Pierce IV  
Ali C. Razi  
Charles B. Reed, Chancellor, ex officio  
Stanley T. Wang

**Members Absent**

Murray L. Galinson, Vice Chair  
Dee Dee Myers

**Other Trustees Present**

William D. Campbell  
Daniel N. Cartwright  
Martha C. Fallgatter  
Debra S. Farar  
Robert G. Foster  
Harold Goldwhite  
Shailesh J. Mehta  
Ralph R. Pesqueira  
Anthony M. Vitti

**Chancellor's Office Staff**

David S. Spence, Executive Vice Chancellor, Chief Academic Officer  
Richard P. West, Executive Vice Chancellor, Chief Financial Officer  
Christine Helwick, General Counsel  
Jackie R. McClain, Vice Chancellor, Human Resources  
Douglas X. Patiño, Vice Chancellor, University Advancement

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Chair Hauck called the meeting to order at 2:40 p.m.

### **Approval of Minutes**

The minutes of September 19, 2000 were approved.

### **Annual Student Fee Report**

Chair Hauck announced there were three items on the agenda, one information item, and two action items. Mr. Richard P. West, executive vice chancellor and chief financial officer presented the fee report.

Mr. West explained the intention of the report was to impart a sense of fee activity for the year, and to update the board on any changes that may have occurred.

He reported that the only change of note involved a small increase of approximately \$9 in the average fee on the campuses. There were no changes to the State University Fee for undergraduate, graduate, or non-resident students; or for the number of units that students carry.

Trustee Wang said he was pleased to see that the university continues to be able to provide such high quality while maintaining the most economic cost to students. He inquired about the high material services and facility fee at the Monterey Bay campus.

Mr. West explained the Monterey Bay fee was based on a decision to simplify matters when the campus was in its early formation stages. As a result, it was determined there would be one fee at the campus that would combine several different fee areas.

Trustee Wang then pointed out the unusually high student health services fee at the California Maritime Academy and asked why there wasn't a single policy for the entire university. Mr. West explained the health services fee is determined on a campus-by-campus basis depending on the level of service the campus is prepared to provide.

### **Real Property Development Project at California State University, Monterey Bay**

Mr. Bradley W. Wells, assistant vice chancellor for financial services, introduced the item. The project contemplates a long-term ground lease of approximately 6 ½ acres to the Chartwell School. He noted that the committee had approved the item in concept in May 1999.

The proposed partnership would significantly enhance CSU, Monterey Bay students' understanding of critical issues in the field of learning disabilities and would offer internship programs for students in the teacher education program. Prospective special

education teachers from the campus would profit from mentoring, support, and professional development activities offered at Chartwell.

Mr. Wells reviewed the terms of the proposed arrangement and presented information on alternative land-use in response to a request at the September board meeting. He emphasized while the project is presented under the real property development policy, its primary purpose is to enhance the academic program of the campus.

Dr. Peter S. Smith, president, California State University, Monterey Bay presented a brief history of the project and outlined the intended next steps should the project be approved.

Trustee Pierce thanked Mr. Wells for inclusion of the land assessment value information and expressed his support of the project.

Trustee Goldwhite inquired about the status of the development of the special education academic program. President Smith reported that through a generous gift from a private donor, the campus has appointed a new faculty member to an endowed professorship in special education. The program is in the very early stages of development and will need to move through the requisite cycles. It is hoped that some curricular activity will be seen in the fall.

Mr. West emphasized the primary reason for developing the project was due to its strong academic content and not its financial potential. He pointed out the project has been under discussion for some time and encouraged President Smith and the Chartwell School to come to closure on the agreement in order to move ahead with the academic program component since donor gifts are involved.

Chair Hauck said it was a great looking project, and CSU is pleased to be involved.

The committee recommended approval of the proposed resolution (RFIN 11-15-00).

### **Real Property Development Project at California State University, Hayward**

Mr. Wells presented the item and explained that it was a very early conceptual review of a real property development project at CSU, Hayward. The campus is exploring the possibility of leasing currently undeveloped campus land to a third party to construct approximately 400,000 sq. ft. of building space to serve as an internet switching center.

The project has the potential to generate significant revenue for the campus, as well as to provide educational and cost savings benefits.

Mr. Wells briefly reviewed the project description and economic framework. He reiterated the item was a conceptual plan only, and that if approved, the campus and C.O.

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staff would proceed to formulate a more formal development plan to bring back to the board for further consideration.

Dr. Norma S. Rees, president, California State University, Hayward, summarized discussions with GEOgraphic Network Affiliates-International, Inc., the third party involved in the proposed project. Dr. Rees emphasized the campus' primary reason for pursuing the project is because of the strong academic advantages this kind of connection would bring to the university.

If approved, the campus would work with the appropriate Chancellor's Office staff to more fully explore the project, including the development of alternative land valuations, and hiring of an outside expert to advise us should the project move forward.

Trustee Campbell expressed concern regarding the size of the project and emphasized the need to elaborate on the educational benefits. He cautioned that the project runs the risk of becoming a primarily real-estate driven deal if certain measures are not taken early on to assure that the university's best interests are incorporated in the agreement. He requested that an outside specialist look at the project prior to entering into any binding arrangements.

President Rees assured Trustee Campbell that all precautions will be taken and that a great deal of work had already been done to address such issues. She assured him the campus would be prepared to bring back to the board answers to his and other areas of concern as formulation of the development plan proceeds.

Chair Hauck echoed Trustee Campbell's concerns and asked Mr. West and Mr. Wells to proceed to explore an exit strategy as well.

Trustee Pierce asked about the term of the lease. President Rees replied the lease would be for 15 years after which the building would belong to the CSU.

Trustee Vitti inquired if parking ratios had been factored in. President Rees said they had, but since this is not considered office-building space, the parking ratio for this type of structure is relatively small.

The committee recommended approval of the proposed resolution (RFIN 11-16-00).

The meeting adjourned at 3:10 p.m.

**COMMITTEE ON FINANCE**

**Status Report on 2001/02 Support Budget**

**Presentation By**

Richard P. West, Executive Vice Chancellor  
and Chief Executive Officer

**Summary**

The 2001/02 Governor's Budget is scheduled for release in the second week of January. A summary status report on the 2001/02 Governor's Budget will be presented, including a status report comparing the Board of Trustees' budget request with that of the Governor's Budget. Additional items of interest to the board regarding the 2001/02 budget may also be discussed.

**COMMITTEE ON FINANCE**

**The California State University, Debt Capacity Study**

**Presentation by:**

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

**Summary**

The California State University, like other major public universities, relies on a variety of external sources of financing and funding to meet capital needs. The CSU uses a combination of lease revenue bonds issued and paid for by the State of California to fund general capital expenditures and the university's own revenue bonds issued by the Trustees to fund enterprise activities such as student housing and parking. In addition, recognized auxiliary organizations issue revenue bonds to fund capital improvements that benefit the university.

As the amount of debt by the university grows, it is appropriate to examine the university's current debt obligations and to assess – from a capital markets perspective – the debt capacity of the CSU consistent with maintaining the university's current bond ratings. An analysis of the university's debt capacity, prepared by John H. Augustine, Managing Director at Lehman Brothers, will be presented at the meeting.

## COMMITTEE ON FINANCE

### **Approval of the Implementation of a Commercial Paper Financing Program for the California State University**

#### **Presentation By**

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

Richard K. Leffingwell, Senior Director  
Financing and Treasury

#### **Summary**

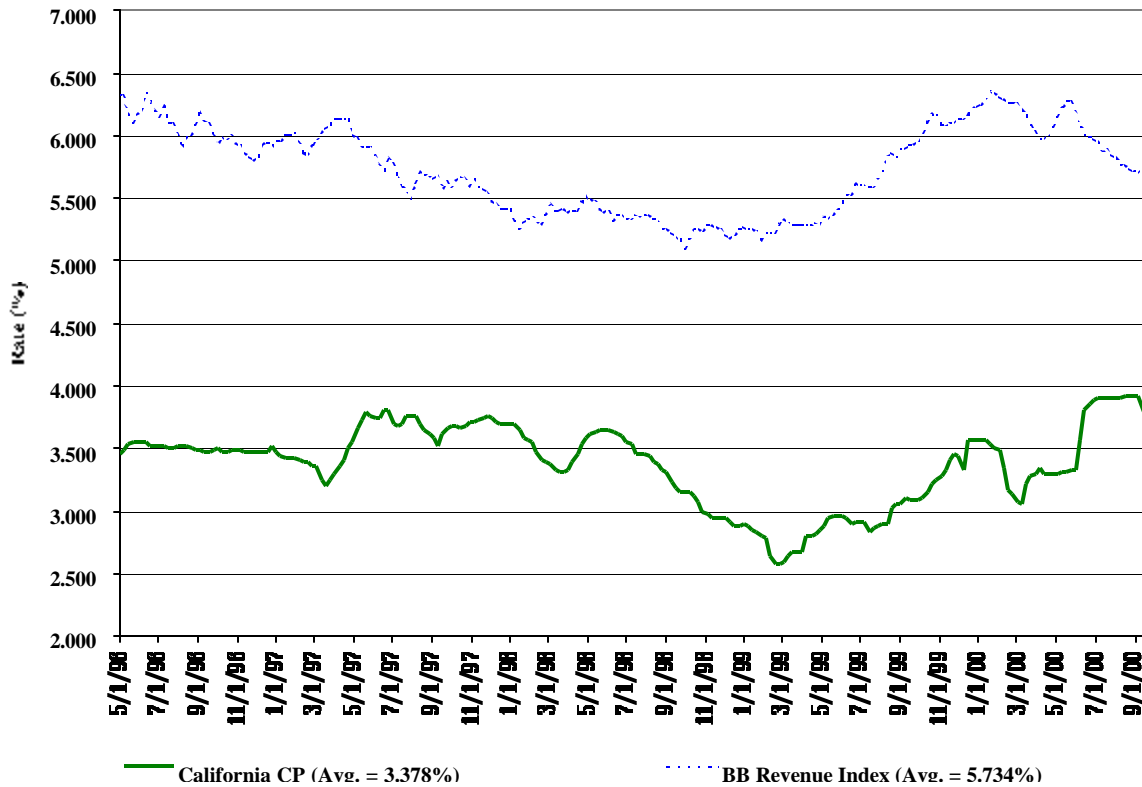
In September 2000, the Board of Trustees reviewed an information item on an initiative to develop a commercial paper program that would permit the CSU to use short term notes to finance approved projects during the period of construction. Over the past four months, staff has completed the program development including the selection of a commercial paper dealer and a bank transfer agent, and the selection and negotiation for a credit enhancement vehicle. This agenda item requests approval of the Trustees to implement the commercial paper program.

#### **Background**

Commercial paper and specifically tax-exempt commercial paper (TECP) consists of a series of issuances of short-term notes with maturities ranging from 1 to 270 days providing financing flexibility and lower costs. The issuer of the TECP may have any amount outstanding at any time up to the amount authorized by the issuer's governing board. The issuer can reduce the amount outstanding as notes become due without jeopardizing the program, and planned increases are quickly and easily implemented as adjustments may be achieved with a more limited legal review and without reissuance of financing documents. This inherent flexibility will allow the issuer to bundle financing for CSU project construction funds into efficient batches of commercial paper notes to take advantage of the lowest interest rate.

The historical interest cost for TECP programs compares favorably with virtually all relevant market indices. The chart below summarizes the average interest rates paid on four existing California TECP programs since 1996.

### California Tax Exempt Commercial Paper



The chart displays the historical spread averaging 235 basis points between California TECP rates and the Bond Buyer Revenue Bond Index (“BBRI”), a compilation of long-term financing costs for a basket of 25 revenue bonds maturing in 30 years with an average rating equivalent to Moody’s A1 and Standard & Poor’s A+. The CSU long-term debt typically averages 25 to 50 basis points below the BBRI.

TECP has evolved into a flexible short term borrowing vehicle often used by larger governmental entities as an alternative to issuing fixed rate notes or long-term bonds. In California, the State of California Treasurer’s Office, the University of California Regents, and many counties, transit districts, municipal utilities and port districts, have established TECP programs. Other higher education institutions with TECP programs include Indiana University, Duke University, the University of Michigan, Yale University and Harvard University.

In general, major buyers of TECP are money market funds, corporations, commercial banks, trust funds, insurance companies and retail investors. Historical records indicate that there is an ever-increasing demand for TECP in California and the country in particular, because of the relatively high marginal income tax rates in the State.

## **Program Structure**

As explained in the September 2000 agenda item, the CSU does not have statutory authority to directly issue tax-exempt commercial paper. However, the CSU Institute, a recognized systemwide auxiliary organization, can assist the CSU by issuing commercial paper under its corporate powers to finance the cost of projects approved by the Board of Trustees. The proceeds of the sale of commercial paper would be used by the CSU Institute to purchase project-specific bond anticipation notes issued by the CSU pursuant to its authority under the State University Revenue Bond Act of 1947. No commercial paper would be issued without a specific action by the Trustees approving the project, and without having a long-term financing plan, a resolution to issue long term financing, and a resolution to issue a project-specific bond anticipation note. All revenue bond projects in the program would continue to come before the Trustees for approval before the issuance of debt.

Once the bond anticipation note is issued by the CSU, funds would be available to fund the construction process at interest rates that will result in cost savings to the CSU when compared to the long-term bond rates. The commercial paper financing will be replaced by long term bonds after savings from the lower commercial paper interest rates have been realized, usually on a schedule that takes the financed project through the construction process. Using commercial paper will result in reduced capitalized interest and lower over-all costs even when the costs to administer the program are taken into account. A terms sheet explaining the security behind the commercial paper and the program is contained in Appendix A.

The Trustees are being asked to approve a program that would allow a maximum of \$250 million in commercial paper to be outstanding at any one time. It is important to recognize that this amount is not additional to existing debt of the Trustees, but rather a substitute for long term financing for the first year or two of the project. Furthermore, this authorization is only intended to establish a program limit. As the program develops, staff may request the Board to increase the limit if warranted. After the DRF project based commercial paper program is implemented, staff would begin development of procedures to assist the CSU with its equipment financing program through the issuance of the commercial paper program at a future date.

Historical analysis of revenue bond projects over the last three years result in an aggregate average amount of construction period debt of \$80 million with a peak amount of about \$140 million. Forward-looking analysis shows that in the first two meetings of 2001, the Trustees will be asked to authorize DRF financings totaling about \$75 million with the potential for other financing in the later part of the year as plans continue to develop. Equipment financings that could qualify for the program could aggregate an average balance of \$100 million after three years based on historical financing ranges of \$20 to \$50 million per year.

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Agenda Item 3

January 23-24, 2001

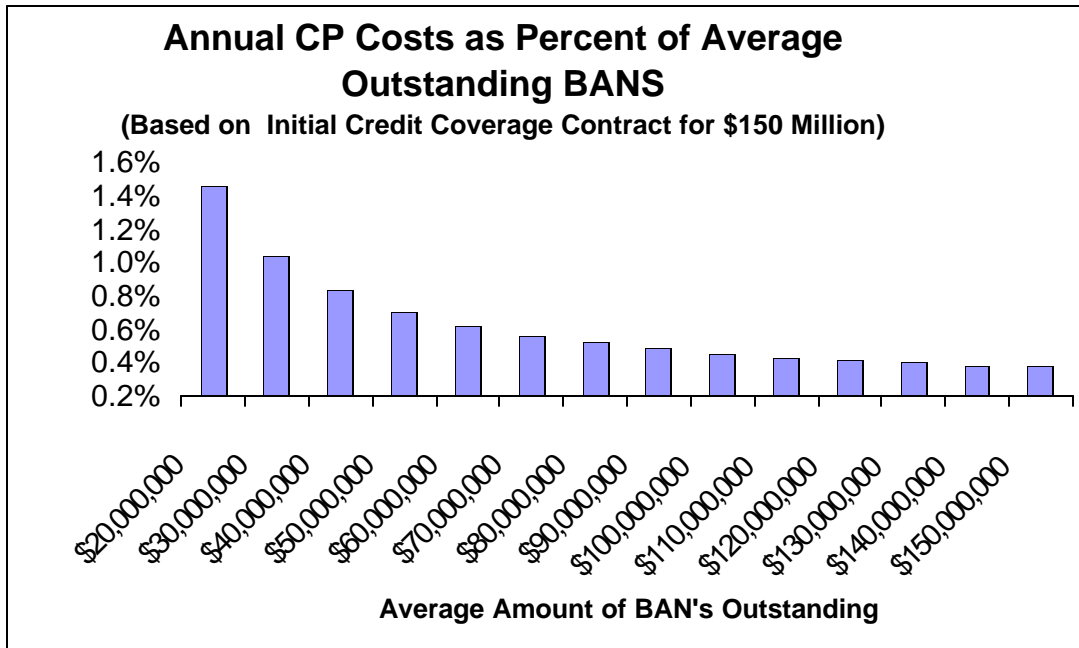
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The CSU and the CSU Institute must initiate several contracts to provide for the marketing, credit backing, ratings and other administrative costs of the program. Staff, using a competitive request for proposal process on behalf of the CSU Institute, has selected Lehman Brothers Inc. to be the commercial paper dealer to market and sell the CSU Institute's commercial paper. In addition, State Street Bank and Trust Company, as agent for and in partnership with Morgan Guaranty and Trust Company of New York and Bayerische Landesbank Girozentrale, has been selected to provide a letter of credit to enhance the marketability of the TECP. These institutions will assure payment of the commercial paper notes and provide higher ratings when compared to the ratings the CSU could achieve alone. Bankers Trust Company, part of the Deutsche Bank Group has been selected by the Institute through a similar request for proposal process to be the bank trustee and paying agent which will handle all banking transactions related to issuing and remarketing the commercial paper notes. Orrick, Herrington & Sutcliffe, LLP and Kelling, Northcross Nobrigo will provide legal and financial advisory services for the program respectively. In addition, the CSU has been working with the State Treasurer's Office and the State Controller's office to establish the appropriate relationships and procedures necessary to implement the program.

Finally, all aspects of the program including the contract with a letter of credit provider have been designed to deal with risk associated with remarketing short-term commercial paper notes. Although highly unlikely, if the CSU were required to provide funds in a situation where remarketing of notes was not feasible, and if funds were not available from the CSU, provisions of the letter of credit would be implemented to satisfy any maturing notes until the CSU could arrange for the sale of long-term bonds. The CSU would first look to the specific program funds to see if surplus funds are available before utilizing the loan provisions of the letter of credit agreement.

### **Program Costs**

As indicated in the historical analysis of other commercial paper programs, interest rate spreads can be expected over time to be in the range of approximately 2% between long-term average fixed rates and California tax-exempt commercial paper interest rates. The CSU will incur both fixed and variable components of program operating costs that will fluctuate depending on the activity level in the program. Costs for the contracted services to operate the program are expected to be approximately 0.39% annually on an outstanding amount of \$150 million in commercial paper. Costs would continue to decline as the institute contracts for additional credit backing and additional amounts are issued up to \$250 million. The chart below indicates this cost profile.



The CSU would also incur some internal costs to manage the program that would add approximately .05% annually to the above cost structure.

### Trustee Resolutions

Orrick, Herrington & Sutcliffe LLP as bond counsel for the Trustees is preparing resolutions for approval that will be distributed at this meeting. The resolutions are:

1. Revenue Bond Anticipation Note Resolution authorizing the issuance of The Trustees of the California State University Not To Exceed \$250,000,000 Revenue Bond Anticipation Notes relating to not to exceed \$250,000,000 California State University Institute commercial paper Notes, Series A tax-exempt Notes and Series B Taxable Notes.
2. Resolution Of The Trustees Of The California State University Approving The Form And Authorizing The Execution Of A Letter Of Credit And Reimbursement Agreement And Certain Other Actions In Connection Therewith.

**California State University Institute  
Commercial Paper Program  
Terms Sheet**

**ISSUER:** The California State University Institute (the "Institute") is a 501(c)(3) non-profit public benefit corporation authorized to issue indebtedness under the California Non Profit Public Benefit Corporation Law. For federal income tax purposes, the Institute is treated as an instrumentality of the State of California.

**OBLIGOR:** The Trustees of the California State University ("Trustees"). The repayment obligations of the Trustees to the Institute may take the form of notes, bonds, revenue bond anticipation notes, and capital leases--all as authorized by the California Education Code.

**BACKGROUND OF THE CSU:** The Trustees is an agency of the State of California (the "State") created by the Donahoe Higher Education Act in 1960, which reorganized higher education in California. Presently, there are 23 campuses within the California State University ("CSU") System, twenty-two of which have the title "University". The educational responsibility of the CSU is to provide undergraduate and graduate instruction through bachelor's and master's degrees in the liberal arts and sciences, in applied fields and the professions. As of the fall 1999 the CSU had approximately 360,000 students, making it the largest institution of higher education in the nation.

Responsibility for the CSU is vested in the Trustees, which includes the Governor of the State, Lieutenant Governor, Speaker of the State Assembly, State Superintendent of Public Instruction, and the Chancellor of the CSU as ex officio members. The Trustees appoints the Chancellor, who is the chief executive officer of the CSU, and the Presidents, who are the chief executive officers of the respective campuses.

Although an agency of the State, the CSU has its own operating budget and has its own audited financial statements, both system-wide and by individual campus.

**PROGRAM SIZE:** The aggregate face amount of the Notes to be authorized shall not exceed \$250 million outstanding at any time. A commitment has been received from the credit facility providers for \$150 million to cover the initial start-up phase of the commercial paper program.

**PURPOSE:** The Notes are being issued to provide interim financing for a variety of projects that will be permanently financed with bonds issued by the CSU under the State University Revenue Bond Act of 1947, including Housing System Revenue Bonds, Student Union Revenue Bonds, and Parking System Revenue bonds; and to provide permanent or interim financing for system-wide and campus-based equipment leases.

**SECURITY:** The Commercial Paper Program will be secured by a subordinate pledge of Revenues from the Housing, Student Union and Parking enterprises of the CSU and the covenant of the Trustees to issue bonds, which will be evidenced in a legislative action by the Trustees for each project to be financed. (It is contemplated that most of the Notes would be repaid from bonds issued under the State University Revenue Bond Act of 1947, not later than one year after each project is completed.)

Under California law, pledged revenues consist of (1) mandatory student union fees, (2) net revenues derived from the CSU Housing System, (3) net revenues of the Parking System, (4) advances pursuant to a Credit Agreement with the Credit Facility Provider, (5) the proceeds of Refunding Obligations (defined as bonds, notes or other obligations of the CSU, the proceeds of which are applied to pay the principal of and interest on the Notes), and (6) such other revenues, receipts, income or other monies as may from time to time be designated by the Trustees for the payment of principal of and interest on the Notes.

*Revenue Bond Projects.* It is anticipated that on average more than 75% of the outstanding Commercial Paper Notes ("CP Notes") will be issued to pay the costs of housing, parking and student center projects and will be repaid from revenue bond anticipation notes ("BANs") issued by the Board under a resolution (the "BAN Resolution") pursuant to the State University Revenue Bond Act of 1947 (the "Act"). The BANs will be purchased by the Institute pursuant to the Indenture authorizing issuance of the CP Notes (the "CP Indenture") and assigned by the Institute to the CP Trustee to secure the CP Notes. Thus, for these CP Notes there will be a corresponding amount of BANs held by the CP Trustee under the CP Indenture.

In most cases the BANs will be secured under the BAN Resolution by a subordinate pledge of revenues from the housing, parking or student center program of which the financed project is a part. This subordinate pledge will continue until the CP Notes are paid from the proceeds of the bonds issued to provide permanent financing for the project. For example, during the period that student housing projects are financed with CP Notes, the subordinate pledge on the CSU Housing System established by the BANs for the student housing projects will be in effect. If there were a period during which none of the unpaid BANs (and a corresponding amount of CP Notes) financed housing projects, the subordinate pledge on CSU Housing System Revenues would not be in effect until the next student housing project was financed with a BAN.

The BAN Resolution will further secure the BANs (and a corresponding amount of CP Notes) by a covenant of the Board to issue revenue bonds pursuant to the Act to repay each BAN within three years of its date of issuance. If the bonds are not issued within the three-year period, the Board will issue its renewal notes (*i.e.*, refunding BANs) pursuant to the Act. The Board will authorize the issuance of the bonds (and the renewal notes, if needed) at the time the project is originally approved for financing and the BAN for the project is authorized.

**Attachment A**

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Equipment Financing. It is also anticipated that less than 25% of the outstanding CP Notes may be secured directly by equipment installment purchase obligations of the Board (“CSU Obligations”) purchased with proceeds of the CP Notes. The CP Trustee as security would hold such CSU Obligations for the CP Notes under the CP Indenture. These CSU Obligations would typically finance equipment during a three to five year period and the CSU Obligations would be designed to repay the principal and interest on such CSU Obligations (and a corresponding amount of the CP Notes) during that period. These CSU Obligations would utilize the standard documentation used for many years by the Board for equipment installment purchase procurements, which is based upon a “subject to annual appropriation” obligation of the Board to make payments from lawfully available funds of the Board.

**CURRENT RATINGS ON OUTSTANDING BONDED DEBT OF THE CSU:**

Exclusive of debt issued by the State of California Public Works Board for the benefit of the CSU, the following are ratings on the CSU’s outstanding bonded indebtedness.

	<u>Moody’s</u>	<u>S&amp;P</u>
Housing System Revenue Bonds	Aa3 (stable)	AA- (stable)
Student Union Revenue Bonds	A1 (stable)	A+ (stable)
Parking System Revenue Bonds	A1 (stable)	A+ (stable)
Headquarters Building Lease Revenue Bonds	Aa3 (stable)	AA- (stable)

**DATED DATE OF THE NOTES:** On or about February 6, 2001.

**MATURITY DATE:** From 1 to 270 days.

**MINIMUM DENOMINATION:** \$100,000, integrals of \$1,000 in excess thereof.

**SETTLEMENT:** Same day settlement in immediately available funds.

**REDEMPTION/REPAYMENT:** The Notes will not be subject to redemption at the option of the Issuer nor at the option of the holders of the Notes before maturity.

**FORM:** The Notes will be registered in the name of a nominee of The Depository Trust Company (“DTC”.) The Notes will be deposited with the Issuing and Paying Agent as sub-custodian for DTC.

**TAX STATUS:** Interest on the Notes is excluded from gross income of the holder for federal income tax purposes and is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. In addition, interest on the notes is exempt from State of California personal income taxes, under existing statutes, regulations and court decisions.

**Other Parties to the Transaction**

**SPECIAL & TAX COUNSEL:** Orrick, Herrington & Sutcliffe, LLP, San Francisco

**FINANCIAL ADVISOR:** Kelling, Northcross & Nobriga

**COMMERCIAL PAPER DEALER:** Lehman Brothers Inc.

**CREDIT PROVIDER:** A syndicate consisting of State Street Bank, as Agent, Morgan Guaranty Trust Company of New York, and Bayerische Landesbank Girozentrale

**ISSUING & PAYING AGENT:** Bankers Trust Company (Deutsche Bank)

**COMMITTEE ON FINANCE**

**Approval for the Issuance of the Debt Instruments Supported by Bonds of the California State University Housing Revenue Bond System For an Apartment Complex at California State University Fullerton**

**Presentation By**

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

**Summary**

This item requests authorization to issue debt instruments to finance the construction of on-campus apartments for students at California State University, Fullerton.

**Background**

The campus has developed a comprehensive multi-year financial plan supporting the project. Debt service for the new project will be paid from revenue generated from the new and existing university student housing facilities. Housing revenues from the systemwide dormitory revenue bond program will secure the new debt. The Housing Proposal Review Committee reviewed the housing plan in November 1999 and provided a positive recommendation for the project to the chancellor and the president of the university.

If the bond anticipation note and commercial paper program presented in Agenda Item 3 of this finance committee meeting is approved, the project will be financed using a combination of short and long-term financing. In the event the trustees do not approve Agenda Item 3, the project will be financed through the issuance of long-term bonds as has been done in the past. Regardless of which financing method is used, trustees' approval for the issuance of long-term bonds for this project is required to proceed. The following summarizes key information on the proposed long-term housing system bonds:

Not-to-exceed amount:	\$25,510,000
Amortization:	Substantially equal payments over 30-years
True interest cost:	5.36%
Projected campus debt service coverage, first year of operations:	1.32 times

Bond insurance commitment: Seeking insurance qualification

Bond intrinsic rating before bond insurance: AA- (S&P), AA3 (Moody's)

The proposed bond sale amount includes a small contingency for market interest rate changes. The amount of bonds sold will be adjusted to account for market conditions at the time of the sale and will pay for construction, costs of issuance, and capitalized interest. The proposed not-to-exceed bond sale amount is consistent with the campus budget for repayment of debt service. If a bond anticipation note and commercial paper is used for the construction period financing, additional savings will be achieved and the bond issue could be reduced depending on various components and market conditions of the commercial paper program.

### **Campus Housing Program**

The campus currently has 385 bed spaces in operation financed through the Dormitory Revenue Fund. The next phase of housing will add an additional 440 bed spaces to help meet the demand for housing that has exceeded available space for the past five years. A market demand study conducted in 1999, by independent consultant Anderson Strickler LLC, determined that there was considerable unmet demand for on campus apartment style housing. Assuming the campus' projected growth of 700 FTES a year from 2001 to 2009, Anderson Strickler determined that there was demand for an additional 2,000 on-campus apartment style bed spaces.

The financial plan supporting the new project assumes moderate increases in rental rates that average three percent per year and that continue to be competitive with the surrounding community. Occupancy projections of 95% during the academic year and 50% during the summer term are consistent with historical experience and reflect strong projected demand for student housing as determined by the housing study.

### **Proposed Facility**

The Student Housing Expansion project consists of 110 units with 4 single-occupancy rooms for a total of 440 beds. The units will be arranged in five 4-story buildings, each building consisting of 22 units containing 88 beds. The buildings will be clustered around an attractively landscaped quad that will provide social and recreational space. American Disability Act accessible elevators and suites will be conveniently located throughout the project. The project also includes the redesign and reconfiguration of existing common space, office space and maintenance space that will serve to unite the current housing and the new project. Also included are a new one-story administration building and a freestanding maintenance building centrally located to serve existing and proposed housing. The amenities and services in the new and remodeled space will include administrative offices, service areas, mail room, laundry room,

weight room, convenience store, public restrooms, custodial service room, study group areas, maintenance shop and storage spaces.

### **Trustee Resolutions**

As indicated above, the Board of Trustees is being asked to approve a new interim financing program at this meeting that will use bond anticipation notes and commercial paper to finance projects during the construction period. Long-term bonds will then be used to replace the interim debt and permanently finance the projects. Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that would allow this project to be included within the commercial paper program. The resolutions contain the authorization for both a bond anticipation note short term financing, and the long term housing system revenue bonds. The proposed resolutions will be distributed at the meeting in the packet labeled "Packet A, Finance Committee - Fullerton Housing", and will achieve the following:

- (1) Authorize the sale and issuance of the California State University Bond Anticipation Notes and California State University Housing System Revenue Bonds in an amount not to exceed \$25,510,000 and certain actions relating thereto.
- (2) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

If the Trustees have not approved the bond anticipation note and commercial paper financing program, the Trustees will be asked to approve a standard set of bond documents for a long term financing that would be completed as soon as possible. These resolutions will be found in the packet labeled "Packet B, Finance Committee - Fullerton Housing", and will achieve the following:

- (1) Authorize the sale and issuance of the California State University Housing System Revenue Bonds, in an amount not to exceed \$25,510,000 and certain actions relating thereto including the approval of the form of the Notice of Sale as presented to the board at this meeting.
- (2) Approve the form of the official statement prepared by Kelling, Northcross & Nobriga, financial advisor, as presented to the board at this meeting.
- (3) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance.

## COMMITTEE ON FINANCE

### **Approval for the Issuance of Debt Instruments Supported by Humboldt State University Student Union Revenue Bonds for an Expansion of the Student Union**

#### **Presentation By**

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

#### **Summary**

This agenda item requests the Board of Trustees to authorize issuance of debt instruments to finance the construction of a student union addition at Humboldt State University.

#### **Background**

The University Center, the student union facility at Humboldt State University, was opened in 1972 and includes conference rooms, study lounges, a multipurpose room (called the Kate Buchanan Room), the campus bookstore, and two dining areas. The facility also provides public areas and offices for the associated students, clubs, recreation, administration, as well as other activities. All facility and program costs are funded by mandatory student union fees and revenues from commercial operations. The campus has provided a multi-year financial plan demonstrating the ability to pay operational costs and the debt service requirements associated with the proposed addition.

If the bond anticipation note and commercial paper program presented in agenda item 3 of this Finance Committee meeting is approved, the project will be financed using a combination of short and long-term financing. In the event the trustees do not approve agenda item 3, the project will be financed through the issuance of long-term bonds as has been done in the past. Regardless of the financing method used, trustees approval for the issuance of long-term bonds is required for this project to proceed. The following summarizes key information on the proposed long-term student union revenue bonds:

Not-to-exceed amount:	\$4,060,000
Term:	Substantially equal payments over 30 years
True interest cost:	5.56%

Projected debt service coverage, First year of operations:	2.76 times
Bond insurance commitment:	Seeking insurance qualification
Bond intrinsic rating before bond insurance:	A+ (S&P) and A1 (Moody's)

At the time of bond sale, the amount of bonds sold will be adjusted to meet market conditions, capitalized interest and other issuance costs. If bond anticipation notes and commercial paper are used for interim financing during the construction period, it is anticipated that additional savings will be achieved and the bond size will be reduced accordingly.

### **Proposed Facility**

The proposed project will expand the Kate Buchanan multipurpose room located on the north side of the University Center by approximately 3,000 square feet. The new addition will expand the multipurpose room to further accommodate concerts, banquets, special events, and other activities.

The Board of Trustees approved the project as part of the 1999/00 non-state funded capital outlay program.

### **Trustee Resolutions**

The Board of Trustees is being asked to approve a new interim financing program at this meeting that will use bond anticipation notes and commercial paper to finance the project during the construction period. Long-term bonds will then be used to replace the interim debt and permanently finance the projects. Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that would allow this project to be included within the commercial paper program. The resolutions contain the authorization for both a bond anticipation note short-term financing, and the long-term student union revenue bonds. The proposed resolutions will be distributed at the meeting in the packet labeled "Packet C, Finance Committee – Humboldt Student Union", and will achieve the following:

- (1) Authorize the sale and issuance of the Humboldt State University Bond Anticipation Notes and Humboldt State University Student Union Revenue Bonds in an amount not to exceed \$4,060,000 and certain actions relating thereto as presented to the board at this meeting.
- (2) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all

necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

If the Trustees have not approved the bond anticipation note and commercial paper financing program, the Trustees will be asked to approve a standard set of bond documents for a long-term financing. These resolutions will be found in the packet labeled “Packet D, Finance Committee – Humboldt Student Union”, and will achieve the following:

- (1) Authorize the sale and issuance of the Humboldt State University Student Union Revenue Bonds, in an amount not to exceed \$4,060,000 and certain actions relating thereto including the approval of the form of the Notice of Sale as presented to the board at this meeting.
- (2) Approve the form of the official statement prepared by Kelling, Northcross & Nobriga, financial advisor, as presented to the board at this meeting.
- (3) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance.

## **COMMITTEE ON FINANCE**

### **Auxiliary Organization Tax exempt Financing at San Diego State University**

#### **Presentation By**

Stephen L. Weber, President  
San Diego State University

Bradley W. Wells  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

San Diego State University Foundation (the Foundation), a recognized auxiliary organization in good standing, is proposing a tax exempt borrowing in an amount not to exceed \$11 million to finance a student housing project with tax exempt bonds and a taxable (commercial) borrowing not to exceed \$3 million to finance the construction of eight fraternity chapter houses. The project will be located on land currently owned by the Foundation.

The financing transactions will not create any obligation of the State of California or the trustees. The Foundation will issue the bonds on a parity basis with certain outstanding housing revenue obligations of the Foundation pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. Revenue derived from rental of the facilities will secure the bonds. The commercial financing will be secured by a mortgage on the project.

Subsequent to the review of this item by the Board of Trustees, the Chancellor will take the necessary action on behalf of the board to assist the auxiliary pursuant to the Chancellor's delegation in the Board of Trustees' policy for financing activities.

#### **Background**

At the request of San Diego State University, the SDSU Foundation together with the City of San Diego in 1993 established the College Community Redevelopment Project ("Redevelopment Project") covering 131 acres surrounding San Diego State University. Project entitlements allow for the development of up to 3,100 housing units (including general student, fraternity/sorority, and faculty/staff housing), 710,000 square feet of office, research & development space, 300,000 square feet of retail space and a 300-room hotel. The Redevelopment Project was reviewed by the trustees in 1989 (then known as the University Area Support Project), and has had extensive community involvement.

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In 1999, the Foundation completed the first component of the Redevelopment Project, a 66-unit student apartment project which was completed and fully leased as planned. The project presented in this agenda item will be the second component of the Redevelopment Project.

### **Project Description**

The project presents a unique approach to deliver new fraternity facilities and housing for SDSU's Greek community. The project will include a 62-unit, four-story student apartment building surrounded by eight freestanding, two-story fraternity chapter houses. The student apartments include 58 three-bedroom units and four two-bedroom units ranging in size from 1,110-1,256 square feet. The fraternity chapter houses range in size from 2,348 to 4,271 square feet and typically include a large multi-purpose room, smaller chapter room, bathrooms, kitchen, computer/study room, offices and 2-man residential suite. A single-level subterranean parking structure will provide approximately 177 secured spaces for project residents.

A condominium subdivision of the site will divide the 1.4 acre property into nine units, with the student apartments representing one unit and the eight fraternity houses (each together with an "exclusive use" courtyard) constituting the other eight units. The Foundation will construct the entire project and retain ownership and management of the student apartment building and four of the fraternity chapter houses. The other four fraternity chapter houses will be sold to the respective fraternity house corporations. A separate taxable bank credit facility will be used to finance construction of the fraternity chapter houses.

Each fraternity will have made available to them seven or eight adjacent apartment units with bed capacity for 21 to 32 occupants pursuant to a referral agreement between the fraternity house corporation and the Foundation. Under the referral agreement, each house corporation will annually assign fraternity members to individual units. The tenants referred for each unit will enter into one-year leases with the Foundation.

### **Auxiliary Organization Tax Exempt Financing**

The Foundation will issue the bonds on a parity basis with outstanding housing revenue obligations of the Foundation incurred during 1998 for Piedra del Sol. The bonds will be issued pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. The bonds will be secured by pledged revenues consisting of pooled rental and other miscellaneous income from the student apartments and the Piedra del Sol apartments. The pledged revenues will also secure, on a parity with new bonds, the Foundation's outstanding \$8.2 million certificates of participation issued for Piedra del Sol through the California Statewide Communities Development Authority.

The following summarizes key information regarding the proposed financing:

Financed amount not-to-exceed:	\$11,000,000
Term:	30 years
Estimated rate (all-inclusive cost):	5.50%
Rate not to exceed:	6.50%
Projected debt service coverage (all auxiliary housing revenues):	1.40
Bond insurance commitment:	MBIA will be providing bond insurance subject to the final negotiations with the Foundation regarding the debt covenants.
Bond intrinsic rating before bond insurance:	Based upon anticipated transaction covenants, both Moody's (Baa2) and Standard & Poor's (BBB) have provided investment grade intrinsic (before bond insurance) bond ratings.

### **Auxiliary Organization Commercial Financing**

San Diego State University Foundation will borrow funds on its existing \$10 million line of credit with US Bank. The line of credit is recourse financing which is secured by a mortgage on the property. Upon completion of construction, a portion of the line of credit will be paid off with the sale of four of the chapter houses to the fraternities for a total of approximately \$2.0 million. The Foundation is in the midst of final negotiations and documentation of the contractual arrangements with each of the four participating fraternities. Before the Foundation makes final commitments for the project, these letters of intent will be signed.

The remaining amount on the line of credit, approximately, \$700,000 to \$1,000,000, will be converted to permanent mortgage financing with US Bank and repaid from rental income. The following summarizes key information regarding the proposed construction financing:

Financed amount not-to-exceed:	\$3,000,000
Term:	5 years. The term on the letter of credit is five years, however the loan will be paid off at the completion of an approximate thirteen-month construction period.
Estimated rate (all-inclusive cost):	8%
Rate not to exceed:	9%

**Other Information**

On January 9, 1998, the IRS issued a private letter ruling permitting the categorization of certain auxiliary organizations as “instrumentalities of the state” for tax exempt financing purposes. While the ruling relates to specific future auxiliary transactions not associated with this financing, Orrick, Herrington and Sutcliffe, LLP (bond counsel to the trustees and also special counsel for the transaction described herein) indicates that if the circumstances which form the basis of the ruling are similar in other auxiliary transactions, those transactions may also be accomplished under the more streamlined procedures.

Orrick, Herrington and Sutcliffe, LLP has reviewed the circumstances for the proposed tax exempt financing and determined that they are substantially similar to the circumstances in the private letter ruling. Therefore, the Foundation may take advantage of less restrictive provisions of the tax law and streamline some procedures that result in financing cost savings. The ruling also permits the subject organization to cause tax exempt governmental obligations to be issued in its own name, without taking the additional steps and incurring the additional costs that are associated with the issuance of tax exempt obligations through a third party governmental unit, which would be more complicated and costly.

## COMMITTEE ON FINANCE

### **Real Property Development Project at San José State University for a Classroom and Office Complex Project**

#### **Presentation By**

Robert L. Caret, President  
San José State University

Don Kassing, Vice President for Administration & Finance  
San José State University

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests conceptual approval of a real property development project at San José State University to permit the construction of a classroom and office building project by Spartan Shops, Inc., a recognized auxiliary organization, on land leased from the university.

#### **Background**

The campus began the process of updating its Master Plan revision in April 2000 to address the anticipated growth in student enrollment, the need for new and improved facilities to serve this growth, and anticipated changes in teaching and research programs on campus. The revised master plan will reflect the campus' approach to better utilize the limited land it currently has, including the identification of potential sites on campus that can accommodate developments that provide needed university space and generate revenue to support the university mission.

The university proposes to utilize higher density development by constructing private use office space above new university space used for classrooms, laboratories, and offices. The private office space will generate income, through long-term lease agreements, to pay for the cost of constructing the entire building complex and generate additional revenue to supplement critical university program needs. As a result, the university will benefit from a more efficient use of campus land, a valuable and scarce asset.

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## **Project Description**

The proposed classroom and office building project consists of multiple buildings totaling up to 250,000 gross square feet of university space and up to 1,000,000 gross square feet of office space on approximately 5.5 acres of currently developed land along the northern and western perimeter of the main campus. Related facilities to support this development will include up to 3,400 parking spaces and a 30,000 gross square foot theatre.

## **Budget & Financing**

Total cost for the classroom and office building project will be between approximately \$250 million and \$380 million. The project will be financed through non-recourse tax-exempt and taxable bonds, a special limited obligation of Spartan Shops, Inc. The bond underwriter for this project will be chosen through a competitive process. Spartan Shops, Inc. will be the project owner under a 30-year ground lease agreement with the university. The project will be financially self-supporting with the expectation of generating excess revenue over and above that needed to pay debt service.

Project operating agreements between the university and Spartan Shops, Inc. will be developed with the objective of providing maximum operational and financial benefit and flexibility to the university while maintaining the auxiliary's capacity to provide the necessary goods and services to the campus community.

## **Educational Benefits**

The condition of the university's aging facilities dictates and limits the extent to which innovative, cutting-edge educational programs can be supported. The classroom and office building project will provide the campus with new state-of-the-art classrooms, laboratories, offices, and a theatre, to support the university's mission of providing a quality education in a clean, safe learning environment. The tenant for the commercial space would be a class A, Silicon Valley company compatible with the university mission. The project anticipates creating with the prospective tenant educational opportunities for academic and business partnerships, research, student internships, and funding opportunities to support the types of curriculum and technology that students attending the major metropolitan university in Silicon Valley have come to expect. This project will not only provide for state-of-the-art instructional space, consistent with a preeminent teaching institution, but will offer exciting opportunities for students and faculty to better interact with the local high-tech industries. These types of facilities are critical if the university is to successfully recruit top students and create entrepreneurial opportunities and long-term partnerships with industry.

The theatre program will also be greatly enhanced by the construction of new facilities. The theatre facilities are currently located in Hugh Gillis Hall, a building designated as temporary, and in need of renovation in order to accommodate the program. In addition to a new 400-seat theatre with full stage capabilities, the new theater complex will include a black box theater, and television studies.

### **Alternative Uses and Value of Land**

Land downtown in the City of San José adjacent to the campus is currently valued at approximately \$3.5 – 4.0 million an acre. The current market for developable land in the area is such that the university has an opportunity to leverage this extremely valuable asset and enter into partnership for the redevelopment of a portion of the campus. This partnership will result not only in new educational facilities for the campus but facilities of a quality well beyond what can be expected by this campus considered in light of the California State University's total capital needs. This project will replace existing "low rise" buildings with taller buildings, thereby increasing density in these areas and making better use of the limited land available on campus.

### **Due Diligence**

The university has hired several consultants to evaluate the commercial real estate market and provide advice regarding the type, size, and price for the development. SRM Associates and Shartsis, Friese & Ginsburg have developed independent market analysis and demand studies for commercial portion of the project. George K. Baum and Company has provided financial analysis and structures to finance the project.

The Spartan Shops, Inc. Board is aware of and approves this project as consistent with the auxiliary function of furthering the mission of the University.

A program environmental impact report (EIR) is currently being prepared to analyze the potential environmental impacts of the revised master plan on the campus and the surrounding community. The program EIR will provide information that can be referenced in subsequent environmental assessments; this additional assessment(s) will be required should the project be further defined and identified as a specific project for development. The program EIR is expected to be circulated for public review in March 2001. The final EIR will be submitted to the trustees for certification in July 2001, along with a request to approve the revised master plan.

Pending approval by the Board of Trustees, amendment of the non-state capital outlay program, any proposed schematic plans, and the required environmental documents will be presented at a future meeting for approval.

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### **Recommended Action**

The following resolution is recommended for approval:

**RESOLVED**, By the Board of Trustees of The California State University, that the trustees support the concept of developing a classroom and office building project at San José State University and authorize the campus in consultation with the chancellor's office to formulate a development plan for the project with the understanding that the development plan, the financial plan, and additional information will be presented to the trustees for approval at key points in the process.

## COMMITTEE ON FINANCE

### **Real Property Development Project at San José State University for a Campus Housing and Retail Village Project**

#### **Presentation By**

Robert L. Caret, President  
San José State University

Don Kassing, Vice President for Administration & Finance  
San José State University

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests conceptual approval of a real property development project at San José State University to permit the development of a housing and retail village project by Spartan Shops, Inc., a recognized campus auxiliary organization.

#### **Background**

In 1999 the university commissioned a comprehensive housing study to determine campus needs for students, faculty and staff. The study, which was completed in February 2000, indicated a demand for student housing ranging from a low of 5,000 beds and to a high of 8,000 beds. Existing on-campus residence halls, which are operating at capacity, provide 1,800 beds in facilities that are over 25 years old.

The campus began the process of updating its master plan in April 2000 to address the anticipated growth in student enrollment, the need for new and improved facilities to serve this growth, and anticipated changes in teaching and research programs on campus. The revised Master Plan will reflect the campus' approach to better utilize the limited land available, including the identification of potential sites on campus that can accommodate developments such as the campus housing and retail village.

## **Project Description**

The proposed project will occupy approximately 12.7 acres on the same site as the existing residence halls and provide 5,000 beds in suite and apartment configurations as well as transitional apartments for faculty and staff housing. Additional facilities will include a dining facility, retail space, and 2,400 below grade parking spaces. Pending passage of a student referendum, the project may also include a 100,000 gross square foot recreation facility.

A program environmental impact report (EIR) is currently being prepared to analyze the potential environmental impacts of the revised master plan on the campus and the surrounding community. The program EIR will provide information that can be referenced in subsequent environmental assessments, which will be required, should the campus housing and retail village move forward. The program EIR is expected to be circulated for public review in March 2001. The final EIR will be submitted to the trustees for certification in July 2001, along with a request to approve the revised master plan.

## **Budget and Financing**

Total project costs for the project are estimated to range from \$375 million to \$425 million depending on the phasing and final scope determination. Financing for the project will be through tax-exempt bonds, a special limited obligation of Spartan Shops, Inc. underwritten by George K. Baum and Company. Spartan Shops, Inc. will be the project owner under a 30-year ground lease agreement with the university. The project will be self-supporting, financed solely through project revenues including income from tenant rentals, food services, parking and retail.

Operating agreements between the university and Spartan Shops, Inc. will be developed with the objective of providing maximum operational and financial benefit and flexibility to the university while maintaining the auxiliary's capacity to provide the necessary goods and services to the campus community.

## **Educational Benefits**

The campus housing and retail village project will serve to meet the minimum student demand for housing on campus by providing almost 3,000 additional beds at affordable rates as well as much needed rental space for faculty and staff.

## **Alternative Uses and Value of Land**

Land in the City of San José downtown, adjacent to the campus, is currently valued at approximately

\$3.5 – 4.0 million an acre based on comparative analysis of similar parcels. This project proposes a higher density reuse of the existing land base for student housing and the introduction of transitional housing opportunities for faculty and staff. Expanded retail and support space activity and the potential for student recreational facilities also complement this land reuse project.

### **Due Diligence**

Spartan Shops, Inc. and the university have employed a variety of experts to develop the project. Biddison Heir conducted the campus housing demand study and market analysis and Fessel International provided an analysis of the market conditions for the retail portion of the project. George K. Baum provided financial expertise in developing the financing

The Spartan Shops, Inc. Board is aware of and approves of both projects as consistent with the auxiliary function of furthering the mission of the University.

Pending approval by the Board, the related master plan revisions, amendment of the non-state capital outlay program, any proposed schematic plans, financial plans, and the required environmental documents will be presented at future meetings for approval.

### **Recommended Action**

The following resolution is recommended for approval:

**RESOLVED**, By the Board of Trustees of The California State University, that the trustees support the concept of developing a campus housing and retail village project at San José State University and authorize the campus in consultation with the chancellor's office to formulate a development plan for the project with the understanding that the development plan and additional information will be presented to the trustees at key points in the process.

## COMMITTEE ON FINANCE

### **Real Property Development Project at California State University, Northridge for the Los Angeles Unified School District Academy High School**

#### **Presentation By**

Jolene Koester, President  
California State University, Northridge

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

#### **Summary**

This agenda item request conceptual approval by the Board of Trustees of a project to transfer title of approximately five acres of land at California State University, Northridge to the Los Angeles Unified School District to build an academy high school. In exchange, Los Angeles Unified School District will transfer title to the university of approximately eight acres of land, located within the perimeter of the campus master plan, which will be used to support the academic mission of the university. This exchange supports important strategic objectives of California State University, Northridge, reinforces the commitment to teacher preparedness, and provides additional benefits to both the university and the district.

#### **Background**

Los Angeles Unified School District operated the Prairie Street Elementary School from 1958 to 1982, on approximately eight acres of district property, located in the midst of the southeast quadrant of the California State University, Northridge campus. The site is bounded on three sides by university property and has been identified as part of the campus approved master plan for over 15 years. Since the closure of the elementary school, the university has leased portions of the property for parking and other uses. The university currently leases, on a year-by-year basis, approximately three acres of the property for parking.

The University has attempted to acquire the Prairie Street school site date for many years to achieve a longstanding goal of providing additional land close to the academic core. The acquisition would help round out the perimeter of the campus and will provide hundreds of much-needed new parking spaces for students and others.

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Recently, the university was made aware of plans to reutilize the Prairie Street school site. Since learning of the plans, the university has entered into extensive discussions and feasibility planning sessions with officials from Los Angeles Unified School District. The mutually agreed upon objectives are:

- Provide the university with control and use of the Prairie Street school property,
- Provide an alternate site on the campus for the district to build an academy high school, and
- Provide the university and the district with a strong and mutually beneficial academic alliance.

### **Project Description and Location**

The university and the district would enter an agreement to exchange property that would provide the university with title to the eight acre Prairie Street school site, and provide the district title to a five acre, undeveloped site, located on the eastern edge of the campus, just north of the tennis courts and adjacent to athletic fields.

The five-acre site will be used by the district to build a small, specialized “academy” high school to accommodate up to 800 ninth through twelfth grade students. The curriculum focus of the academy will closely match the university’s academic strengths. The university and the district would enter into an operating agreement providing for joint use of certain university and district facilities to further enhance the educational experience of students of both institutions. A map of the campus is included that depicts both sites.

Existing statutes require legislative authority to approve this land transaction. The California State University has proposed legislation to authorize the exchange of property with the district. The property exchange agreement is intended to initiate and facilitate the transfer, when and if the California State University receives authority from the legislature to enter into such a land transaction. Meanwhile, the University and the District will enter into a lease and operating agreement to allow the relocation to move forward in a timely manner. The lease arrangement will terminate upon authority given to exchange the fee interest in the property.

### **Budget and Financing**

An independent appraisal of the properties valued the university owned parcel at \$3.1 million and valued the district owned parcel at \$4.8 million. The agreement between the two entities, which would provide for the joint use of athletic fields and other university owned facilities increases the value of the new site for the academy high school. As a result, land transaction between the two entities would be

considered an even exchange with no additional financial consideration provided.

### **Educational Benefits**

Establishing the LAUSD academy high school on campus would fulfill several important strategic objectives of the university. The project would create an important alliance between the university and the school district, a key member of our community. Preparing students for teaching careers would be a major, broad focus of the proposed high school. The partnership would highlight the campus' and the CSU's major commitment to increasing the state's supply of well-prepared teachers. Also, the academy high school would be an on-site "lab school" providing opportunities for our own teacher preparation of faculty and students seeking credentials.

The academy high school would demonstrate CSUN's and the CSU system's commitment to improving the college preparedness of secondary school students. The curriculum of the high school will be focused on preparing students for university studies – at CSU Northridge or elsewhere. Additionally, the LAUSD has agreed that the school also would focus in areas that match some of CSUN's strengths such as arts, media and communication; health and human services; and modern languages. Through this type of curriculum, students will be prepared for college entrance to pursue careers in teaching or those varied disciplines.

### **Due Diligence**

The Chicago Title Company has prepared a preliminary title report on the Prairie Street property. The report found no encumbrances that would hinder transfer of title or prevent the university from using the property as intended. ENSR International, an environmental consulting firm, has prepared a Phase 1 Environmental Site Assessment of the Prairie Street property. The report states that the assessment provides no direct evidence to indicate that the potential exists for a significant environmental contamination problem that would affect the property.

Once the agreements with Los Angeles Unified School District have been negotiated and the authorization for the land exchange has been provided, a final development plan for the project will be presented to the Trustees for approval.

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

Approve the concept of California State University, Northridge entering into land exchange operating agreements with the Los Angeles Unified School District to permit

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the construction of an Academy High School.

## COMMITTEE ON FINANCE

### **Real Property Development Project at California State Polytechnic University, Pomona for the International Polytechnic High School**

#### **Presentation by**

Bob Suzuki, President  
California State Polytechnic University, Pomona

Bradley W. Wells, Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests approval of a real property development concept at California State Polytechnic University, Pomona to provide a permanent location on the campus for an International Polytechnic High School funded by the Los Angeles County Office of Education.

#### **Background**

International Polytechnic High School (I-Poly) is a comprehensive, college preparatory secondary school serving grades 9 through 12 operated by the Los Angeles County Office of Education in partnership with the university. Founded in 1993, this public school is tuition-free and open to all students in good standing from four counties (Los Angeles, Orange, Riverside and San Bernardino). I-Poly's enrollment is limited to 500 students and currently enrolls 380 students.

I-Poly provides a specialized program founded in contemporary educational reform initiatives consistent with California curriculum standards and WASC. The goals of the academic program are (1) to be a model of an entire high school course of study using an interdisciplinary and international curriculum approach; and (2) to better prepare a diverse group of students to enter both higher education and the world of work.

The curriculum is accredited, University of California and California State University approved, and aligned with California State curriculum standards.

Early in 1991, California State Polytechnic University, Pomona accepted the invitation of the Los Angeles County Office of Education (LACOE) to enter into a collaborative relationship joining the K-12 education reform movement. Planning for this high school began in 1991 with the signing of the first *Document of Understanding* between the two partners. This document

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presented both the conceptual framework for the reform effort and the blueprint for all subsequent work on this ambitious project. The International Polytechnic High School is a joint venture between the Los Angeles County Office of Education and the California State Polytechnic University, Pomona. In May 2000, the Academic Senate supported I-Poly's proposal for a permanent facility on campus.

### **Project Description and Location**

I-Poly currently has 22 modular buildings of varying sizes and colors grouped around a central quad area located in the southwest portion of the University in Parking Lot K. Currently, approximately 1.6 acres are allocated to the school site. The current facilities include 18 classrooms, 2 restroom facilities, one counseling and 1 administrative building. There is a need for four science laboratory classrooms, double the number that the school has presently. When fully staffed, there are not enough classrooms to house each teacher, nor is there adequate space for workroom, storage, food services, library, and study facilities.

The building program proposed for the new I-Poly facility includes appropriate classroom spaces to support the curriculum, administrative offices, a multi-purpose room with a 500 person capacity, a small library/resource center, an amphitheater, outdoor learning spaces and a small food service facility. The site for the new facility and parking will be approximately 4.5 acres encompassing the current existing site. I-Poly would continue to use the university library as its main source for research, both on-line and in the main library. With the new facility, students would conduct the majority of the work on the I-Poly campus. University computer labs are currently utilized on occasion on a space available basis, and it is anticipated that I-Poly's use of computer facilities would decrease with the opening of the proposed building. In addition, I-Poly would continue to utilize the university's athletic facility on a space-available basis. The multi-purpose room and classroom space will be accessible to the College of Education and Integrated Studies (CEIS) in the joint effort for teacher training.

### **Budget and Financing**

The Los Angeles County Office of Education's eligibility for this project is based on a per pupil grant. The maximum enrollment at I-Poly may not exceed 500 students. Funding for I-Poly is currently estimated at \$12.5 million, including site work and project costs.

The Los Angeles County Office of Education is obtaining State SB50 / Proposition 1A funding for a permanent school building. In October 1999, the Los Angeles County Office of Education submitted an application to the State for funding of I-Poly. Additionally, the Los Angeles County Office of Education applied and was approved for hardship status allowing the school district to receive the grant without requiring matching funds. The project will be funded

entirely by the Los Angeles County Office of Education and does not include any construction funding obligation of the university.

The Los Angeles County Office of Education will fund all infrastructure improvements (electricity, fiber optic lines, water, road, parking, etc.) to the site. Improvements will include parking development for 186 additional spaces. In sum, this grant application could potentially bring \$12.5 million in capital improvements to the University campus and cover a portion of the costs related to future development of the south side of the University.

The current I-Poly High School campus is operated under the terms of an existing ground lease between the Los Angeles County Office of Education and the university that expires in June 2006. If the project is approved, the Los Angeles County Office of Education and Cal Poly Pomona will enter into a new 40-year renegotiable ground lease for the permanent I-Poly facility. In consideration of the advantages and benefits to supporting the educational mission of the University, the new ground lease will not include financial compensation. At the end of the lease, all improvements will become University property. Additionally, LACOE and Cal Poly Pomona will enter into an operating agreement for the common use of facilities to support the educational objectives of each institution and for reimbursement for services provided by the University.

### **Educational Benefits**

Recently, the University has integrated I-Poly's program into the College of Education and Integrative Studies as a laboratory for educational innovation at the high school level. Through this relationship, I-Poly will become a training ground for both new teachers and current educators. The partnership will strengthen the secondary teaching credential program by leading to better coordination across the University. As a result, it is anticipated that the secondary credential program will increase in enrollment.

Since its inception, the University has been involved in the development of I-Poly High School. The University has engaged in curriculum planning, co-teaching and research within I-Poly's innovative school environment. The University and I-Poly partnership will create a rich environment for more intense research, teacher preparation and community service activities in the future.

This partnership is strategic to a development campaign that will benefit both the high school and the University. I-Poly and CEIS envision the building of a joint, teacher-training complex. Towards this end, both I-Poly and CEIS will seek building funds with the full acknowledgment that this venture will occur in phases.

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The University's mission is further supported in I-Poly's partnership with the Department of Kinesiology and Health Promotion. The partnership provides lab training for university students in methodology and pedagogy when they work jointly with I-Poly teachers and students. Last year, I-Poly's Physical Education Program was named *Secondary Program of the Year* in collaboration with faculty in the Department of Kinesiology.

### **Alternative Uses and Value of Land**

The I-Poly project site and its community outreach land use have been carefully reviewed and approved by the university. Although an alternate land use is not proposed, Cal Poly Pomona has evaluated the comparative land value based on other campus development activities. Near the I-Poly site is the "Innovation Village" project. This 65-acre "public-private" site is located at South Campus Drive, Temple Avenue and Valley Boulevard. A 1998 appraisal of Innovation Village estimates commercial values per square foot between \$6.00 and \$9.36. Based on this appraisal, a reasonable estimate of the commercial value of the 4.5 acre I-Poly site is between \$1,176,000 and \$1,835,000. Cal Poly Pomona supports the use of campus land for I-Poly High School and believes the benefits to the University's educational mission and academic programs provide appropriate value after considering the financial value of the property.

### **Due Diligence**

The Los Angeles County Office of Education and Cal Poly Pomona have worked closely to establish a program that supports the educational missions of each institution. This program will be implemented through a ground lease and operating agreement. The Los Angeles County Office of Education will design and fund the project. Project reviews and approvals will follow California State University requirements including review and approval of schematic designs by the Board of Trustees.

### **Resolution**

The following resolution is recommended for approval:

**RESOLVED**, By the Board of Trustees of The California State University, that the Trustees support the concept of a real property development project at California State Polytechnic University, Pomona, to develop an International Polytechnic High School and authorize the campus, in consultation with the Chancellor's Office, to develop the necessary agreements for the project.

## COMMITTEE ON FINANCE

### **Real Property Development Project at California State University, Hayward for an Internet Switching Center**

#### **Presentation By**

Norma Rees, President  
California State University, Hayward

Bradley W. Wells  
Assistant Vice Chancellor, Financial Services

#### **Summary**

An item was presented to the Board at its November 2000 meeting requesting conceptual approval of a construction proposal for an Internet switching center on currently undeveloped land at California State University, Hayward. Since that meeting, further negotiations with the proposed developer have resulted in this request for Board project approval. In addition, an item will be presented to the Campus Planning, Building, and Grounds committee requesting approval of a master plan revision and schematics for the project.

#### **Background**

Over the past several years, Cal State Hayward has been establishing itself as one of the premiere institutions in the state in areas of educational technologies. More than a third of Cal State Hayward's faculty is now using Internet-based instructional technologies within their courses and faculty within two schools operate research centers that require high performance access to advanced Internet infrastructure and services. Moreover, the School of Business & Economics faculty deliver instruction to students located within 21 countries around the world – making worldwide high performance Internet access to Cal State Hayward's Library and other information resources an imperative for our widely distributed student population.

Because of Cal State Hayward's extensive need for high performance access to advanced Internet infrastructure and services, the campus has assumed a leadership role in the establishment and evolution of the Internet2 Project. Cal State Hayward is the only CSU campus that has full membership status within the University Corporation for Advanced Internet Development (UCAID), and is one of only three CSU campuses currently up and running on the Internet2 advanced services network. Internet2 is a consortium being led by over 170 universities working in partnership with industry and government to develop and deploy advanced network

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applications and technologies, accelerating the creation of tomorrow's Internet and recreating the partnership among academia, industry, and government that fostered today's Internet in its infancy. The primary goals of Internet2 are to create a leading edge network capability for the national research community, enable revolutionary Internet applications, and ensure the rapid transfer of new network services and applications to the broader Internet community.

Cal State Hayward received a National Science Foundation (NSF) High Performance Network Connections Grant in May 2000 for full participation in the Internet2 project and a PacBell Grant for creation of a Teaching, Learning & Technology Center on the campus – a high-tech center serving as the Internet2 hub for electronically delivering pedagogy assistance and learning/content support for Northern California's K-12 teachers and students.

Cal State Hayward also is one of two CSU campuses that hold director positions within Corporation for Network Initiatives in California (CENIC), and is one of the founding members of the Internet Educational Equal Access Foundation (IEEAF). Cal State Hayward played a lead role in forging a partnership between CENIC and GEOgraphic Network Affiliates International, Inc., to create the Internet Educational Equal Access Foundation (IEEAF). The IEEAF is a not-for-profit corporation formed by CENIC, Pacific Internet2 Coalition, Pacific/Northwest Gigapop, University of Maryland, UCAID, Indiana University and GEO to receive and manage network equipment space, conduit and dark/private fiber donations to the global K-20 education community.

### **Project Description**

Within the telecommunications industry, an Internet switching center is often called a "carrier hotel". The building is designed to house network equipment and servers belonging to several different telecommunications carrier companies. Examples of telecommunications carrier companies are UUnet, Sprint, Cable and Wireless, PacBell, AT&T, and MCI. Multiple carrier companies lease space within the same carrier hotel so they can easily interconnect their respective networks, creating what is known as a network exchange point or a network peering point.

The project on the Cal State Hayward campus will include two phases with the first phase consisting of an 180,000 square foot structure occupying a 45,000 square foot pad and the second phase consisting of a 200,000 square foot structure on a 50,000 square foot pad with both phases joined by an entrance atrium. The project will also include all necessary infrastructure adjustments to the campus in order to insure that the campus' future development is not inhibited. The land involved is approximately six acres located south of the currently developed portion of the main campus on Hayward's almost 120 acres of undeveloped land.

## **Agreement Terms**

Cal State Hayward will enter into a twenty-year ground lease with the California State University, Hayward Foundation, a recognized auxiliary organization. The foundation will, in turn, sub-lease the land to a limited liability company formed by a private company named Geographic Network Affiliates-International (GEO). The ground lease and sub-lease will include options for two ten-year extensions. The limited liability company will construct an Internet switching center and sublease space in the center to various telecommunications carriers for periods of no less than fifteen years, which is the length of construction financing. The agreement with GEO requires that all available space be subleased to tenants before any construction begins. The limited liability company will be solely responsible for building, operating and maintaining the facility. Once the construction loans are paid, the facility becomes California State University property—although the limited liability company continues responsibility for operating and maintaining the facility during the entire lease period. As part of the operating agreement with GEO, the CSUH Foundation will review all financing and tenant leases obtained by GEO.

In order to deal with the case where GEO might default on the project, a \$3.8 million dollar contingency fund will be established. This fund will give the CSU the option of demolishing the facility (based on a \$10 per square foot estimate) and returning the property to its original condition. The annual contribution to this fund is the minimum lease payment (described below) for the first 10 years of operation. This payment will be made to the University as a ground lease payment.

An October 2000 appraisal by the Schmidt-Prescott Group found that the next best use of the six-acre site would be high-density residences, estimated to generate approximately \$477,000 per year. The conservative estimated income for an Internet switching center, on the other hand, was \$863,000 per year. For subleasing the land, the foundation will receive either 25% of the project's net profits or a minimum lease payment, whichever is greater. To ensure that the project provides an acceptable level of income, the minimum lease payment is calculated based on the potential \$477,000 income from the site's alternative best use—the high-density residences. The \$477,000 is divided between the two phases: \$221,000 for Phase I and \$256,000 for Phase II. Minimum lease payments for both phases start at 30% of the total amount and make step increases to 100% over four years. Furthermore, the difference in minimum lease payment between the payment actually made in years one through three and the \$477,000 value is made up in years 14 through 16. The project's minimum lease payments are shown below:

**Minimum Lease Payments**

<i>Year</i>	<i>Annual Payment for Land</i>	<i>Payment as a Percent of Alternative Use</i>	<i>Balance Due</i>	<i>Year Balance is Due</i>
<i>Phase I</i>				
First	\$ 66,300	30%	\$ 154,700	14th
Second	132,600	60%	88,400	15th
Third	176,800	80%	42,200	16th
Fourth	221,000	100%	—	—
Subsequent	221,000	100%		
<i>Phase II</i>				
First	\$ 76,800	30%	\$ 179,200	14th
Second	153,600	60%	102,400	15th
Third	204,800	80%	51,200	16th
Fourth	256,000	100%	—	—
Subsequent	256,000	100%		

Additionally, GEO will donate 15,000 square foot of space for use by the CSU in support of education community Internet operations, e.g., west coast Internet2, CalREN2, 4CNet, CSUH, and/or California K-12 switching centers.

**Due Diligence**

Assessment of GEO's ability to execute its business plan included background investigations, financial reviews, site visits, customer evaluations and legal reviews. These reviews indicate that the company is capable and has demonstrated success in operating Internet switching centers.

In December 2000, Telcordia, a technology and network consulting firm with expertise in evaluating carrier hotels, reviewed the SF Bay Area carrier hotel market; GEO's financial pro forma for the Internet switching center at Cal State Hayward; income and cost savings; and associated risk factors. Telcordia's assessment validated the project as high value and low risk with a 90% probability that Cal State Hayward will receive more than \$19 million over the first fifteen years of the twenty-year contract. Income during the agreement's last five years goes up substantially once the construction financing retires in year fifteen.

Beyond financial due diligence, legal review and contract negotiation assistance has been obtained from a private sector attorney with California public/private partnership and carrier hotel contracts expertise.

Completion of the environmental (CEQA compliance) review resulted in a “mitigated negative declaration.” Two inquiries were received during what became a sixty-day public comment period, and as of this writing the campus has resolve all concerns within normal mitigation expectations.

### **Educational Benefits**

This project holds enormous academic benefits for Cal State Hayward. CSUH’s education and research programs require high performance access to advanced services networks (Internet2). By locating this Internet switching center on the campus, Cal State Hayward faculty, students, staff, schools, institutes and centers will have direct fiber optic connectivity to an Internet2 switching center.

The Internet switching center will also be a magnet for international and national telecommunication services companies to the Cal State Hayward campus, and to the Hayward/East Bay communities, creating a steady stream of new opportunities for academic programs, research, and business partnerships.

### **Recommended Action**

The following resolution is recommended for approval:

**RESOLVED**, By the Board of Trustees of the California State University, that the trustees support the construction of an Internet switching center, parking and infrastructure improvements at California State University, Hayward and authorize the campus in consultation with the Chancellor's Office to execute agreements necessary to implement the development plan for the project.