

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting: 8:15 a.m., Wednesday, May 19, 2004**  
**Glenn S. Dumke Auditorium**

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Roberta Achtenberg  
Kathleen E. Kaiser  
Ricardo F. Icaza  
M. Alexander Lopez  
Frederick W. Pierce IV

#### **Consent Item**

Approval of Minutes of Meeting of March 16, 2004

#### **Discussion Items**

1. Report on the 2004/2005 Support Budget, *Information*
2. Report on State Funding and Student Fee Policy Development, *Information*
3. 2004/2005 State University Fee and Nonresident Tuition Increases, *Action*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*

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

**Trustees of the California State University  
California State University, Fresno  
Save Mart Center  
2650 E. Shaw Avenue  
Fresno, California 93710**

**March 16, 2004**

**Members Present**

William Hauck, Chair  
Debra S. Farar, Chair of the Board  
Roberta Achtenberg  
Kathleen Kaiser  
M. Alexander Lopez  
Frederick W. Pierce, IV  
Charles B. Reed, Chancellor

**Members Absent**

Ricardo F. Icaza  
Shailesh J. Mehta, Vice Chair

**Other Trustees Present**

Cruz Bustamante, Lt. Governor  
Murray L. Galinson  
Eric Guerra  
Ralph R. Pesquiera  
Anthony M. Vitti

**Chancellor's Office Staff**

David S. Spence, Executive Vice Chancellor and Chief Academic Officer  
Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Christine Helwick, General Counsel  
Jackie R. McClain, Vice Chancellor, Human Resources  
Patrick Lenz, Assistant Vice Chancellor, Budget Development  
Dennis Hordyk, Assistant Vice Chancellor, Financial Services  
Karen Yelverton-Zamarripa, Assistant Vice Chancellor, Advocacy and Institutional Relations

Chair Hauck called the meeting to order at 3:00 p.m.

### **Approval of Minutes**

The minutes of January 27, 2004 were approved.

### **Report on the 2004/2005 Support Budget**

Mr. Richard P. West, executive vice chancellor and chief financial officer, introduced the item and asked Mr. Patrick Lenz, assistant vice chancellor, budget development, to present the formal report.

With the aid of a PowerPoint slide presentation, Mr. Lenz presented a lengthy overview of the current budget situation. Some of the issues addressed included: the impact and implications of the results of the March 2<sup>nd</sup> election (most notably, the passage of Propositions 57 and 58); general oversight on the state's fiscal condition; various issues raised by the Legislative Analyst's Office (LAO), as well as recommendations made by them; enrollment issues; student fees; and financial aid.

In addition to the above, Mr. Lenz briefed the committee on the upcoming legislative hearing schedule and timeline; and plans for various CSU advocacy initiatives. Other issues discussed included, mandatory costs, and the growing funding gap resulting from the lack of the state's investment in the CSU.

Mr. Lenz called attention to the emergence of a theme relating to the LAO's recommendations that will be an ongoing concern as we do our advocacy with the legislature. That theme is based on not taking into consideration the declining state General Fund support that has been occurring with the CSU, and the failure to acknowledge significant budget reductions. In several LAO recommendations, it is suggested that fee or financial aid monies can be substituted for General Fund support and that the University's budget should be reduced by an equal amount.

Ultimately, it does not appear that the state's fiscal condition is going to improve sufficiently to be able to provide additional funding to CSU for the 2004/2005 fiscal year. Therefore, CSU has indicated that given the magnitude of the state's fiscal crisis, the CSU will live within the Governor's overall budget allocation with the exception of disputing any additional budget reductions.

With regard to student fees, Trustee Pierce pointed out the importance to the state of the university's teacher education/credentialing programs and suggested the possibility of separately identifying those programs in an effort to stave off significant fee increases that might deter students from pursuing a teaching career.

Trustee Galinson agreed with Trustee Pierce on the importance of CSU's teacher education programs as the primary provider of teachers in the state of California. He also recommended

looking at similar ways to minimize future graduate fee increases in social work and nursing due to the tremendous need for trained professionals in these areas.

Lt. Governor Bustamante expressed his concern about what he felt was acquiescence on the part of CSU board in terms of advocacy and moving aggressively toward finding resolutions to the growing funding problems. Trustee Hauck said he disagreed and stated that in fact, the board is in an advocacy mode. He stated we are all here for the same reason; e.g., to allow as many students as possible to have access to this university, and said that cannot be achieved without sufficient funds.

Dr. Charles B. Reed, chancellor, the California State University, said he has been generally pleased with his conversations with the Governor and members of the legislation. Chancellor Reed observed that a large part of the problem we now face lies in structural problems and restrictions imposed on the state by Proposition 98. He indicated the governor has been largely supportive of CSU but has pointed out that all state entities would suffer at least in the short term until the economy turns around. Chancellor Reed also pointed out the obvious, that CSU is one of the discretionary options within the budget and therefore could be subject to additional general fund reductions.

Mr. West observed it is clear the state has reduced its contribution to student education in the CSU over the last three years. He indicated we are at the point of trying to persuade the state that CSU has reached the point where access is severely jeopardized and pointed out we have already proceeded with reducing enrollment at the campuses. Mr. West said he is concerned that even with these efforts there will be further cuts and that we intend to put forth the argument, from a quality and access point of view, that CSU can not absorb additional budget reductions.

Chancellor Reed closed by saying we all want the same thing. He acknowledged the varying opinions on whether or not to take funding away from other state needs at the expense of a good higher education system vs. a good system for healthcare, etc. He said in the end, those decisions need to be made by the governor and the legislature.

### **Report on the Consultation Process to Develop a Long-Term Student Fee and Financial Aid Policy**

Trustee Hauck announced the item was being presented for information only at this time and would be brought back to the board for approval at the May board meeting.

Mr. West reviewed the history to-date, of various unsuccessful attempts by the CSU and other entities to establish a viable long-term student fee policy in California. Mr. West asked Ms. Karen Zamarripa to present an overview of recent discussions with students, faculty, and other groups as we look toward subsequent fee policy decisions.

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Ms. Zamarripa explained the charge by the Chancellor on behalf of the Board of Trustees to work with the Systemwide Budget Advisory Committee made up of faculty, staff, students, alumni, campus leaders, and board members and others, to develop a gradual, predictable, and fair long-term student fee policy.

Ms. Zamarripa called attention to the written report contained in the agenda item noting that it provides a comprehensive overview of the status of fee policy issues. She reported progress has been made in working with the California State Student Association, and the Academic Senate who have reached agreement on a set of principles that are outlined in the item. Ms. Zamarripa proceeded to outline and explain those principles as well as financial aid concerns and various implementation components.

There are several issues of concern that remain unresolved i.e., determining the proper share of the cost of education; the CSSA and academic senate's preference to focus fee increases exclusively at the undergraduate level; and designation of specific set-aside reserves for the state university grant program.

Trustee Pierce said he thought the policy showed signs of being a good first step toward identifying fair proportions and acknowledged the difficulty in coming to terms with percentage decisions. He encouraged identification of a reasonable timetable as an important component of the program, and suggested maintenance of a variety of indices to keep pace with the going cost of education. He also pointed out the need for a specific and narrowly defined purpose with regard to establishment of any set aside funds to avoid possible invasion of those funds in future budget crises.

Trustee Gonzalez said the students acknowledge that this fee policy addresses an honorable attempt at establishing a more moderate and predictable fee structure. However, he said the students feel the policy still does not adequately address the issues of affordability and access.

Trustee Galinson said he was pleased to see the collaboration among students, faculty, and university administration working toward a common goal. He expressed concern that the conversation has focused primarily on undergraduate fees and urged consideration of looking at the impact of raising graduate fees as well.

Lt. Governor Bustamante recommended exploration of other means of generating revenue, i.e., Raising the cigarette tax .25 cents per pack.

Trustee Vitti said he felt our options were limited and that either creating a higher tax or raising student fees was the only way to cope with the situation.

Trustee Kaiser expressed her concern about several issues including guaranteeing that student fee revenues will remain with the CSU. Ms. Zamarripa responded she wished we could provide guarantees. She said the work being accomplished together is one form of guarantee. However,

she said she did not want to mislead the board into believing fee revenues could be protected, particularly given the current budget crisis.

Ms. Zamarripa acknowledged the overall process has been very collaborative and constructive and that the Academic Senate and student leaders have been very helpful and informative. Ms. Zamarripa said the groups will continue to work together and are scheduled to meet again in a few weeks to continue the dialog in preparation for presentation of a formal fee policy for approval at the May board meeting.

### **Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects**

Mr. Hordyk presented the item noting it requested authorization for issuance of systemwide revenue bonds and issuance of interim financing under the Commercial Paper program for construction of three projects previously approved under the Non-State Capital program.

The projects are as follows: The Cal Poly Pomona Foundation, University Village, (Phase III) Student Housing Project; the San Diego State University Foundation, Bioscience Center; and the California State University, San Bernardino Student Union expansion.

Mr. Hordyk briefly reviewed the proposed financing methods for the three projects.

Trustee Kaiser inquired about a statement in the San Bernardino section of the agenda item regarding bids received on the project that exceeded project cost estimates. Mr. Hordyk replied that the problem with the first bid centered on the contractors concern about the cost of keeping the student union building open during the reconstruction/remodeling process. The campus has since made adjustments in the project plans and revised its financial plan to be more realistic to the marketplace.

The committee recommended approval of the proposed resolution (RFIN 03-04-03)

### **Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments to Refund California State University Channel Islands Financing Authority Bond Anticipation Notes**

Mr. Hordyk indicated the item was a bit complex, and explained that it called for approval to use systemwide revenue bonds and the issuance of interim financing under the Commercial Paper Program, in an aggregate amount not-to-exceed \$11,000,000 to provide needed funds to redeem the Bond Anticipation Notes (BANs), of the CSU, Channel Islands Financing Authority.

Mr. Hordyk noted revenue from the campus' housing operations would be used to finance two projects. The projects consist of a new Library, and a series of small projects. All of these projects were originally intended to be included in a single bond issuance once the library project

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was ready for implementation. The library project was subsequently delayed however; the BANs were issued on June 30, 2003 to fund the urgently needed small projects.

Mr. Hordyk explained the indenture for the BANs requires the Financing Authority to have funds on deposit with the bond trustee or to issue new debt to retire the BANs 60 days before the BANs' maturity date of June 30, 2004 (which is April 30, 2004). A failure to have these funds on deposit could result in a Financing Authority default on the BANs.

In order to rectify the timing difficulties, the board is being asked to approve the proposed resolution as a contingency to ensure there is a means to address the redemption of the current Financing Authority BANs for a short period until financing for the library project is complete.

The committee recommended approval of the proposed resolution (RFIN 03-04-04).

The committee adjourned at 4:03 p.m.

## **COMMITTEE ON FINANCE**

### **Report on the 2004/2005 Support Budget**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Patrick J. Lenz  
Assistant Vice Chancellor  
Budget Development

#### **Summary**

The Board of Trustees will be presented with an overview of actions by the Senate and Assembly budget subcommittees, the anticipated fiscal outlook of the 2004/05 budget, and specific budget recommendations for the CSU included as part of the Governor's revision to his January budget proposal, commonly referred to as the May Revise.

#### **2004/05 Support Budget**

Following Chancellor Reed's overview presentation on March 8 before the Senate Budget Subcommittee on Education, the Senate and Assembly budget subcommittees have been reviewing the CSU budget issues identified in the Governor's January budget proposal. The budget subcommittees have heard from the Governor's Department of Finance (DOF) on the specific recommendations in the budget proposal and from the Legislative Analyst Office (LAO) on its alternative budget approach to funding higher education. The major issues of concern to the University include enrollment and admissions, outreach and academic preparation programs, the Educational Opportunity Program (EOP), student fees, CSU State University Grants and the statewide Cal Grants financial aid program administered through the Student Aid Commission, and CSU capital outlay projects.

The Governor's January budget assumes a state General Fund reduction of \$239.7 million and does not fund mandatory costs of \$57.5 million, plus revenue of \$101.5 million from student fees representing a net total fiscal impact of \$195.5 million to the University. The \$239.7 million reduction consists of specific recommendations including the elimination of Outreach and EOP programs, a 7.5 percent reduction in Academic and Institutional Support, increasing the student/faculty ratio, eliminating the General Fund subsidy for student taking excess course units, deferring the Common Management System (CMS) implementation costs, and redirecting

10 percent of eligible first-time freshmen to the California Community Colleges. The CSU has responded that most of these recommendations, identical to reductions in the 2003-04 budget, could not be achieved and would be managed as an unallocated budget reduction.

The University continues to work with the Administration and the legislature on the identified policy issues like the redirection of first-time freshmen, students taking excess course units, and development of a long-term student fee policy. However, Chancellor Reed has indicated to the Governor and the legislature that enrollment reductions and increasing student fees are the only options for the CSU given the \$200 million budget reduction proposed for 2004/05 fiscal year, which follows the \$300 million budget reduction in the 2003/04 fiscal year. The CSU has reduced enrollment by 5 percent for 2004/05 and is still reviewing assumptions for student fee levels based on continuing discussions with the Governor's office.

Although the subcommittees have thoroughly reviewed budget recommendations and allowed considerable testimony from DOF, the LAO, CSU, and the public, legislators are reserving any actions until the Governor submits his "May Revise" to the state budget. The proposal for 2004/05 (submitted on January 10, 2004) is based upon assumptions and projections of revenues and expenditures, program activity, and anticipated federal funds. All of these projects are based on information provided by the DOF staff at the end of November 2003. After the April 15 tax date, the Governor will "revise his budget in May" to update revenue and expenditure estimates, program assumptions, and federal fund projections. In some previous years, revenue and expenditure changes have been so dramatic the Administration has presented a completely new budget to the legislature in May. At this point in time the anticipated deficit is expected to be another \$2 billion that will need to be reduced from the state budget or covered through some sort of revenue increase.

Last year, after the Governor submitted his May Revise budget, the legislature reduced the CSU budget by \$84.5 million. This year there is great uncertainty as to how the Governor may treat the University in the May Revise. In addition, it is difficult to predict how the legislature may respond given the need to find another \$2 billion in state General Fund resources to address revenue and expenditure changes that have occurred since the January budget. In fact on March 30 the DOF requested the CSU, along with all state agencies and the University of California, submit a plan to reduce our state General Fund allocation of approximately \$2.4 billion by an additional 3 percent, representing an additional \$72 million reduction to the CSU. The University's response was it would have to reduce enrollment by another 1.5 percent and increase student fees by an additional 10 percent over the proposed increase in the Governor's budget to meet the \$72 million funding reduction.

The CSU is working with the Administration and the legislature to provide those offices with a greater understanding of the limited options available if additional budget reductions were to occur. As proposed in January, the 2004/05 budget would result in \$562 million, or 21.6% of the

University's General Fund appropriation, of accumulated cuts to the University budget since the 2002/03 fiscal year. In addition there is a \$636 million structural funding gap impacting the quality of education to our students. The CSU has made it clear to the Administration and the legislature that we will only enroll students for whom we can provide "authentic access" to ensure students receive the classes they need to progress toward a degree in a timely fashion.

The Board will be provided with the latest budget update from the May Revise and potential for legislative action at the May Board meeting.

## **COMMITTEE ON FINANCE**

### **Report on State Funding and Student Fee Policy Development**

Presentation By

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Karen Y. Zamarripa  
Assistant Vice Chancellor  
Advocacy and Institutional Relations

#### **Background**

In response to California's fiscal crisis of the early 1990s, the Board of Trustees in 1993 adopted a student fee policy and financial aid pricing and payment proposal designed to stabilize fee increases in an environment of budget-driven enrollments. The 1993 fee policy was based on a two-thirds/one-third split in the cost of education, with the state providing two-thirds of the cost. In addition, the policy included the following major principles:

1. It is the state's responsibility to determine how many students may study at CSU by the level of support it provides;
2. Fee revenues will be used to improve and support the quality of the educational program;
3. There is a differential cost in providing graduate and undergraduate education;
4. There should be no restriction on the use of fee revenue to improve instruction; and
5. Changes in fee policy must be accompanied with reformed and enhanced student financial aid policies and award programs.

Through 1996, the setting of systemwide student fees at California public postsecondary institutions was governed by the Maddy-Dills Act, which had been enacted by the Legislature in 1985 to provide for a statewide fee policy. The Act required fees to be (1) gradual, moderate and predictable; (2) limited fee increases to not more than 10 percent a year; and (3) fixed at least ten months prior to the fall term in which they were to become effective. The policy also required sufficient financial aid to offset fee increases.

The provisions of the Act were set aside in the Budget Act for several consecutive years during the last fiscal crisis to help address General Fund reductions to the CSU's operating budget (this

was also true of the University of California). In 1996, the Act was allowed to sunset and, since that time, the state has had no statutory long-term policy to set mandatory student fees.

Given the unpredictable nature of student fees since that time – with reductions being implemented at the state level in good economic times, and increases adopted recently to help cope with the current fiscal crisis – there have been numerous efforts to develop a long-term policy to provide stability and predictability for students and the institutions alike regarding fees. In 2002, reports recommending a fee policy were released by the Legislative Analyst's Office and the California Postsecondary Education Commission, and in 2003 legislation was introduced by the Assembly Higher Education Committee, Assembly Member Manny Diaz, and Assembly Member Shirley Horton that would have placed a fee policy in the Education Code. None of the bills advanced further than the Assembly Appropriations Committee.

Last fall, the Board requested Chancellor Reed to review the policy adopted in 1993 and to recommend any necessary modifications to the system's existing long-term student fee policy. The Chancellor's Office has been working with the leadership of the California State Student Association (CSSA) and the Statewide Academic Senate of the CSU (ASCSU) to evaluate the important components of such a policy, in close consultation with the Systemwide Budget Advisory Committee (SBAC). The revised policy under discussion with CSSA and ASCSU is designed to reaffirm the University's historic commitment to ensuring authentic access and maintaining quality at CSU, while recognizing the fiscal challenges that confront both the State and the system. The policy would provide a measure of predictability and stability to students in planning campus costs, and also to campuses and the CSU system as a whole in managing resources to best meet the needs of students.

As the policy discussions have evolved, it has become clear that the level of funding provided to CSU by the state must be linked with the level of fees charged to students. For the policy to successfully meet its objectives, the state must meet its commitment to provide adequate funding to the system. Should that not occur, the policy would provide the Board with sufficient flexibility to set fees outside the parameters that are described below.

The adoption of a state funding and student fee policy will institute a level of accountability on the setting of fees for the Board, the Chancellor and campuses, and students; but also for the state and the public. With the policy in place, CSU will be in a better position to hold state policy-makers accountable for their decisions regarding higher education funding.

### **Status of Fee Policy Discussions**

CSU system administration representatives and the current leadership of the CSSA and ASCSU have agreed to the following key principles, which are consistent with existing system policy. The principles affirm the essential component of any successful policy: the requirement for adequate state financial support to the University.

- The state shall fund CSU at the levels necessary to support the state's Master Plan for Higher Education.
- It is the responsibility of the state to support access, while student fee revenues shall be utilized to invest in teaching and learning and affect quality improvements in instructional programs and the services necessary for students to achieve their academic objectives.
- The state shall bear the preponderance of responsibility for funding the cost of education for all eligible students, and resident undergraduate and graduate student fees shall remain as low as possible.
- Any increase in systemwide fees should be gradual, moderate and predictable, taking factors into account including the cost of educating students at CSU; the current share of that cost borne by students and the state; and the availability of federal, state and institutional aid to maintain access and affordability.
- Systemwide financial aid policies should take into account a student's ability to pay, and should be aligned with the distinct functional needs of the CSU's student population and student fee levels.

The policy principles also call for adequate notice on proposed fee adjustments, an annual report to the Board on the status and impact of state funding levels, student fees and financial aid policies, as well as a statement that student fee revenues would remain with the CSU system to fund programs that benefit CSU students.

After a considerable amount of discussion, general agreement was also reached that:

- Undergraduate student fees should be adjusted on an annual basis over a specified period of years until they reach a level which is the equivalent of a set percentage of the average cost of education per full-time student;

- Once the fees reach that level, they would then be adjusted annually based on the California per-capita income;
- CSU would continue to set aside a portion of new fee revenue for the State University Grant (SUG) program.

The cost of education would be defined as the average cost per student based on the total General Fund appropriation, plus State University Fee Revenue for the CSU in the year prior to the fiscal year in which fees will be assessed. The Board would adopt the annual fee adjustment as part of the budget request submitted to the Governor and Department of Finance each Fall to ensure students and families have adequate notice of fee adjustments for the upcoming academic year.

A critical component of the policy would be an annual cost of education report, to be presented to the Board no later than September of each year to assist the Chancellor in the development of the final budget request for the upcoming fiscal year. At this point the Board would have the opportunity to determine whether the state has met its commitment of ensuring the University has been provided adequate funding to achieve its responsibilities.

### **Open Issues Under Consideration**

At this juncture there are a few policy issues that will need further discussion among the parties before the chancellor can recommend a comprehensive state funding and student fee policy proposal to the Board. The first issue is the percentage share of the cost of education that fees should cover. The second outstanding issue is in regard to a cap on increases in any given year and the number of years needed to fully achieve the percentage share fees would cover of the overall cost. Finally, all discussions to date have focused on undergraduate fees so that the remaining issue is integration of graduate student fee levels into the overall policy proposal.

### **State Capitol Actions**

The budget released by Governor Schwarzenegger in January 2004 also includes a proposed long-term student fee policy, outlined in Senate Bill 1535 (Karnette). The Administration proposes to link future increases in undergraduate student fees to the increase in per-capita income. To ensure that the institutions retain the ability to address unforeseen fiscal needs, the Administration proposes that the policy provide sufficient flexibility to increase fees annually by as much as 10 percent. The proposal does not address the role of the state in higher education funding, financial aid, or the share of the cost to be borne by students.

In addition, Assembly Members Carol Liu (D-La Canada/Flintridge), Chair of the Assembly Higher Education Committee, and Manny Diaz (D-San Jose) have introduced Assembly Bill 2710 which also would enact a long-term student fee policy in statute. In its current form, the bill includes provisions that: a) increases in student fees shall be coupled with corresponding increases in state and institutional financial aid; b) the state should fund a fixed percentage (currently unspecified) of the costs of education for undergraduate students; c) undergraduate fees should not be increased by more than 8 percent in any academic year; and d) except in fiscal emergencies, student fees should be adjusted by the annual changes in statewide per capita personal income.

## COMMITTEE ON FINANCE

### 2004-2005 State University Fee and Nonresident Tuition Increases

#### Presentation By

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Patrick J. Lenz  
Assistant Vice Chancellor  
Budget Development

#### Summary

The board has the authority to establish, adjust, and abolish systemwide fees. In January 2004, the governor released the 2004-05 State Budget. This budget plan called for a \$239.7 million reduction in General Fund dollars allocated to the university. In order to mitigate these reductions, the budget proposed ten and forty percent increases in the State University Fee for undergraduate and graduate students, respectively. In addition, the Governor's budget proposed a twenty percent increase in nonresident tuition.

The Department of Finance has projected these fee increases, after setting aside 20% of gross revenue for financial aid, to generate \$85.3 million in State University Fee revenue and \$16.2 million nonresident tuition revenue for a total revenue increase of \$101.5 million. The one-fifth revenue set-aside for financial aid is less than the one-third set-aside required under current Trustee fee policy. Despite this change in funding for the State University Grant (SUG) program, CSU estimates an additional \$15 million will be available to fund 10,000 new grant awards although the average grant award will be \$25 dollars less than previously provided.

The 40% differential fee adjustment for graduate students grew from the Governor's Office recognition that graduate and post-baccalaureate education costs significantly more than undergraduate instruction. The CSU, University of California and the legislature have expressed concerns regarding the 40 percent increase in graduate fees. CSU enrollment records show that 37 percent of all 2002-03 graduate and post-baccalaureate FTES were enrolled in a teacher credential program. In discussions with the Governor, Chancellor Reed has expressed concerns that typical teacher credential students are not high wage earners and that CSU has an overwhelming responsibility to remain committed to providing highly trained and qualified teachers for California.

Consistent with the CSU's request and the Governor's May Revise, the budget plan reduces the increase in fee rates proposed in the 2004-05 Governor's Budget for graduates and post-baccalaureates in teacher credential programs to 20 percent and all other graduates and post-baccalaureates to 25 percent. This action requires that undergraduate fee rates be increased to 14 percent above 2003-04 fee rates. This action preserves the level of revenue used in the Governor's budget to offset a \$101 million reduction in CSU General Fund appropriations.

Assuming proposed 2004-05 undergraduate fees of \$2,334, and including the average campus-based fee of \$526, the total annual undergraduate fee of \$2,860 would be \$30 more than the lowest public comparison institution for the 2003-04 fee levels and \$2,412 less than the average of CSU public comparison institutions used by the California Postsecondary Education Commission for the CSU faculty salary methodology for 2003-04. Comparison institution 2004-05 fee data currently is not available.

**2004/05 CSU Comparison Institution  
 Academic Year Resident, Undergraduate, Student Fee Levels**

<b>University</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05 <sup>1</sup></b>
Rutgers University (Newark, NJ)	7,308	7,927	-
University of Maryland, at Baltimore	6,362	7,388	-
University of Connecticut (Storrs, CT)	5,843	6,844	-
State University of New York, at Albany	5,337	6,343	-
Cleveland State University	5,196	5,916	-
Wayne State University (Detroit, MI)	5,031	5,693	-
Illinois State University	5,037	5,340	-
<b>COMPARISON AVERAGE <sup>2</sup></b>	<b>\$ 4,584</b>	<b>\$ 5,272</b>	-
George Mason University (Fairfax, VA)	4,416	5,112	-
University of Wisconsin, at Milwaukee	4,356	5,107	-
North Carolina State University	3,827	4,985	-
University of Texas, at Arlington	4,123	4,423	-
Georgia State University, at Atlanta	3,472	3,920	-
University of Colorado, at Denver	3,238	3,662	-
Arizona State University, at Tempe	2,585	3,595	-
University of Nevada, at Reno	2,622	2,830	-
<b>CALIFORNIA STATE UNIVERSITY <sup>3</sup></b>	<b>\$ 2,070</b>	<b>\$ 2,572</b>	<b>\$ 2,860</b>

<sup>1</sup> 2004/05 Comparison institution data unavailable

<sup>2</sup> Average does not include CSU

<sup>3</sup> Includes State University Fee and average campus based fees

Total fees paid by nonresident students are the second lowest among the 15 public comparison institutions. Increasing the nonresident tuition rate by twenty percent to \$10,170 per academic year plus the State University Fee of \$2,334 and the average campus based fees of \$526, nonresident students will pay \$591 less than the 2003-04 comparison institution average.

The new rate results in per unit charges equal to \$339 per semester term and \$226 per quarter term. Although the impact of the rate increase on CSU nonresident student enrollment is unknown, it is believed that the per unit charge and installment payment plan available to nonresident students will provide sufficient options from which currently enrolled students can structure their progress to degree.

**CSU Comparison Institutions  
 Nonresident, Undergraduate Student, Tuition and Fees**

<b>University</b>	<b>2003/04</b>	<b>2004/05 <sup>1</sup></b>
Wisconsin, University of, at Milwaukee	\$17,858	
Connecticut, University of (Storrs, CT)	17,628	
North Carolina St. University	15,818	
Colorado, University of, at Denver	15,154	
George Mason University (Fairfax, VA)	14,952	
Rutgers University (Newark, NJ)	14,441	
Maryland, University of, at Baltimore	14,240	
<b>COMPARISON AVERAGE <sup>2</sup></b>	<b>13,621</b>	
Georgia State University, at Atlanta	13,544	
SUNY, Albany	12,293	
Wayne State University (Detroit, MI)	12,276	
Arizona State University, at Tempe	12,028	
Texas, University of, at Arlington	11,633	
Nevada, University of, at Reno	11,317	
Cleveland State	11,316	
<b>California State University <sup>3</sup></b>	<b>11,032</b>	<b>13,030</b>
Illinois State	9,810	

<sup>1</sup> 2004/05 Comparison institution data unavailable

<sup>2</sup> Average does not include CSU

<sup>3</sup> Includes Nonresident Tuition, State University Fee and average campus based fees

**Recommended Trustee Action**

The recommendation before the Board is to increase state university fee rates for undergraduates by \$288 (14% increase), qualified credential program participants by \$450 (20% increase) and all other post-baccalaureate and graduate students by \$564 (25% percent) for the 2004-05 academic year. One-fifth of the revenue from these fee increases will be set aside for State University Grant financial aid. An additional recommendation before the Board is to increase the Nonresident Tuition Fee by twenty percent or \$57 per unit at semester campuses and \$38 per unit at quarter campuses. The following resolutions are recommended for adoption:

**State University Fee Increase Resolution**

**RESOLVED**, By the Board of Trustees of the California State University, that the following schedule for the State University Fee, which incorporates a fourteen percent increase for undergraduate, twenty percent increase for qualified credential program participants, and twenty-five percent increase for other post-baccalaureate and graduate students, for the 2004-05 academic year, effective fall term 2004 is approved until further amended:

**2004-05 State University Fee Schedule (Effective Fall 2004)**

All Campuses, except California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Per Quarter</u>	<u>Per Academic Year</u>
<b>Undergraduate</b>			
6.1 or more	\$1,167	\$778	\$2,334
0 to 6.0	\$678	\$452	\$1,356
<b>Credential Program Participants</b>			
6.1 or more	\$1,353	\$902	\$2,706
0 to 6.0	\$786	\$524	\$1,572
<b>Graduate</b>			
6.1 or more	\$1,410	\$940	\$2,820
0 to 6.0	\$819	\$546	\$1,638

California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Winter Term</u>	<u>Per Academic Year</u>
<b>Undergraduate</b>			
6.1 or more	\$1,062	\$210	\$2,334
0 to 6.0	\$573	\$210	\$1,356
<b>Credential Program Participants</b>			
6.1 or more	\$1,233	\$241	\$2,706
0 to 6.0	\$666	\$241	\$1,572
<b>Graduate</b>			
6.1 or more	\$1,284	\$252	\$2,820
0 to 6.0	\$693	\$252	\$1,638

And, be it further

**RESOLVED**, That the chancellor may approve individual campus State University Fee rates that do not exceed the maximum fee rates established by this fee schedule.

And, be it further

**RESOLVED**, The chancellor is delegated authority to further adopt, amend, or repeal the State University Fee rate increase if such action is required by the budget act approved for 2004-05, and that such changes made by the chancellor are communicated promptly to the trustees.

**Nonresident Tuition Increase Resolution**

**RESOLVED**, By the Board of Trustees, that the Nonresident Tuition schedule for the 2004-05 academic year, effective for all campuses with the Fall 2004 term and until further amended, shall be as follows:

Non-Resident Tuition	<u>Quarter Term</u>	<u>Semester Term</u>
Per Unit Charge:	\$226	\$339

The academic year fee rate is \$10,170. The fee paid per term shall be determined by multiplying the number of units taken by the charge per unit in accordance with this schedule.

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And be it further

**RESOLVED**, The chancellor is delegated authority to further adopt, amend, or repeal the nonresident tuition fee rate increase if such action is required by the budget act approved for 2004-05, and that such changes made by the chancellor are communicated promptly to the trustees.

## COMMITTEE ON FINANCE

### **Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$36,525,000 to provide needed funds for the construction of two projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing systemwide program bonds.

The projects are as follows:

#### **1. California State University, San Bernardino Student Recreation Center Project**

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for a student recreation center project. In March 2001, the California State University, San Bernardino students voted to increase student body center fees to build this student recreation center, and a separate project to expand the student union. The student union expansion project was approved for financing at the March 2004 Board meeting.

The student recreation center is a recreational and multipurpose facility designed to enhance student life on campus and will be located on a separate site from the student union. The 34,400 gross square foot building will include a weight room, cardiovascular area, gym/athletic court, group fitness room, a climbing wall, locker rooms, as well as administrative and staff offices. The not-to-exceed par value of the proposed bonds is \$12,295,000 and is based on estimated student union recreation center project costs of \$13,055,000. In addition, \$1,905,000 will be paid from campus student union reserves. The remaining balance will be paid from financing proceeds, which also will fund financing costs and capitalized interest associated with the project.

The campus initially requested the Board approve the project financing at the January 2004 meeting contingent upon the campus receiving future construction bids that were consistent with its financial plan. However, the bids received exceeded the project cost estimate by an unacceptable amount, and the item was withdrawn. The campus has now adjusted the project plans and has received new bids within their financial plan. The campus expects to award the contract in June 2004 with the recreation center project targeted for completion in September 2005.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$12,295,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service:	\$849,739
Projected debt service coverage including the two new projects: <sup>1</sup>	
Gross revenue – all San Bernardino pledged revenue programs:	2.87
Net revenue – all San Bernardino pledged revenue programs:	1.15
Net revenue – projected for the campus Student Union program:	1.11

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project and the student union expansion with expected full debt service.

The not-to-exceed amount for the project totaling \$12,295,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 100 basis points (computed average coupon rate – 5.6%; April 12, 2004), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is our CSU program standard. The campus is optimistic that revenue for 2004-05 fiscal year will be the same as the current year due principally to the assumption that student union fee collections from continuing education program students will make up for any student union fee shortfalls during regular sessions. The campus also projects future revenue based on a 3% enrollment growth in the 2005-06 fiscal year and beyond. The campus has submitted a financial plan that has a 1.11 program net revenue debt service coverage which meets the CSU benchmark of 1.10.

The campus combined net revenue debt service coverage from all pledged revenue programs for the campus is 1.15 which is below our 1.35 times debt service campus benchmark. This number reflects some difficulties the campus has experienced in housing operations in connection with a new facility that recently opened. The campus has investigated the problem and is implementing improvements in managing the administrative and accounting aspects of the program. As long

as this ratio is below the campus minimum standard benchmark, it will have a negative impact on the systemwide program coverage, an important criterion in the credit analysis regularly performed by rating agencies.

The campus is managing its overall use of debt so that with the recreation center project, the campus debt payments will total approximately 2.86% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

## **2. San Diego State University Student Health Services Building Project**

Previously the Board of Trustees approved an amendment to the Nonstate Funded Capital Outlay program for the student health services building. The Board is currently being requested to approve schematic plans for the project in its Committee on Campus Planning, Buildings and Grounds meeting.

The project includes the construction of a new student health services building to replace the existing facility. The building will contain approximately 69,020 gross square feet and will be four stories over a single-level parking garage for 62 vehicles. The new facility will be orientated toward the campus along Aztec Walk, the primary east-west pedestrian corridor located on the southern border of the campus. At the time this agenda item was written, the campus was in escrow to acquire the easterly 60 feet of the project site and was scheduled to close escrow before the May Board meeting. The campus is aware the project funding is contingent upon having full title to the land acquisition.

The not-to-exceed par value of the proposed bonds is \$24,230,000 and is based on a total project cost of \$26,000,000, of which \$3,000,000 will be contributed from parking reserves, \$2,206,012 will be contributed from student health facility reserves, and the remaining balance will be paid from financing proceeds. In addition to project costs, the bond proceeds will fund financing costs and capitalized interest. The project, proposed for construction under the CSU Design/Build, RFQ/RFP process, has received successful proposals. The project will commence after the land acquisition and is anticipated to be completed by Spring 2006. In March 2002, an increase to the health facility fee was approved to support the maintenance, repair, and improvement of student health services facilities and is separate from the fees paid for basic medical care.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$24,230,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$1,698,263
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all San Diego pledged revenue programs:	3.12
Net revenue – all San Diego pledged revenue programs:	1.44
Net revenue – projected for the San Diego Student Health Program:	1.10

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount, the maximum annual debt service, and the ratios above are based on the construction project bids, expected debt service and capitalized interest at the current interest rate environment plus 100 basis points (computed average coupon rate 5.6%; April 12, 2004), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is our CSU program standard. The financial plan assumes a decline in enrollment of 5% for the upcoming 2004-05 fiscal year with a subsequent 3% annual growth thereafter. The campus has submitted a financial plan with a 1.10 program net revenue debt service coverage, which meets the CSU benchmark of 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs is above the 1.35 times debt service campus benchmark.

The campus is managing its overall use of debt so that with the student health center project, the campus debt payments will total approximately 3.81% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

**Trustee Resolutions and Recommended Action**

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for each project described in this agenda item that authorize interim and permanent financing for the projects. The proposed set of resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$36,525,000 and certain actions relating thereto.
- (2) Provide a delegation to 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.

Approval, individually or in total, of separate sets of the financing resolutions for the following projects as described in this agenda item is recommended for:

- 1. San Bernardino Student Recreation Center Project**
- 2. San Diego Student Health Services Building Project**