

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:45 p.m., Tuesday, November 12, 2002
Glenn S. Dumke Auditorium

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Murray L. Galinson
Harold Goldwhite
Dee Dee Myers
Frederick W. Pierce IV
Erene S. Thomas
Kyriakos Tsakopoulos
Anthony M. Vitti

Consent Items

Approval of Minutes of Meeting of September 17, 2002

Discussion Items

1. 2002-2203 Student Fee Report, *Information*
2. Approval to Issue Trustees of the California State University Systemwide Revenue Bond and Related Debt Instruments for Various Projects, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE
CSU Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

September 17, 2002

Members Present

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Debra S. Farar, Chair of the Board
Murray L. Galinson
Harold Goldwhite
William Hauck, Chair
Dee Dee Myers
Frederick W. Pierce, IV
Charles B. Reed, Chancellor
Erene S. Thomas
Kyriakos Tsakopoulos
Anthony M. Vitti

Other Trustees Present

William D. Campbell
Bob Foster
Alexander Lopez
Ralph R. Pesqueira
Martha C. Walda

Chancellor's Office Staff

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

Chair Hauck called the meeting to order at 2:22 p.m.

Approval of Minutes

The minutes of July 16, 2002 were approved.

Status Report on the 2002/2003 Support Budget

Mr. Richard P. West, executive vice chancellor and chief financial officer presented the report. The legislature passed the budget for 2002/2003 on September 5, 2002. Mr. West indicated this new budget contained some positive news for CSU given the context of the overall state economy, as well as a fair amount of uncertainty due to an additional state budget reduction of \$750 million dollars.

The positive component for CSU includes receipt of funding for increased enrollment growth of 5%, some funding for mandatory costs, and a 1.5 % increase for compensation.

There were some reductions, primarily related to special initiatives or targeted identified projects, however, they are not specific to the program of the CSU. There was also a one-time reduction of \$43 million dollars in the areas of funding for instructional equipment, deferred maintenance, and libraries and educational technology.

The remaining uncertainty involves an as yet undesignated cut of approximately \$750 million. What is involved is a potential reduction of up to 5% to state operations, of which CSU is considered a part. As a precautionary measure, Mr. West indicated he has communicated with the campuses, campus presidents, and other constituencies about our potential exposure in order to prepare for possible further reductions. Campuses have been asked to be cautious with respect to their spending while still meeting the demands we were funded for which is full enrollment growth.

Mr. West summarized that while the budget does reflect some significant reductions, the governor and the legislature have supported the core program of the CSU; and we consider that a very positive outcome, as well as recognition of the state's priorities for education. He indicated he would keep the board informed as more details develop, and said he hopes to have more complete budget information at the November meeting.

Mr. West then introduced and welcomed Mr. Patrick J. Lenz, the new assistant vice chancellor for budget development. Mr. Lenz thanked Chancellor Reed and Mr. West for the opportunity to represent the CSU system on budget issues.

Mr. Lenz using a comprehensive PowerPoint presentation on the budget focused on funds and resources needed to support the 2003/2004 fiscal year budget, and an examination of expenditures and budget priorities for the fiscal year. The presentation also emphasized the importance of the partnership agreement as the focal point of budget activity. Mr. Lenz indicated total systemwide mandatory costs and budget priorities are expected to be approximately \$413.6 million. He concluded noting this figure was truly optimistic given the state's fiscal condition. However, he was confident that the system is well-served in presenting to

policy makers what our needs are and the amount of revenue it will take to support those needs to ensure student access, the quality of education at the CSU, and the success of our students.

Mr. West added that funding for summer conversion would aid in completion of conversion of all CSU campuses to year-round operation. Whether that is going to be considered a sufficient priority given the fiscal environment is of course, uncertain. He indicated it is a priority for us as well as the legislature.

Trustee Pierce said he noticed an offset in the base budget for lease bond payments and deferred maintenance, and did not recall seeing that in the past. Mr. West explained it has always been included but has not been spelled out as explicitly until now.

Trustee Foster remarked on the substantial and continuing increases in health care costs and asked for some feedback on the projected percentage increase for the new budget year. Chancellor Reed also expressed concern about spiraling health care costs noting that CSU has experienced an approximate 15% increase during the last 3 years.

Mr. West indicated that on the employer side, it has been necessary for CSU to increase employer contributions, and that PERS also makes adjustments on the benefits side; however there is no concrete guarantee that employee contributions will not increase.

Dr. David S. Spence, executive vice chancellor and chief academic officer, initiated a conversation about ACR 73, which is considered to be a very important and successful effort to improve the California State University.

ACR 73 was passed in the state legislature in 2001, and urged the trustees to study hiring practices in the CSU. It also encouraged the trustees to work with the Academic Senate and the CFA to develop a plan to raise the percentage of tenured and tenure-track faculty in the CSU, to at least 75%. Past hiring trends have resulted in over half of CSU faculty having only temporary appointments.

Dr. Spence chaired the study group consisting of members from the CFA, the administration, and the academic senate indicating it had been a special and rewarding opportunity to join together and work on a project that will greatly benefit the CSU.

Dr. Elizabeth Hoffman, the group representative from the CFA, briefly addressed the committee. She shared her perspective and experience from working with the group indicating that the three factions worked cooperatively to develop a plan to address the hiring practices and trends, and submitted the plan to legislature. The plan, if successfully implemented would raise the percentage of tenured and tenure track full-time equivalent faculty to at least 75%. Dr. Hoffman indicated that current lecturers would be seriously considered for positions in these searches. She then thanked the chancellor and the trustees for supporting this visionary plan.

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Dr. Jacquelyn Kegley, chair, statewide academic senate, stated she served on the group task force from the academic senate. She indicated that the task force report signifies what can be accomplished when we act together in the spirit of unity. Dr. Kegley acknowledged the comments made by Dr. Hoffman and thanked the chancellor, the trustees, and all who made ACR 73 such a successful endeavor.

Dr. Spence acknowledged that if implemented, ACR 73 will cost money, however, it would be a valuable investment in the future of the CSU. He then outlined in detail what the financial and budget implications would be with a request for \$13 million dollars to be included in next year's budget. Mr. West said he was sure everyone recognized the difficulty in obtaining this amount of money given all the other demands in this budget year. He indicated that this is an important long-term quality initiative for the CSU, and that the request would be included in the final budget request.

Trustee Galinson complimented the three groups who worked together on the initiative. He said this project provides CSU with an excellent opportunity to work in the spirit of cooperation to further the goals of the system, and urged all parties to continue to work together toward these types of cooperative efforts.

Trustee Campbell expressed concern about a statement in the report regarding guaranteed eligibility of current qualified CSU lecturers for consideration in obtaining these tenure-track positions. He felt this could pose a problem in that it would possibly limit the opportunity for applicants outside the system who might be better qualified.

Dr. Kegley clarified that present lecturers may apply for the positions along with any other candidates and they would go into the pool. She said the key word here is "qualified".

Trustee Pierce asked for clarification of the breakdown of the \$35 million for ACR 73 in next year's budget. In particular he was interested in the marginal cost supplement for enrollment growth faculty. Dr. Spence replied that in the past, marginal cost funding has not been adequate to hire new faculty at higher rates. Mr. West commented that the marginal cost figure is to recognize the actual cost of hiring faculty and to include it as another budget priority as part of the overall cooperative effort.

Chair Hauck thanked Dr. Kegley, Dr. Spence, and Dr. Hoffman for their participation and input on this important initiative.

Annual Investment Report

Chair Hauck announced that Mr. Dennis Hordyk, assistant vice chancellor, financial services would present the report. Mr. Hordyk introduced Mr. Russ Gould and Mr. Scott Dubchansky from Metropolitan West Financial, CSU's investment management firm.

Mr. Hordyk noted CSU's investment policy restricts its portfolio to U.S. treasury securities, government agency securities, and highly rated corporate securities. The current economic environment has been generally favorable to participants in the three fixed income accounts, most notably, the total return and long-term accounts. Declining interest rates have benefited the portfolio returns by supplying price appreciation in addition to interest income. Mr. Hordyk explained that with interest rates at historic lows, our fund managers are taking a defensive position to hedge against potential interest rate increases.

Mr. Hordyk then presented an overview of the results of the CSU investment program for the 12 months ending June 30, 2002.

Highlights of the report included the following:

The CSU short-term investment account yielded returns of 3.35 percent with an asset balance of \$158 million. The objective of this account is to maximize current income along with preservation of capital.

As of June 30, 2002, the mid-range, or total return account, net asset value was \$173 million. The objective of this account is to maximize medium range total returns. The account invests in a diversified portfolio of fixed income securities of varying maturity with an approximately 3.75 to 5.75 years. Return for this account as of June 30, 2002 was 8.11 percent.

The investment objective of the long-term account is to maximize return of funds that can be invested for a longer period of time. This account invests in a diversified portfolio of fixed asset income securities with varying maturities of approximately 5 to 7 years in duration. As of June 30, 2002, the net asset value of the account was \$42 million and the return was 9.85 percent.

Mr. Russ Gould, managing director for Metropolitan West Financial, briefly addressed the committee and said he was very pleased to be a part of the service to provide investment management services to the CSU system.

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

Mr. Hordyk introduced the item noting it was a request for the board to authorize the issuance of systemwide revenue bonds and interim financing under our commercial paper program in the aggregate amount of not-to-exceed \$14,130,000 or the construction of two projects.

He explained, to facilitate maximum flexibility in the commercial paper program, the board was being asked to approve separate resolutions relating to each project. He indicated that both projects and their individual campus master plans had previously been approved through the non-state funded capital improvement program.

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The first project is a request by San Diego State University to finance the construction of the Gateway addition project. The project will provide needed classroom space for the College of Extended Education, and temporary faculty and administrative offices.

The second project is a request from CSU, Monterey Bay to finance the renovation of a vacant former military residence hall that will contain areas of social and programmatic activity and a total of 140 bed spaces.

Trustee Vitti asked about the possible effect on interest rates in view of the possibility of a war looming in the background, and other unforeseen factors. Mr. Hordyk replied we automatically build-in a factor to cover against increases of a half percent (500 basis points), and that we would be able to continue in our commercial paper program for a while.

Trustee Pierce inquired about how the level of insurance is determined on systemwide revenue bonds in order to obtain the highest level of coverage Mr. Hordyk replied that an evaluation is done on the bonds to determine the appropriate level of coverage. Based on those evaluations, it is sometimes determined that the higher rate of coverage is not always warranted.

Trustee Pierce then asked for additional input on the Monterey Bay item with regard to the parity lien status. Mr. Richard K. Leffingwell, senior director, financing and treasury, replied that the parity debt would mean that the campus' foundation and the trustees would be sharing the revenues that are pledged to both debts.

The committee recommended approval of the proposed resolutions RFIN 09-02-10 and RFIN 09-02-11.

Status Report on the 2003/04 Support Budget and Recommended Lottery Revenue Budget

Mr. West reported that based on information from the lottery commission, CSU's lottery revenue is not expected to change significantly. It is recommended that we fund the lottery budget at the same level as this year. Mr. West said he would bring the item back to the board for action at the board meeting on October 31, 2002.

The meeting adjourned at 3:16 p.m.

COMMITTEE ON FINANCE

2002/2003 Student Fee Report

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Summary

CSU student fee policy requires that an annual campus student fee report be presented to the Board of Trustees to allow the board to consider the level and range of fees charged to CSU students. Further, Board of Trustees Standing Orders state that total annual mandatory (Category I) student fees may not exceed one-third of the systemwide cost of education. The systemwide cost of education is defined as total support expenditures (State University Fee revenue and General Fund support appropriations) divided by the number of full-time equivalent students.

The CSU also conducts an annual survey of 15 CSU comparison public institutions (as identified by California Postsecondary Education Commission) and their academic year resident, undergraduate student fee levels to gain perspective of CSU fee levels in a larger context.

Further information follows regarding CSU 2002/03 academic year, resident, undergraduate students fee levels by campus, a comparison of 2002/03 versus 2001/02 CSU student fee levels by campus, the 2002/03-systemwide cost of education, and results of a 2002/03 comparison institution student fee survey.

2002/03 Student Fee Report

CSU 2002/03 academic year resident, undergraduate student fees include the systemwide State University Fee (SUF) and campus fees. The 2002/03 total systemwide and campus fees average is \$1,926. The undergraduate SUF (6.1 units or more) represents \$1,428 of that total. The SUF level remains unchanged to date. A SUF increase has not occurred since 1994/95. Further, SUF reductions of 5 percent occurred in both 1998/99 and 1999/00. The board retains authority to establish, adjust, and abolish systemwide fees.

The 2002/03 average campus based fees that must be paid to apply to, enroll in, or attend the university is \$498. This represents a \$50 or 11 percent increase in campus-based fees from the prior year. As outlined in the CSU student fee policy, prior to adjusting or establishing a campus fee, appropriate and meaningful consultation must occur, which includes consultation with the

campus fee advisory committee. Campus presidents have the authority to adjust campus fees after appropriate consultation. To establish campus fees, campus presidents must forward a request to the chancellor following appropriate consultation. After an additional review process, campus fees are established by chancellor's executive order. The following table presents CSU 2002/03 fee levels by campus:

CSU 2002/03 Academic Year, Resident, Undergraduate Student Fees ¹									
	State University Fee (SUF)		Campus Fees (Annual fees that must be paid to apply to, enroll in, or attend the university)						Total (6.1 units or greater)
	Up to 6 units	6.1 units or greater	Health Facilities	Health Services	Instructionally Related Activities	Materials, Services, and Facilities	Student Body Assoc.	Student Body Center	SUF and Campus Fees
Bakersfield	\$828	\$1,428	\$6	\$150	\$64	\$6	\$77	\$70	\$1,801
Channel Islands	828	1,428	6	120	100	70	0	0	1,724
Chico	828	1,428	6	198	180	4	82	216	2,114
Dominguez Hills	828	1,428	6	80	10	0	135	186	1,845
Fresno	828	1,428	6	130	20	46	58	108	1,796
Fullerton	828	1,428	6	50	36	29	108	208	1,865
Hayward	828	1,428	6	105	48	3	45	165	1,800
Humboldt	828	1,428	6	161	96	10	71	119	1,891
Long Beach	828	1,428	6	70	50	2	88	100	1,744
Los Angeles	828	1,428	6	120	60	0	54	156	1,824
Maritime Academy	828	1,428	6	494	130	0	210	0	2,268
Monterey Bay	828	1,428	0	0	0	291	96	40	1,855
Northridge	828	1,428	6	60	30	0	120	170	1,814
Pomona	828	1,428	6	135	40	0	60	126	1,795
Sacramento	828	1,428	6	76	21	0	218	142	1,891
San Bernardino	828	1,428	6	122	74	15	66	220	1,931
San Diego	828	1,428	50	170	30	20	30	142	1,870
San Francisco	828	1,428	6	130	70	4	84	104	1,826
San Jose	828	1,428	6	128	40	4	147	162	1,915
San Luis Obispo	828	1,428	6	90	174	745 ²	120	269	2,834
San Marcos	828	1,428	6	70	80	12	100	100	1,796
Sonoma	828	1,428	6	132	222	22	116	300	2,226
Stanislaus	828	1,428	6	168	112	0	65	100	1,879
Systemwide Average	\$828	\$1,428	\$8	\$129	\$73	\$56	\$93	\$139	\$1,926
							Average Campus Based Fees:	\$498	

¹Graduate student fees: up to 6 units \$876; 6.1 units or greater \$1,506; Nonresident tuition: \$282 per semester unit, \$188 per quarter unit (\$8,460 AY)
²Fee level varies by school/division. The maximum fee level is \$745 and the average fee level for financial aid purposes is \$688.

State University Fee (SUF) levels for graduate and post-baccalaureate students vary from that for undergraduate students. The graduate/post-baccalaureate SUF is \$876 for 6 units or less and \$1,506 for 6.1 units or more. Further, nonresident students pay an additional fee. Nonresident tuition fees are \$282 per semester unit and \$188 per quarter system unit. The nonresident tuition fee was increased 15 percent in 2002/03, which was the first increase since 1991/92. Other campus fees may be charged that are not required of all enrolled students, which include fee policy Category III (user) and Category IV (penalty/deposit) types of fees.

The following table compares 2002/03 with 2000/01 fee levels by campus:

CSU 2002/03 versus 2001/02 Academic Year Resident, Undergraduate Student Systemwide and Campus Fees			
(6.1 units or more)			
Campus	2002/03	2001/02	2002/03 Increase
Bakersfield	\$1,801	\$1,801	\$0
Channel Islands	1,724	DNA	DNA
Chico	2,114	2,070	44
Dominguez Hills	1,845	1,825	20
Fresno	1,796	1,762	34
Fullerton	1,865	1,849	16
Hayward	1,800	1,767	33
Humboldt	1,891	1,861	30
Long Beach	1,744	1,744	0
Los Angeles	1,824	1,782	42
Maritime Academy	2,268	2,194	74
Monterey Bay	1,855	1,855	0
Northridge	1,814	1,814	0
Pomona	1,795	1,795	0
Sacramento	1,891	1,887	4
San Bernardino	1,931	1,877	54
San Diego	1,870	1,776	94
San Francisco	1,826	1,826	0
San Jose	1,915	1,909	6
San Luis Obispo	2,832	2,169	663
San Marcos	1,796	1,796	0
Sonoma	2,226	2,032	194
Stanislaus	1,879	1,875	4
System Average	<u>\$1,926</u>	<u>\$1,876</u>	<u>\$50</u>
Systemwide State University Fee:	\$1,428	\$1,428	\$0
Average Campus Based Fees:	\$498	\$448	\$50

The next table presents the 2002/03-systemwide cost of education. The systemwide cost of education per full-time equivalent student is \$10,007. Further, the 2002/03 total systemwide and campus fees average of \$1,926 is well below the maximum one-third of systemwide cost of education of \$3,336 as shown in the following table.

Systemwide Cost of Education 2002/03 Final Budget	
General Fund Appropriation	\$2,680,280,000
State University Fee Revenue (campus submittal)	533,430,000
Total Budgeted Support Expenditure	<u>\$3,213,710,000</u>
Full-Time Equivalent Students (FTES)	321,132
Systemwide Cost of Education per FTES	\$ 10,007
One-Third of Systemwide Cost of Education	\$ 3,336

Lastly, following are the results of the CSU 2002/03-comparison institution student fee levels survey. Once again CSU fees are the lowest among 15 comparison public institutions. The 2002/03-comparison institutions student fee average of \$4,564 represents an increase of 9.1 percent, whereas CSU student fees (systemwide and campus) average of \$1,926 represents an increase of 2.6 percent.

2002/03 Comparison Institution Academic Year Resident, Undergraduate, Student Fee Levels				
University	2002/03	2001/02	2002/03 Increase	Percentage Increase
Rutgers University (Newark, NJ)	\$7,308	\$6,422	\$886	12.1%
University of Maryland, at Baltimore	6,362	5,910	452	7.1%
University of Connecticut (Storrs, CT)	5,843	5,824	19	0.3%
State University of New York, at Albany	5,337	4,625	712	13.3%
Cleveland State University	5,196	4,464	732	14.1%
Illinois State University	5,037	4,721	316	6.3%
Wayne State University (Detroit, MI)	5,031	4,679	352	7.0%
COMPARISON AVERAGE*	4,584	4,168	415	9.1%
George Mason University (Fairfax, VA)	4,416	3,792	624	14.1%
University of Wisconsin, at Milwaukee	4,356	4,057	299	6.9%
University of Texas, at Arlington	4,123	3,470	653	15.8%
North Carolina State University	3,827	3,302	525	13.7%
Georgia State University, at Atlanta	3,472	3,292	180	5.2%
University of Colorado, at Denver	3,238	2,934	304	9.4%
University of Nevada, at Reno	2,622	2,547	75	2.9%
Arizona State University, at Tempe	2,585	2,488	97	3.8%
CALIFORNIA STATE UNIVERSITY	\$1,926	\$1,876	\$50	2.6%

**Average does not include CSU*

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 \$322,535,000 for the construction of three projects previously approved through the Board's Nonstate Funded Capital Improvement Programs. 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, when sold for the projects are expected to bear the Aa3 and A+ ratings of the existing Systemwide Revenue Bonds from Moody's Investor Services and Standard and Poor's Corporation.

In March 2002 the Board approved the new Systemwide Revenue Bond Program intending to use it as the means for issuing the most cost effective debt for the CSU. The new program provides for the conversion of older Housing System Revenue Bonds to a new bond indenture that will add flexibility and financing advantages. The bonds for the following projects will be issued pursuant to that older resolution with integrated provisions for the conversion to the new bond indenture. The conversion to the covenants of the new Systemwide Revenue Bond Program will take effect when two-thirds of the bondholders approve, which will automatically occur when two-thirds of the total housing system outstanding bonds contain the conversion provisions. The financing approval and sale of bonds for all of these projects will enable the two-thirds threshold to be reached.

The projects are as follows:

- 1. San Jose State University, Campus Village Housing Phase I**

In 1999, San Jose State University commissioned a comprehensive study to determine the on-campus housing needs for students, faculty and staff. The study indicated a demand for student

housing ranging from 5,000 to 8,000 beds. Currently, existing on-campus residence halls are operating at capacity providing only 1,800 beds in facilities that are over 25 years old. As a result of this need, the Board approved a campus master plan revision, amendment to the NonState Funded Capital Outlay Improvement Program, and schematic plans for Phase I of the Campus Village Housing Project during the January 2002 Committee on Campus Planning Buildings and Grounds meeting. The Phase I project consists of 2,281 beds accommodating freshman, seniors and apartments for faculty/staff. Additionally, the project will include an activity center, retail space, housing offices and 700 parking spaces. The proposed project is the first phase of a project currently planned to be built in three phases consisting of 5,700 beds that is estimated to cost \$625 million. As a financial risk mitigation strategy, each phase will be built independently, with no requirement to build future phases. Each phase requires demolition of part of the existing housing.

At the time this agenda item was written, the campus was expecting the receipt of construction bids for Phase I. Therefore, the not-to-exceed par value of the proposed bonds in the table below is based on a total project cost estimated at \$215 million for the base bid and add alternates. However, the value of the proposed bond sale shown in the table below also includes a \$5 million base bid contingency for unanticipated bid results which could be used if the base bid, before add alternates, exceeds the \$215 million project cost estimate. This will be the largest issuance of debt for a single campus project in the CSU, and will equate to approximately one-third of all bonds outstanding for projects that will be subject to the new Systemwide Revenue Bond program, or one-fourth of all outstanding bonds pursuant to all University Revenue Bond Act of 1947 debt commitments. And because the project is large and complex, the not-to-exceed par value in the table below also includes an amount for extending the capitalized interest period to accommodate a possible six-month delay in the construction period.

The campus proposal and financial plan developed and reviewed with the Housing Proposal Review Committee and the chancellor's staff during the last year contemplates that the campus will own the project as part of the CSU housing program, and will contract with Spartan Shops Inc., a recognized campus auxiliary through an operating agreement to operate the facility. The project will be self-supporting with debt service on the proposed bonds paid solely through project revenues including income from tenant rentals, food services, parking and retail. The operating agreement between the university and Spartan Shops Inc., is being 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.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$256,225,000
Amortization	Escalating payments for seven years, and approximately level over the remaining 23 years
Pro-forma maximum annual debt service	\$17,076,080
Projected debt service coverage including the new project: ¹	
Gross revenue – all San Jose pledged revenue programs:	3.54
Net revenue – all San Jose pledged revenue programs:	1.50
Net revenue – projected for the campus Housing Program:	1.25

1. Projected information – Combines the 2001/02 information for the campus-operated pledged revenue programs, and the net revenue and pro forma debt service for the first year of principal amortization of the new project.

The campus has developed an operating plan supporting the new project projecting net operating revenue at a 95% academic year occupancy rate. The campus net revenue projections, when incorporated into the financing model with the projected interest rate on the bonds, the projected final amount needed to fund the project and the projected capitalized interest period, will all affect the debt service coverage computation of the campus housing program and this project. Because this project will be such a large part of the Systemwide Revenue Bond Program and therefore have a relatively higher impact on the entire debt program, it is important to achieve and maintain a good net revenue debt service coverage ratio, to issue only the amount of debt needed for the project, and develop a repayment plan that would reduce the reliance on income growth thus restoring debt capacity for other projects as soon as feasible. Maintaining these objectives will result in more efficient use of debt capacity, better net revenue coverage, and lower costs of capital for the Board's debt programs. Thus, for projects of this magnitude, it is more prudent to develop a financing plan under the different market and bid result scenarios with the following objectives: (1) a thirty-year amortization, (2) approximately level annual debt service payments throughout the debt amortization (3) the campus housing program achieving a 1.25 or above coverage each year, and (4) the project achieving a 1.25 coverage from the first operating year.

This financing plan, including amounts for the construction bid contingency and the capitalized interest came close to meeting each of these objectives. However, because projected project revenues, estimated at what the campus believes to be housing rental market rates, are less in early years and grow at an annual rate of approximately 4%, the debt service coverage on a level debt service plan would provide little operating cushion in the early years. By reducing the debt service payments in the early years and using the standard market plus-50-basis-point cushion for the interest rate (average coupon rate – 5.04%; October 11th) a larger operating cushion in the

early years is possible. Thus the current not-to-exceed financed amount, and the maximum annual debt service, are derived from a financing plan with the following: (1) a thirty year amortization, (2) somewhat lower debt service payments in some early years with approximately level annual debt service payments beginning in the eighth operating year (2012); which results in (3) the campus housing program maintaining a 1.25 or above coverage each year, and (4) the project, achieving a 1.25 coverage in the eighth operating year with slightly lower project coverage ratios above 1.16 in all years before the eighth year (2013). This plan includes the construction bid contingency. The bond par value and the maximum annual debt service shown in the chart would decrease some, and the debt service coverage ratios would improve slightly if the construction bid contingency were not needed to augment the base construction bid. The debt service ratios shown in the chart above are based on the same financing plan and are reflective of projected income and debt service in the first year in which principal for the project debt is amortized.

The financing models described above contemplates that a bond reserve will be available for project and interest costs following the bond sale, as the new covenants of the SRB program become effective and a bond reserve is no longer required. In addition, the above financing model is based on not using any commercial paper and the fixed interest rate environment as of October, and does not factor in the possibility of using variable rate financing for a portion of the debt. When the SRB program is converted, it may be possible to ultimately finance this project with as much as 20% variable rate debt, which would allow the campus program and the project to move toward achieving the more traditional project planning benchmarks.

2. CSU Monterey Bay, New Foundation Student Housing

Previously the Board approved a new 708 bed-space student housing project at CSU Monterey Bay for the campus master plan, and the Nonstate Funded Capital Outlay Program. The Committee on Campus Planning Buildings and Grounds will be asked to approve the schematic/design at this meeting. The campus has completed the project planning and received good construction bids. This project will be the first new housing complex for the campus and will add new student housing to the campus inventory of existing renovated military student housing.

The total project cost of \$39,048,790 is to be paid for with financing proceeds. When complete, the project will be operated under a financing lease by the Foundation of California State University, Monterey Bay, an auxiliary organization in good standing which currently leases and operates all other campus housing.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$46,025,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual debt service	\$2,802,503
Debt service coverage ¹	
Gross revenue – all CSUMB pledged revenue programs:	6.36
Net revenue – all CSUMB pledged revenue programs:	1.79
Net revenue – projected Foundation revenue:	1.84

1. Projected information – Combines the 2001/02 information for the campus-operated pledged revenue programs, and the net revenue and pro forma maximum annual debt service for the first year of operation of the new project

The not-to-exceed amount is based on the estimated construction cost, the current interest rate environment plus 50 basis points (average coupon rate – 5.16%; October 15th), capitalized interest and a bond reserve, which provides a modest safeguard for changing market conditions until the permanent financing bonds are sold. The above maximum annual expected debt service and the debt coverage ratios are based on a more likely scenario where a cost-saving surety insurance reserve is available and purchased instead of funding a bond reserve. If long-term bonds for this project are sold as part of the SRB conversion transaction, a bond reserve may be funded instead of a surety insurance reserve, however the bond reserve will become available for project and interest costs following the bond sale thus reducing the par amount of bonds that would be sold.

The Foundation has developed a financial plan based on a 97% academic year occupancy rate with a yearly increase of 5% for revenues and 2% for expenses. This financial plan shows the project can repay the expected annual debt service, but requires a subsidy of approximately \$170,000 from other Foundation funds for the first year to obtain a minimum debt service coverage ratio of a 1.25x. However, as shown by the net revenue coverage for the Foundation in the chart above, the Foundation has additional revenues that could be used for debt repayment. The Foundation would lease the facility from the Board under the terms of a “financing lease”, thereby providing the Board with the funds for repayment of the debt. The financing lease between the Board and the Foundation would include a pledge and parity lien (with owners of the Foundation’s existing bonds) on the Foundation’s revenue.

The Foundation’s board has authorized the management of the Foundation to go forward with the project. The Foundation’s board has not approved the terms and conditions of a lease that is being developed and will be executed prior to the university awarding the contract for construction this fall. The financing transaction will go forward if market assumptions of the

financial plan remain valid, and if the Foundation completes the execution of an acceptable financing lease.

3. California State University, Stanislaus, Student Housing Project Phase III

The Board previously approved a Phase III housing facility in the campus master plan, the Nonstate Funded Capital Improvement Program, and the schematic/design during the Committee on Campus Planning Buildings and Grounds September 2002 meeting. In addition, an internal review by the Housing Proposal Review Committee provided a positive recommendation for the project. At the time this agenda item was written, the campus was expecting construction bids. The campus anticipates having the bid information available to the Board during this meeting. The project, named Residence Life Village Phase III, will construct four bedroom apartment units, totaling 300 beds, a dining facility, and meeting space to support all residents. The not-to-exceed amount for the proposed bonds shown in the table below is based on an estimated total project costs of \$17,159,000, which includes a 5% bid contingency for unanticipated bids results. The project will be funded at an amount consistent with the final bid amount as long as the total project financing does not exceed the proposed amount in this agenda item.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 20,285,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$ 1,209,518
Projected debt service coverage including the new project: ¹	
Gross revenue – all Stanislaus pledged revenue programs:	5.03
Net revenue – all Stanislaus pledged revenue programs:	2.67
Net revenue – projected for the campus Housing Program:	1.26

1. Projected information – Combines the 2001/02 information for the campus-operated pledged revenue programs, and the net revenue and pro forma annual debt service for the first year of operation of the new project

The not-to-exceed amount shown above is based on a bond reserve, capitalized interest, the current interest rate environment plus 50 basis points (average coupon rate – 4.93%; October 9th), which provides a modest safeguard for changing market conditions until the permanent financing bonds are sold. The above maximum annual expected debt service and the debt coverage ratios are based on the above average coupon and a more likely scenario where a cost-saving surety insurance reserve is available and purchased instead of funding a bond reserve. If long-term bonds for this project are sold as part of the SRB conversion transaction, a bond reserve may be funded instead of a surety insurance reserve, however the bond reserve will

become available for project and interest costs following the bond sale thus reducing the par amount of bonds that would be sold. The campus financial plan for repayment of the not-to-exceed amount is based on a 97% academic year occupancy rate with a yearly increase of 5% for revenues and 2.5% for expenses.

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 these projects. The proposed sets 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 \$322,535,000 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 two separate sets of financing resolutions for the following projects as described in this agenda item is recommended:

San Jose State University, Campus Village Housing Phase I

CSU Monterey Bay, New Foundation Student Housing

California State University, Stanislaus, Student Housing Project Phase III