AGENDA

COMMITTEE ON FINANCE

Meeting:  2:45 p.m., Tuesday, September 19, 2006
Glenn S. Dumke Auditorium

William Hauck, Chair
Mocesuma Esparza, Vice Chair
Herbert L. Carter
Carol R. Chandler
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
Ricardo F. Icaza
Andrew LaFlamme
A. Robert Linscheid
Craig R. Smith
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of July 18, 2006

Discussion Items

1. Report of the Ad Hoc Committee on Alternative Revenue Sources, Information
3. 2007-2008 Lottery Revenue Budget, Information
4. California State University Annual Investment Report, Information
5. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at Sonoma State University, Action
6. Real Property Development Project at California State Polytechnic University, Pomona for Innovation Village Phase IV, Commercial Office and Research Facility for the Trammell Crow Company, Action
7. Public/Public Partnership Project at California State University, Los Angeles with Los Angeles County Office of Education for the Los Angeles County High School for the Arts, Action
8. Public/Private Partnership Project at California State University, Los Angeles with The Alliance for College-Ready Public Schools for a Math and Science Charter High School, Action
MINUTES OF THE 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

July 18, 2006

Members Present

William Hauck, Chair
Moctesuma Esparza, Vice Chair
Roberta Achtenberg, Chair of the Board
Herbert L. Carter
Carol R. Chandler
Raymond W. Holdsworth
Melinda Guzman
Andrew LaFlamme
Charles B. Reed, Chancellor
Craig R. Smith

Approval of Minutes

The minutes of May 16, 2006 were approved.

Report on the 2006-2007 Support Budget

Trustee Hauck asked Mr. Patrick Lenz, assistant vice chancellor, budget, to present the report.

Before presenting the report, Mr. Lenz welcomed new trustees, Kenneth Fong, Lou Monville, and student trustee, Jennifer Reimer, to the board.

Utilizing a PowerPoint slide presentation, Mr. Lenz presented an overview of the 2006-2007 state budget; an update of actions taken by the two-house budget conference committee, and a recap of the final actions on the 2006-2007 CSU budget.

In general, the 2006-2007 CSU Budget reflects a good year including the following highlights:

- Full funding of the Compact for Higher Education
- No increase in student fees
- Restoration of outreach and academic preparation program funding
Recognition of marginal cost differential to increase per-student funding
The shift of fee revenue to a CSU Trust Fund and,
Full funding for Capital Outlay projects

For the entire state budget, there was an additional $8 billion in general fund resources which allowed the state to reduce its overall structural deficit and fully fund the Proposition 98 guarantee to the K-12 and the community colleges. The state’s unanticipated increase in general fund revenue allowed for numerous other budget areas to receive much needed assistance.

Mr. Lenz cautioned that despite the additional revenue, the Legislative Analyst has indicated the state will still face between a $4.5 and $5 billion structural shortfall in the 2007-2008 and 2008-2009 fiscal years.

Mr. Lenz acknowledged the leadership skills, hard work, and tenacity of Richard West, Chancellor Reed, Karen Zamarripa, the campus presidents, and others in their collaborative efforts to ensure CSU budget priorities were addressed by the legislature.

Chancellor Reed said he wished to thank Trustee Esparza for his assistance in the successful resurrection of our marginal cost funding.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented the item.

Mr. Hordyk informed the committee the item was a request for the Board of Trustees to authorize issuance of Systemwide Revenue Bonds and interim financing under the CSU’s commercial paper program for one project located at the CSU, Fullerton campus. The not-to-exceed par value of the proposed bonds is $28,915,000. Mr. Hordyk noted the long-term bonds for the project would be part of a future Systemwide Revenue Bond sale.

Mr. Hordyk reviewed the details of the proposed student recreation center project as outlined in the written agenda item and noted that the campus debt service ratios were very strong. If approved, the campus expects to award a contract within a month to construct the project and expects the project to be completed in January 2008.

The committee recommended approval of the proposed resolution (RFIN 07-06-03).
COMMITTEE ON FINANCE

Report of the Ad Hoc Committee on Alternative Revenue Sources

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Background

During the November 2005 meeting, the Board of Trustees discussed the difficulty of recovering from the $524 million in cuts made by the state during the 2002 - 2005 period. This combination of budget reductions and unfunded costs was seriously eroding the quality of education provided by the CSU and resulted in reduced student access and allowed for no compensation increases for faculty and staff. Due to the budget cuts imposed by the state, the Board of Trustees had little choice but to increase substantially student fees during the same period and at one point was directed by the Department of Finance to increase fees at mid-year. While discussing this state-of-affairs in November 2005, the Board shifted the discussion to exploring other revenue opportunities that might augment the state contribution to the CSU budget. An ad hoc committee was appointed to look at various alternative revenue options. The committee met in June and August 2006 and reviewed the following information.

Current Revenue

Approximately two-thirds of the total CSU operating budget is state General Fund and one-third comes from fees and other reimbursements. For 2004-05 the following represents the total funding provided for the operating budget.

<table>
<thead>
<tr>
<th>General Fund Appropriation</th>
<th>2,475,792,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,098,122,000</td>
</tr>
<tr>
<td>Reimbursements</td>
<td>175,624,000</td>
</tr>
<tr>
<td><strong>Total CSU Appropriation</strong></td>
<td><strong>$3,749,538,000</strong></td>
</tr>
</tbody>
</table>

Additionally, the auxiliary organizations at the campuses collected $219 million from federal sources in 2004-05, and $903 million from other sources, for a total operating budget of $1.112 billion.
State funding for the capital program was $313 million in 2004-05, and the Board-approved nonstate capital program was $88 million.

**Alternative Revenue Sources**

Several sources of additional revenue including land development, philanthropic gifts, sponsored contracts and grants, exclusive provider arrangements, and lease backs were considered as well as some cost reduction ideas. The University currently receives revenues from most of these areas.

**Philanthropic Gifts**

The annual amount of giving for the system is approximately $300 million. However, the majority (97%) of annual revenue from gifts and endowments are for restricted purposes, such as scholarships, buildings, or specific programs. Recently, the University established an Advancement Fund Grant program to help build and enhance advancement programs. The expected outcome of this funding is an increase in voluntary support, strengthening of alumni involvement, and/or improved public perception of the university. One part of the program is an endowment incentive program designed to encourage the growth of endowment funds and raise the level of aspiration for the size of endowment gifts.

Campuses establish and evaluate performance goals annually. These campus advancement plans measure both philanthropic productivity and resource investment. The plans are guided by the principles that campuses should operate a well-rounded development program and that results should be consistent with investment. Currently, improving endowment management, developing capital campaigns, and enhancing the university's image are common objectives represented in the plans. A report of the campus advancement plans is presented to the Board of Trustees each March. The current endowment corpus for the system is approximately $650 million, which yields approximately $45 million each year.

- **Total Estimated Revenues/Year:** $45 million from endowment returns plus the non-endowment portion of the $300/year in fund raising.

**Recommendation:** Continue to encourage campuses to achieve fund raising goals; engage consulting expertise to aid campuses in developing multi-year campaign strategies.
Sponsored Contracts and Grants

Contracts and grants activities of faculty are typically justified as providing a public service through the advancement of knowledge, giving students an opportunity to participate in research, which enriches their learning, and brings some additional resources to the institution. Due to administrative caps and pressure from sponsoring agencies, indirect cost recoveries may not always be adequate to completely compensate the CSU for its actual expenditures.

- **Objectives and Considerations**
  - Overhead on contracts and grants is intended to reimburse the CSU for the costs associated with those programs; there is no “profit” associated with their provision. The programs are intended to advance scholarship for the faculty and provide public service and advance knowledge in the respective discipline.
  - The amount of research conducted by the CSU is modest, although growing. Current levels are at approximately $350 million/year, and most of the research is conducted through campus auxiliaries.

- **Examples**
  - CSU’s contracts and grants activities are generally too limited to warrant some of the expedited reimbursement methods available to large research institutions. As a result, campuses may end up “loaning” funds to the contracts and grants activities as they await reimbursement from the sponsoring agency.

  Total Estimated Expenditures/Year: $350 million/year in sponsored projects activities
  Total Estimated Indirect Cost Recoveries/Year: $100-130 million/year
  Net Estimated Return to the CSU: None
  Recommendation: Continue promoting contract and grant activity for academic and public service purposes; evaluate overhead rates to help cover costs in providing contract and grant services.

Exclusive Provider Arrangements

Although the exclusive arrangements are generally arrived at based on an RFQ/RFP process, competitors may complain about restriction of free competition due to the long-term nature of
these agreements (usually about 10 years), with campus users potentially paying higher prices for goods.

- **Objectives and Considerations**
  - Exclusive Provider Arrangements involve a contract with a single service provider to make their services available to a campus.
  - The most common type of exclusive provider arrangement is for pouring rights contracts. Most campuses currently having pouring rights contracts in place – usually through auxiliary organizations.

- **Examples**
  - The Fresno campus has exclusive pouring rights as a part of a larger agreement with a vendor.
  - Campus pouring rights agreements can yield $100-200,000/year, to as much as $1.5 million/year.

Total Estimated Revenues/Year: $2 million

Recommendation: Continue to evaluate opportunities associated with NCAA sports activities, which comprise the majority of such arrangements; continue to provide consulting expertise to campuses in sports management and fund raising.

**Lease Backs**

- **Objectives and Considerations - (a) Tax credit “sale”**
  - The CSU has not participated in any of these opportunities to create cash from existing assets. Using them would likely involve higher accounting overhead costs, temporary loss of ownership of the asset, and increased federal scrutiny created by this tax “loophole.” There may be some concern that would be raised by the trustees and the public from “selling” a public asset to a private party.

- **Objectives and Considerations - (b) Sale/lease back of asset**
  - Neither has the CSU engaged in any sale/lease back of assets to create cash. Proposals have been received regarding parking and student housing projects. Concerns include loss of direct control of an asset, the raising of rates to market pricing by a private company, and attendant labor issues. The tax advantage of lease backs, if determined to be feasible, have a value of $10-50 million in one-time funds.

Total Estimated Revenues/Year: None currently
Recommendation: Continue to monitor proposals to determine if potential revenue might outweigh the public policy concerns associated with these types of projects.

Review of Cost Reductions

1. Greater use made of Energy Services Contracts, coupled with tax-exempt financing
   - Finance energy services contracts through either the Commercial Paper/Equipment financing program or through the issuance of Certificates of Participation. COP’s may be needed when there are real estate-based enhancements required or if the amortization is greater than the stated period for the CP/Equipment program of 8 years or when the amounts to be financed exceed $5 million. Rates for fixed-rate debt will not be quite as low as Systemwide Revenue Bond (SRB) debt, but could be close, and the rating agencies and market would really like the consolidated approach of these contracts coupled with a consolidated approach for financing the improvements.
   - If campuses should experience a decline in energy rates, it may become difficult for campuses to recover, through lower energy costs, the savings to fully pay for the improvements they are constructing. Additionally, the financing mechanism of using energy savings also assumes that campus energy budgets would remain at current levels.

2. Creation of Systemwide Investment Fund-Trust
   - As a part of the overall changes that will be occurring with Fees in Trust, the CSU will be able to generate a short-term investment pool of available campus funds (combination of student fees and other trust fund monies) that can demonstrate the liquidity of the CSU and could eventually be used in some of the ways that University of California uses its Short Term Investment Pool (STIP) funds (Commercial Paper back-up in place of expensive letters of credit, faculty/staff mortgages, working capital borrowings, etc.)

3. External Services Provision/Partnering with Private Sector
   - Work with the private sector to “outsource” or create partnerships that benefit both the CSU and the private party. These frequently revolve around information technology services, resulting in labor force reductions.
   - Third party student housing, a frequent third-party partnership opportunity that is presented to the CSU, can provide some off-balance sheet housing needs for campuses, but the debt will frequently result in being on-credit after analysis, especially if campus land is leased to the provider and the campus seeks to limit or
control the rental rates to students. Since the CSU has available credit capacity, and CSU financing (borrowing) costs are cheaper than developers’ available borrowing, this approach doesn’t have a current benefit to the CSU. With third party housing, control of student housing and residential life and the ability to create the best educational environment for students, as well as the ability to effectively discipline students, may be lessened. The private sector may either resist or may readily promote spending extra square footage in student housing for common areas, such as study group space and computer laboratories, based on their perceptions about what makes student housing attractive to students. Third-party housing rates may be, when compared against campus-built housing of similar quality, more expensive because of the rate of return expected by third parties; however, third-party housing providers may also have an advantage over campus-constructed housing contractors from using non-prevailing wage and by building outside State contracting requirements. Campus land ground rents
student housing.

Total Estimated Savings/Year: Very limited

Recommendation: Continue to monitor this market for savings opportunities.

Use CSU Land More Intensively

There have been land lease arrangements at some CSU campuses, which have included faculty/staff housing projects and third party leases to generate revenue. The range of annual income depending on project size, length of rental term and location of land (campus) is $220,000 per year to $2 million per year. In some cases the campuses have been able to successfully use such housing projects to attract and retain, faculty and staff. Typically, however, land leased to outsiders or used for faculty/staff housing projects ties up the land for 50-100 years, which is too long to assume the land can be returned to relevant campus use for educational purposes. One of the more complex difficulties with land development is determining a proper valuation for the land and/or project to allow for an accurate evaluation about whether it is a good deal for the campus. The CSU often uses the services of consultants to advise the University in this area.

Land is an extremely valuable asset to the CSU. Trustee policies advocate for intensive use of land on all campuses. Master Plans for each campus should examine not only the need to accommodate the projected number of students expected to be served by the campus, but also look at ways to use land to generate revenue to serve University purposes.
The Trustees’ Public/Private Partnership policies (Attachment A - Executive Order 747) outline the principles and processes the Trustees will assess the viability and benefits of proceeding with such projects. Given the complexity, long-term commitment, and risk associated with these projects, it is critical that experts with current market expertise who are independent of the project proposed review these proposals. This review usually will be done in conjunction with a Chancellor’s Office review before the development of a Trustee item presented for discussion and/or approval.

Following are some recent examples of Public/Private Partnerships:

**No Risk to the University – Income Stream Only**

- Fresno: Development of Campus Pointe, a 45-acre parcel of mixed use development next to the SaveMart Center
- Pomona: Innovation Village, a multi-phased development of 65 acres for commercial office and research use
- Northridge: Mini-Med
- Dominguez Hills: The Home Depot Center
- San Luis Obispo: E & J Gallo vineyard
- Bakersfield: Mixed use commercial development (under consideration)

Total Estimated Revenues/Year: $2.4 million currently

**Projects with Risk Assumed by the University**

- Faculty/Staff Housing – Existing Projects
  - Channel Islands, Fullerton, Monterey Bay, San Francisco, San Luis Obispo

- Faculty/Staff Housing – Proposed Projects
  - Dominguez Hills, Northridge, Sacramento, San Diego, Sonoma

- Educational program with private business – San Luis Obispo avocado orchard program with Mission Produce

Total Estimated Revenues/Year: $6-7 million upon completion of listed projects (mainly from Channel Islands Housing)
Recommendation: Use central expertise for evaluation of proposals; encourage mixed-use strategies as campus Master Plans are reviewed, and continue to encourage development of educational programs in conjunction with private businesses.

Summary
In conclusion, the amount of revenue that is currently generated from all of these sources, including endowment income and non-endowment one-time gifts ($300 million), is $340 million or 9.5% of the State-funded portion of the University budget (fee revenue and general fund). Although these funds are important in helping to provide a margin of excellence, these sources will never supplant existing resources. There are some benefits to continuing to maximize the dollars earned in this way, but this should be tempered with the recognition that the University will never reach a level of revenue that could supplant existing state funding. Given the lack of appropriate funding provided by the State, efforts will continue to share best practices with the campuses in order to increase additional revenue.
COMMITTEE ON FINANCE

Report on the 2007-2008 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

The Board of Trustees will be presented with an overview of California’s fiscal condition, and the anticipated revenue and expenditure plan to support the 2007-08 CSU budget.

California’s Fiscal Condition

Over the past year, California has seen a dramatic economic upswing that has increased the number of jobs, stimulated personal economic growth, continued a healthy real estate market and generated nearly $8 billion in additional state General Fund resources. The growth in state General Fund dollars surprised even the most optimistic economists and led to unanticipated decisions in the overall budget process given California’s fiscal condition. The administration and the legislature approved a state budget that included major program augmentations, partially prepaid the state’s debt, and enacted a balanced budget that included a $2.1 billion reserve. These preliminary figures for the state’s General Fund cash flow indicate an increase of $434 million above the 2006-07 budget estimates.

According to the Department of Finance, California’s unemployment rate was down in June, with 8 of 11 major industries indicating job growth. There was a 9.5 percent drop in single-family housing starts while multi-family housing grew nearly 11 percent, and at the same time, the average price of a home is up over the last year, and existing home sales have dropped. As the real estate market continues to ride the residential and commercial rollercoaster, making predictions about how the economy will do in the first two quarters of the new fiscal year are difficult. It is a good assumption that there will be growth in state General Fund revenues as indicated by the Department of Finance’s latest report, however it is unlikely the state will see anything close to the $8 billion in new revenue identified in the 2006-07 budget. The November elections add another level of uncertainty as the 2007-08 budget is developed. Changes in
elected representatives may result in changes in the tax structure and budget priorities for California, including CSU’s current funding agreement under the Compact for Higher Education.

2007-08 Support Budget

The 2006-07 CSU budget includes a variety of actions by the legislature and Governor that were not anticipated one year ago when the Board of Trustees was considering its budget priorities. The Board did not anticipate a “buy-out” of the proposed 8 percent increase in the undergraduate student fee, a significant boost in the amount of funding per student the University receives under the marginal cost formula, or the need to advocate for the restoration of $7 million in Outreach and Academic Preparation funding. Additionally, the University initiated a change in the way the state handles student fee revenue. Almost all aspects of the necessary changes to statute were approved during this legislative session. With the new statutory benefit that we have been given the Chancellor’s Office and all our campuses are now in the process of implementing the necessary processes to manage our student fee revenue internally for the first time. Other budget augmentations included additional funding for nursing programs and K-12 math and science teacher recruitment. Most of these budget items will continue to be issues with the Governor’s Office and the legislature in their deliberations on the 2007-08 budget.

The budget augmentations and statutory changes, along with an improved state fiscal condition sets the stage for the Board to recognize the Compact Agreement as a “funding floor” in the development of the 2007-08 budget. To estimate revenue based on the Compact for 2007-08, the CSU budget would assume the following:

<table>
<thead>
<tr>
<th>2006-07 Final CSU Budget</th>
<th>$3,805,841,000</th>
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</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$2,788,910,000</td>
</tr>
<tr>
<td>State University Fee Revenue</td>
<td>$1,016,931,000</td>
</tr>
</tbody>
</table>
2007-08 Compact Revenue Projections $264,789,000

State General Fund Increases $241,483,000

- General Operations (4%) $111,191,000
- Enrollment Growth (2.5%) $62,493,000
- Revenue Augmentation $67,799,000

State University Fee $23,306,000

Based on this estimate of revenue, the budget would include an expenditure plan to fund the same types of priorities approved in previous years, such as mandatory costs, enrollment growth, financial aid, long-term need, compensation and funding to support the second year of a five year plan to reduce the salary gap in many of the CSU’s employment groups. These initial expenditure estimates include:

2007-08 Compact Expenditure Projections $264,789,000

- Mandatory Costs
  - Health Benefits $27,582,000
  - New Space $6,000,000
  - Energy Costs $5,313,000

- Enrollment Growth (8,514 FTES or 2.5%) $72,279,000

- Financial Aid $6,305,000

- Long Term Need $10,000,000
  - (Libraries, Technology, Deferred Maintenance)

- Compensation (3%) $82,746,000

- Year 2, Reducing the Salary Gap $50,000,000 - $60,000,000

In addition to the Compact Budget expenditures, the Board has realized that many of CSU’s fiscal needs have not been funded due to a lack of resources from the state. Many of these challenges can be attributed to the $522 million in budget reductions the University received earlier this decade although some of the augmentation requests can be attributed to new demands on the CSU. The following ongoing and one-time requests represent our recommendations for inclusions in the Trustee budget request above the Compact funding level.
2007-08 CSU Budget Challenges

**Ongoing Programs**

<table>
<thead>
<tr>
<th>Program</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Doctorate Program</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>K-12 Math and Science Teachers</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>Increase Number of Special Education Teachers</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>Clinical Nursing Support</td>
<td>$3,600,000</td>
</tr>
<tr>
<td>Applied Research</td>
<td>$12,000,000</td>
</tr>
<tr>
<td>Student Services Initiative</td>
<td>$25,000,000</td>
</tr>
</tbody>
</table>

**One-Time Programs**

<table>
<thead>
<tr>
<th>Program</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Educational Opportunity Program (EOP)</td>
<td>$3,700,000</td>
</tr>
<tr>
<td>Facilitating Graduation Initiative</td>
<td>$14,800,000</td>
</tr>
<tr>
<td>EAP/Disabled Student Learning</td>
<td>$6,500,000</td>
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<tr>
<td>Compensation (1%)</td>
<td>$26,787,000</td>
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</table>

<table>
<thead>
<tr>
<th>Program</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology Program</td>
<td>$25,000,000</td>
</tr>
<tr>
<td>Deferred Maintenance</td>
<td>$25,000,000</td>
</tr>
</tbody>
</table>

In addition to the above listed Compact and budget issues, the CSU continues to recognize that there are priorities for the system that have not been funded in recent years, and which are not likely to be funded in coming years. If the University were to receive $814 million in 2007-08, it would address the structural budget need in the following categories:

**Additional Unmet Need**

<table>
<thead>
<tr>
<th>Program</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instructional Equipment</td>
<td>$ 43,000,000</td>
</tr>
<tr>
<td>Libraries</td>
<td>$ 11,000,000</td>
</tr>
<tr>
<td>Deferred Maintenance <strong>(10 year annualized cost = $40.4M)</strong></td>
<td>$ 405,000,000</td>
</tr>
<tr>
<td>Reducing the Salary Gap</td>
<td>$310,000,000</td>
</tr>
<tr>
<td>Off Campus Centers</td>
<td>$ 5,000,000</td>
</tr>
<tr>
<td>ACR 73</td>
<td>$ 40,000,000</td>
</tr>
</tbody>
</table>
Besides the Board approved budget requests, the University has supported an augmentation to the Cal-Grant program that is administered by the Student Aid Commission and provides a direct benefit to CSU students. This $20 million request is the first year of an overall effort to fully fund the demand for Cal-Grants at a cost of $100 million.

**Cal Grant Awards**

$20,000,000

**Conclusion**

At the September meeting, the Board traditionally receives an overview of California’s fiscal condition and a preview of the issues that will come before them when they approve the next CSU budget. This is an information item to present the revenue and expenditure issues under consideration in the development of the 2007-08 budget that will come before the Board at its November meeting.
Committee on Finance

2007-2008 Lottery Revenue Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

The California State University proposed 2007-08 lottery revenue budget is presented for consideration. The 2007-08 proposed lottery revenue is $44.4 million with $39.4 million available for allocation not including the $5 million systemwide reserve. Lottery revenue includes an increase of $1 million in CSU lottery revenue receipts from prior year receipts. The beginning reserves and projected interest earnings are maintained at $5 million and $.4 million, respectively, and the CSU does not anticipate any additional carry forward funds in 2007-08 above the planned $5 million budget reserve. The $5.0 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

The $39.4 million will continue to be designated to three system programs (Chancellor’s Doctoral Incentive Program, California Pre-Doctoral program, CSU Summer Arts Program) and campus-based programs. The Chancellor’s Doctoral Incentive Program will receive $2 million for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU. The California Pre-Doctoral Program will receive $.7 million to support doctoral aspirations of CSU students who have experienced economic and educational disadvantages. The CSU Summer Arts program will receive $1.2 million for academic credit courses in the visual, performing, and literary arts. The rest of the $35.5 million is used for campus-based programs, administration costs for system programs, and systemwide implementation costs. The campus-based programs represent a significant source of funds that allow campuses maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships. The CSU does not anticipate any additional carry forward funds in 2007/08 above the planned $5 million budget reserve.
The CSU proposed 2007-08 lottery revenue budget is as follows:

### 2007/08 Proposed Lottery Revenue Budget

<table>
<thead>
<tr>
<th>Sources of Funds</th>
<th>2006/07 Adopted Budget</th>
<th>2007/08 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Reserve</td>
<td>$5,000,000</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Additional Carryforward</td>
<td>7,600,000</td>
<td>0</td>
</tr>
<tr>
<td>Receipts</td>
<td>38,000,000</td>
<td>39,000,000</td>
</tr>
<tr>
<td>Projected Interest Earnings</td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>$51,000,000</strong></td>
<td><strong>$44,400,000</strong></td>
</tr>
<tr>
<td>Less Systemwide Reserve</td>
<td>(5,000,000)</td>
<td>(5,000,000)</td>
</tr>
<tr>
<td><strong>Total Available for Allocation</strong></td>
<td><strong>$46,000,000</strong></td>
<td><strong>$39,400,000</strong></td>
</tr>
</tbody>
</table>

### Uses of Funds

#### System Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>2006/07 Adopted Budget</th>
<th>2007/08 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chancellor’s Doctoral Incentive Program</td>
<td>$3,000,000</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>California Pre-Doctoral Program</td>
<td>714,000</td>
<td>714,000</td>
</tr>
<tr>
<td>CSU Summer Arts Program</td>
<td>1,200,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Systemwide Implementation Costs</td>
<td>491,000</td>
<td>491,000</td>
</tr>
<tr>
<td><strong>Total System Programs</strong></td>
<td><strong>$5,405,000</strong></td>
<td><strong>$4,405,000</strong></td>
</tr>
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</table>

#### Campus Based Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>2006/07 Adopted Budget</th>
<th>2007/08 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus/CO Programs</td>
<td>$34,595,000</td>
<td>$34,595,000</td>
</tr>
<tr>
<td>Campus/CO Interest</td>
<td>$400,000</td>
<td>$400,000</td>
</tr>
<tr>
<td><strong>Total Campus Based Programs</strong></td>
<td><strong>$34,995,000</strong></td>
<td><strong>$34,995,000</strong></td>
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</table>

#### Planned Carryforward Expenditures

<table>
<thead>
<tr>
<th>Program</th>
<th>2006/07 Adopted Budget</th>
<th>2007/08 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Carryforward Expenditures</td>
<td>$5,600,000</td>
<td>$</td>
</tr>
</tbody>
</table>

**Total Uses of Funds**

<table>
<thead>
<tr>
<th>2006/07 Adopted Budget</th>
<th>2007/08 Proposed Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>$46,000,000</td>
<td>$39,400,000</td>
</tr>
</tbody>
</table>

This item is for information only and an agenda item will be presented at the November meeting for approval.
COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By
Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2005-06 for funds managed under the California State University (CSU) Investment policy.

At the January 1997 meeting, the Board of Trustees approved the creation of a centralized investment program to manage the investment of funds held in CSU trust accounts. In addition, the Board of Trustees approved an investment policy consistent with the authority provided in existing statutes to guide the CSU in administering the investment program. The Board of Trustees also agreed that an external fund manager should be hired to invest the funds consistent with the investment policy of the Board of Trustees. Following a competitive bid process, the firm of Metropolitan West was hired to manage the investment program for the CSU in May 1997 based upon the firm’s understanding of the CSU’s particular needs and overall lower cost. In September 2001, based upon the same strengths, Metropolitan West was retained again to manage the CSU’s investment program following another competitive bid process. The current contract with Metropolitan West, which was set to expire on September 9, 2006, has been extended to December 31, 2006 to allow time for the completion of a new competitive bid process and selection of a firm to manage the CSU’s investment program going forward.

As of June 30, 2006, the CSU had $450 million invested in the Metropolitan West Short Term Account and $139 million invested in the Metropolitan West Medium Term Account. For the year, both the Short Term and Medium Term Accounts outperformed their benchmarks indices. And, although both the Short Term and Medium Term Accounts have at times underperformed compared to the Local Agency Investment Fund (LAIF), both have outperformed LAIF since inception of the accounts and have provided greater returns than would otherwise be the case had the funds been invested in LAIF.

The attached Year End Investment Report, Attachment A, has been prepared by Metropolitan West for the Board of Trustees and provides additional information on the results of the investment program for the fiscal year ended June 30, 2006.
The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. LAIF is used by the State Treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment B, which has been prepared by the Office of Financing and Treasury.

The Board of Trustees’ Investment Policy is included as Attachment C.
COMMITTEE ON FINANCE

MARKET SUMMARY

The past year has been marked by a flatter yield curve. The Federal Funds overnight target rate rose from 3.25% to 5.25%. These increases happened in 25 basis point intervals. The U.S. Treasury 2-year Note rate rose from 3.633% at the end of June 2005 to 5.15% at June 30, 2006; and the 10-year Note rate increased from 3.913% to 5.316% in that same time period.

Jobs growth averaged a gain of 155,000 per month in the past 12-months with the unemployment rate dropping from 5.0% to 4.6% in the same time period. The jobs market continued to give the FOMC comfort in raising the Fed Funds by 200 basis points in the one-year period. Current expectations are for GDP growth to be slower in the second half of 2006. The housing market may become a greater concern in the coming year as price growth slowed considerably in the first half of 2006.

The last year proved to be fair for the fixed income accounts, with the shorter portfolios performing the best during the Fed Funds rate increases.

SHORT-TERM INVESTMENT ACCOUNT PERFORMANCE

As of June 30, 2006, the net asset value in the Short-Term Account totaled $450 million. The objective of the Short-Term Account is to maximize current income along with preservation of capital. Consistent with the CSU investment policy, the portfolio is restricted to US Treasury securities, mortgage-backed securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio’s holdings by sector for the Short-Term account are as follows:

California State University Short-Term Account
Sector Breakdown as of
June 30, 2006

- Corporate Securities: 52.34%
- US Government Agencies: 7.72%
- Commercial Paper: 10.64%
- MBS: 0.48%
- CD: 26.08%
- Cash Fund: 2.74%

The Short-Term Account provided a return of 4.29% during the 12 months ended June 30, 2006. This return outperformed the 12-month return for the Local Agency Investment Fund (LAIF). Because of the relatively short duration in the CSU Short-Term Account, the portfolio also outperformed somewhat longer fixed income benchmarks, like the Merrill Lynch 1-3 Year Treasury Index.
The above chart depicts the performance of one account managed by Metropolitan West. The performance reflects the reinvestment of dividends and other earnings. Performance was calculated net of investment advisory fees. The Local Agency Investment Fund (LAIF) is a diversified managed portfolio administered by the State of California for local governments and special districts. Past performance is no guarantee of future results.

The objective of the Medium-Term Account is to maximize medium term total return. The Account is invested in a diversified portfolio of fixed income securities of varying maturities with an approximate portfolio duration of 1.75 to 2.75 years. The account is benchmarked versus the Merrill Lynch 1-5 year Treasury and Agency Index, and is structured to outperform both the Short-Term Account and LAIF over a 5-7 year investment horizon. As of June 30, 2006, the net asset value of the account was $139 million.

Consistent with the CSU investment policy, the Medium-Term Account portfolio is restricted to US Treasury securities, mortgage-backed securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio’s holdings by sector for the Medium-Term account are as follows:
California State University Medium-Term Account
Sector Breakdown as of
June 30, 2006

US Treasuries  19.28%
Corporate Securities  13.62%
US Government Agencies  48.81%
MBS  17.23%
Cash Fund  1.06%

The Medium-Term Account provided a return of 1.58% during the 12 months ended June 30, 2006. This return was greater than the 12-month return for the Index and less than the Local Agency Investment Fund.

California State University System
CSU Medium-Term Account
6/30/2006

<table>
<thead>
<tr>
<th></th>
<th>Portfolio</th>
<th>Merrill 1-5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trailing 3 Month Return:</td>
<td>0.64%</td>
<td>0.52%</td>
</tr>
<tr>
<td>Trailing 12 Month Return:</td>
<td>1.58%</td>
<td>1.13%</td>
</tr>
<tr>
<td>Fiscal Year to Date:</td>
<td>1.58%</td>
<td>1.13%</td>
</tr>
<tr>
<td>Annualized Return Since Inception</td>
<td>5.56%</td>
<td>6.02%</td>
</tr>
<tr>
<td>Return for June:</td>
<td>0.19%</td>
<td>0.17%</td>
</tr>
</tbody>
</table>

The above chart depicts the performance of one account managed by Metropolitan West. The performance reflects the reinvestment of dividends and other earnings. Performance was calculated net of investment advisory fees. The Merrill 1-5 Year Index is an unmanaged index consisting of the compounded result of the cumulative daily returns of US Treasuries and agency securities with maturities between 1 and 5 years. The Local Agency Investment Fund (LAIF) is a diversified managed portfolio administered by the State of California for local governments and special districts. Past performance is no guarantee of future results.
Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. Cash on this account is available on a daily basis. SMIF is managed by the State Treasurer’s Office. The portfolio’s composition includes CD’s and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2006, the amount of CSU funds invested in SMIF was $64.7 million.

<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Apportionment Yield Rate</td>
<td>Average: 3.80%</td>
</tr>
<tr>
<td>06/30/2006: 3.88%</td>
<td>High: 6.49%</td>
</tr>
<tr>
<td>06/30/2005: 2.24%</td>
<td>Low: 1.44%</td>
</tr>
</tbody>
</table>

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used by the State Treasurer to invest local agency funds. LAIF is administered by the State Treasurer’s Office. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2006, the amount of CSU funds invested in LAIF was $83.2 million.

<table>
<thead>
<tr>
<th>LAIF Performance Report</th>
<th>LAIF Past Performance 1997-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apportionment Yield Rate</td>
<td>Average: 4.10%</td>
</tr>
<tr>
<td>06/30/2006: 3.88%</td>
<td>High: 6.53%</td>
</tr>
<tr>
<td>06/30/2005: 2.24%</td>
<td>Low: 1.45%</td>
</tr>
</tbody>
</table>
The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, listed in Section A subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

B. Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
• Bonds or warrants of any county, city, water district, utility district or school district;
• California State bonds or bonds with principal and interest guaranteed by the full faith and credit of the State of California;

• Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;

• Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding $500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;

• Bankers’ acceptances eligible for purchase by the Federal Reserve System;

• Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);

• Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;

• Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;

• Student loan notes insured by the Guaranteed Student Loan Program;

• Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;

• Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;

C. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio. Furthermore, the CSU:
• Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;

• Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;

• Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

A. Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor’s Office, including market values.

B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus’s investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:

• to be submitted to the Chancellor within 30 days of the quarter’s end

• to contain a statement with respect to compliance with the written statement of investment policy; and

• to be made available to taxpayers upon request for a nominal charge.

(Approved by the CSU Board of Trustees in January, 1997)
COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at Sonoma State University

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 $12,910,000 to provide funds for a project. The Board is being asked to approve resolutions relating to the project. The long-term bonds 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 Revenue program bonds.

The project is as follows:

Sonoma State University, Green Music Center Project

At the January 25, 2005 Board of Trustees meeting, the schematic plans for the Sonoma State University, Green Music Center (GMC) and Music/Faculty Office Building project were approved. Further, at the January meeting, the Trustees approved an auxiliary financing of a not-to-exceed $13 million short-term financing, to be repaid from donor pledges that were secured by letters of credit. At the July 20, 2005 Board meeting, the Trustees approved the financing of the Hospitality Center in an amount not-to-exceed $4,740,000 through the Systemwide Revenue Bond program, with debt service for this portion of the overall project covered by Sonoma State Enterprises lease payments, Sonoma State University Conferences, Events and Catering lease payments, Green Music Center lease payments, and additional summer housing revenues. 2005/06 State general obligation bond appropriations also provide funds for the music/faculty office building.
Project Description

The Green Music Center contains a 1,400-seat concert hall and supporting backstage to accommodate large performances in the music and fine arts programs. The concert hall venue, which has a partnership with the Santa Rosa symphony, will be driven by academic curricular considerations. The Music/Faculty Office building will provide instructional capacity for 300 FTE, 20 faculty offices, and a 240-seat recital hall. The Hospitality Center will provide banquet, meeting, and restaurant facilities capable of serving groups as large as 200. The complex will directly benefit Sonoma State University students, faculty, and the community at large in providing a first class complex for teaching, learning, and performance for the performing arts curriculum, community outreach programs, and teaching partnerships.

Budget and Financing

Construction labor and material cost escalations on the state and donor-funded components have necessitated the additional required project funding. This item requests that the Board of Trustees 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 $12,910,000 to provide funds for the completion of the Green Music Center concert hall, which is mostly funded from donations, and the music and faculty office building, which is mostly funded from State general obligation bond appropriations. Of this amount, the Sonoma State University Continuing Education Reserve Fund (CERF) will finance $6,455,000 to complete the music and faculty office building, specifically the 240-seat recital hall and the 4,106 square feet rehearsal hall and activities room. In addition, under the fiscal management of the University Housing program, the Sonoma State University’s Conference, Events and Catering program will finance an additional $6,455,000 to complete the lobby, stage and back-of-house facilities associated with the concert hall.

The not-to-exceed par value of the proposed bonds is $12,910,000 and is based on a project cost of $11,781,000. The project delivery method is Construction Manager at Risk. The campus received and accepted a Guaranteed Maximum Price contract on August 23, 2006. Site preparation for the concert hall already has begun and vertical construction is scheduled to begin in Fall 2006 and be completed in Winter 2008.

The following table provides information about this financing transaction.
The not-to-exceed amount for the project totaling $12,910,000, the maximum annual debt service, and the ratios above are based on the construction project bid amount, expected debt service, and capitalized interest at the current interest rate plus 50 basis points (computed average coupon of 5.28% August 23, 2006), 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 campus has submitted a financial plan that shows that the University Housing Program Dormitory Revenue Fund and Continuing Education Reserve Fund have the ability to repay debt service associated with this project with no additional funding sources required. Nevertheless, three additional funding sources have been identified to augment the funds available for debt service payment. These fund sources include: (1) Sonoma State University Conferences, Events and Catering lease payments generated from income associated with rentals of the concert hall and lobby, (2) Sonoma State University Conferences, Events and Catering lease payments generated from income associated with a presenting season, and (3) associated facilities and parking fees. During the first year of operations, the campus’ financial plan shows that the housing program will achieve a minimum coverage ratio of 1.47, and the CERF program of 1.99. The campus’ combined net revenue debt service coverage from all pledged revenue programs, assuming a level debt service, is 1.49, which exceeds the 1.35 times debt service system benchmark.

**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 the project described in this agenda item that authorize interim and
permanent financing. The proposed 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 $12,910,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; 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 of the financing resolutions for the project as described in Agenda Item 5 of the Finance Committee at the September 19-20, 2006 meeting of the CSU Board of Trustees is recommended for:

Sonoma State University Green Music Center Project
COMMITTEE ON FINANCE

Real Property Development Project at California State Polytechnic University, Pomona for Innovation Village Phase IV, Commercial Office and Research Facility for the Trammell Crow Company

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

J. Michael Ortiz
President
California State Polytechnic University, Pomona

Summary

In November 1999 the Board of Trustees approved the concept for a public/private development on 65 acres at California State Polytechnic University, Pomona (Innovation Village). The Innovation Village was conceived as a 960,000 square foot development with multiple projects and was incorporated into the campus master plan at the July 2000 Board of Trustees meeting. The first project in Innovation Village, the 52,000 square foot Center for Training, Technology, and Incubation (CTTI) was approved by the Board of Trustees in 2000 and opened in 2001. The CTTI project was financed in partnership with NASA, the Economic Development Administration, the California Technology, Trade and Commerce Agency, the College of the Extended University, and the Cal Poly Pomona Foundation. In January 2003 the Board of Trustees approved the development of the second Innovation Village project with the American Red Cross. The Phase II project was a 201,000 square foot blood processing facility for the Southern California Blood Services region and was financed entirely by the American Red Cross and recently has opened. The Trustees approved Innovation Village Phase III, a development partnership with the Trammell Crow Company, in May 2005. Phase III is a 120,000 square feet commercial office and research building entirely financed by the Trammell Crow Company and scheduled to start construction in 2006.

The campus is currently proposing to enter into a second long-term relationship with the Trammell Crow Company to develop Phase IV at Innovation Village. The project is a new 120,000 square feet commercial office and research building on approximately 7 acres located adjacent to Phase III.
Background

Innovation Village promotes and supports technology transfer, student and faculty professional advancement and employment, and economic development. Significant benefits from the first three phases at Innovation Village include:

- Innovation Village tenant companies have developed collaborative relationships and research partnerships with the Colleges of Science and Engineering.
- The economic impact of the American Red Cross move to Innovation Village is expected to generate $117 million in direct, indirect, and induced benefits annually at the local, regional, and state levels. Development of Phase IV in Innovation Village will result in additional economic benefits to the community.
- The long-term ground sub-leases ensure that Innovation Village is self-supporting and will return economic benefits to the university for many years.
- The infrastructure developed for Innovation Village promotes improved traffic circulation around campus through the extensions of Kellogg Drive and South Campus Drive, and provides improvements to the campus potable water system.
- The Economic Development Administration (EDA) has invested almost $4 million in the development of facilities and site infrastructure improvements at Innovation Village.

In September 2004 the campus and the Foundation issued a request for proposals (RFP) to the developer community for Innovation Village. The purpose of the RFP was to facilitate the development of public/private research and technology projects that would provide synergistic benefits to the university and community. Six proposals were received and reviewed in October 2004. Four of the six developers were interviewed and invited to submit a business proposal. In January 2005 the Trammell Crow Company was selected as the preferred developer to enter into negotiations with the university. The Trammell Crow Company is a fifty-six year old company and is one of the largest diversified commercial real estate services companies in the world. Trammell Crow Company has provided real estate services to more than forty higher education institutions including Rice University, Boston University, Johns Hopkins University, Harvard Institutes of Medicine, and Vanderbilt University.

Project Description

The project will be entirely financed by the Trammell Crow Company, who will have sole responsibility for the debt service. No state or Trustees financing will be required and the debt will not be reflected on the CSU’s financial statements. This project is the fourth development within the approved 65-acre site of Innovation Village and consists of a 120,000 square foot commercial office and research building, as well as landscape and site improvements to accommodate 520 parking spaces on approximately 7 acres. Phase IV, located adjacent to Phase
III, will start construction upon 50% pre-lease of Phase III. Trammel Crow will manage and sub-lease the project to future Innovation Village tenants.

**Summary of Agreement Terms**

CSU will enter into a ground lease with the Cal Poly Pomona Foundation, Inc., a recognized auxiliary organization. The foundation will then sub-lease the land to the Trammell Crow Company. Some of the terms of the agreement follow:

An initial 75-year term, with an option for one 15-year extension.

Trammell Crow Company will finance and construct the project on approximately 7 acres of land.

Base rent has been established at $0.70 per square foot of gross land area ($213,444/year at full base rent for initial 5-year period).

Rent will be phased as follows:

- Rent at 50% of base rent after either the earlier of the beginning of: 1) the beginning of the 19th month following execution by both parties of the ground sub-lease, or 2) the first day of the month after issuance of a certificate of occupancy.
- Rent goes to 100% of the base rent at the earlier of the beginning of: 1) the 37th month of the ground sub-lease, or 2) the first day of the month following economic occupancy of 50% or more of the building net rentable area.

Rent escalation will occur every five years and is tied to the Consumer Price Index (CPI). Maximum increase of 20% for years 1-30 and 25% for years 31-75. The CPI increase can be as low as 0% but cannot result in a reduction of rent from a previous period.

The Trammell Crow Company will have the authority to sublease 100% of the facility provided the sublease complies with the CC&R’s and Use Restrictions. The Trammell Crow Company cannot sublease without the consent of Cal Poly Pomona, which consent may be withheld in the university’s reasonable discretion, which includes consideration of whether the sublease is consistent with the mission of the university.

If the 15-year option is exercised, the rental rate will be adjusted according to a new land appraisal and the new market rate will be discounted by 5%.

Future tenant improvement construction and costs are the responsibility of the Trammell Crow Company and the tenant.

Cal Poly Pomona (through the Foundation) will establish a reserve to pay for the demolition or renovation of the project, as necessary.

All improvements revert to Cal Poly Pomona upon expiration of the ground lease and any exercised options.

During the term of the ground lease and any extensions thereof, if the improvements are sold or transferred, the Lessee will pay the Foundation a Transfer Fee.
Educational Benefits

This project holds academic benefits for the students and faculty at Cal Poly Pomona. The Trammell Crow Company is interested in procuring future tenants that will have collaborative academic, business and research opportunities with the University and is currently exploring opportunities with the University and Foundation to provide research space for faculty. The Trammell Crow Company has agreed to pursue future tenants that can provide internship opportunities for Cal Poly Pomona students as well as employment opportunities for its graduates. The Trammell Crow Company will have the authority to sublease 100% of the facility provided the sublease complies with the CC&R's and Use Restrictions. In addition, to complying to the CC&R's and Use Restrictions the Trammell Crow Company cannot sublease without prior written consent by the Foundation to any building tenant requiring space greater than 5000 sq. ft. Consent may be withheld at the university's reasonable discretion, which includes consideration of whether the sublease is consistent with the mission of the university. The University and the Trammell Crow Company are also exploring education and training programs for student interns.

Recommended Action

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of the California State University that the Trustees approve the development of the Commercial Office and Research Facility at California State Polytechnic University, Pomona, Innovation Village Phase IV, as described in Agenda Item 6 of the Committee on Finance at the September 19-20, 2006 meeting.
COMMITTEE ON FINANCE

Public/Public Partnership Project at California State University, Los Angeles with Los Angeles County Office of Education for the Los Angeles County High School for the Arts

Presentation By

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

James M. Rosser  
President  
California State University, Los Angeles

Summary

The Los Angeles County Office of Education (LACOE) is proposing to build an approximately 45,000 square foot facility on the CSU, Los Angeles (CSULA) campus to accommodate the Los Angeles County High School for the Arts (LACHSA). LACHSA is a specialized high school that has been located on the CSULA campus since 1986. The school has leased space from the campus to run its programs, and recently renewed its lease agreement for 10 years, with an option to renew for another 10 years. The proposed new facility would be available to the campus following LACHSA’s normal school schedule.

Background

The university space the high school currently utilizes is shared with the campus and requires constant coordination with the campus to ensure the availability of the space throughout the school year. In an effort to relieve the intense use and scheduling of the shared space, LACOE applied to the Office of Public Construction and the California Department of Education for construction funds. LACOE applied as a financial hardship district because the organization does not have the ability to issue bonds.

Project Description

In April 2006, LACOE received approval for planning and design funding for the construction of a high school with 594 pupils assigned. The numbers of classrooms for this project is set at 22. The total design apportionment is for $2.33 million. This will cover architectural costs, engineering costs, and miscellaneous testing as may be appropriate. Although the funds have been set aside by the State, approval of the site has not yet been granted. If all approvals are
secured, CSULA would enter into a 40-year ground lease with LACOE, and construction would be completed by July 2010. The proposed site is currently master planned as a university art facility. The space that is currently leased to LACOE would be released upon completion of the LACHSA facility and return to campus use as classroom space. Projected parking and traffic circulation impacts are expected to be minimal.

CSULA is requesting conceptual approval from the Board of Trustees for this project. If conceptual approval from the Board of Trustees is given, the campus will proceed with preparing the operational agreement, amend the nonstate capital outlay program, and LACOE will proceed with the State in its pursuit of construction funds and will work closely with the campus to finalize agreements.

**Financing**

No payment would be received by CSULA from LACOE for the ground lease.

**Educational Benefits**

Students from LACHSA do now and are expected to continue to attend CSULA classes, for which the campus receives student FTES credit. Additionally, credential students would be able to satisfy some of their requirements through activities at this school. The proposed new facility would be available to the campus following LACHSA’s normal school schedule, providing additional instruction space during the evening hours.

**Recommended Action**

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of the California State University that the Chancellor or designee be authorized to enter into on behalf of the Board of Trustees a ground lease and operational agreement with the Los Angeles County Office of Education for the purpose of constructing a facility to accommodate the Los Angeles County High School for the Arts on the CSU Los Angeles campus, which will be incorporated into the campus’ nonstate capital outlay program.
Summary

The Alliance for College-Ready Public Schools is proposing to build a 30,000 square foot specialized Math and Science charter high school (MASS) on the campus of California State University, Los Angeles (CSULA). The facility would be available to the campus following MASS’s normal school schedule.

Background

The Alliance for College-Ready Public Schools is an independent non-profit charter management organization building a minimum of 20 high performance small public grade 9-12 and grade 6-8 schools in Los Angeles. The educational model for the Alliance is guided by core values and beliefs that reflect best practices that consistently produce well-educated students prepared to enter and succeed in college. The first charter school opened in the fall of 2004 and three more were added in the fall of 2005.

Project Description

The Alliance approached CSULA regarding the possibility of entering into a ground lease with the campus to facilitate the construction of a specialized math and science high school. The facility is planned for 30,000 square feet to accommodate 23 classrooms, office space, a library, and a multi-purpose room. The high school would eventually house 500 students, grades 9-12. The facility would be a shared-use facility with the campus and would incorporate a Center for Professional Development. The proposed site for the school is an existing parking lot at the southern part of the campus. The intent is to serve students from surrounding neighborhoods. The school would be located within walking distance from a major bus and rail transit station that is located on the campus, and is easily accessible from the I-10 freeway. Projected parking
and traffic circulation impacts are expected to be studied as part of the campus master plan update.

The Alliance has already secured a temporary site near the CSULA campus and will open in the fall of 2006 with 200 grade nine students. In the fall of 2007, the Alliance proposes to secure a ground lease with the campus to establish temporary instructional facilities on a parking lot located at the northeast corner of the campus. The school will open in the fall of 2007 in these temporary facilities, initially serving 325 students in grades 9 and 10, until the permanent facility is constructed. The permanent facility is expected to open in the fall of 2008, at which time another 125 students will be served.

CSULA is requesting conceptual approval from the Board of Trustees for this project. If conceptual approval from the Board of Trustees is given, the campus will proceed with preparing the operational agreement, and amending the nonstate capital outlay program. The site is currently master planned for an university academic facility.

**Financing**

Funding for construction will come from private funds and construction would not begin until the necessary resources are in hand. No financial resources would be required of the campus for construction or operation and maintenance of the MASS facilities. No payment would be received by CSULA from Alliance for the ground lease.

**Educational Benefits**

Students who demonstrate college-level readiness would also be allowed to enroll concurrently in University courses, for which the campus would receive student FTES credit. Additionally, credential students would be able to satisfy some of their requirements through activities at this school. The facility would be available to the campus following MASS’s normal school schedule, providing additional instructional space during the evening hours.

**Recommended Action**

The following resolution is recommended for approval:

**RESOLVED,** By the Board of Trustees of the California State University that the Chancellor or designee be authorized to enter into on behalf of the Board of Trustees a ground lease and operational agreement with the Alliance for College-Ready Public School for the purpose of establishing a specialized Math and Science charter high school on the Los Angeles campus, which will be incorporated into the campus’ nonstate capital outlay program.