

## AGENDA

### COMMITTEE ON FINANCE

**Meeting: 2:35 p.m., Tuesday, January 29, 2002**  
**Glenn S. Dumke Conference Center**

William Hauck, Chair  
Murray L. Galinson, Vice Chair  
Robert G. Foster  
Harold Goldwhite  
Shailesh J. Mehta  
Dee Dee Myers  
Frederick W. Pierce IV  
Kyriakos Tsakopoulos  
Stanley T. Wang

#### **Consent Items**

Approval of Minutes of Meeting of November 13, 2001

#### **Discussion Items**

1. Status Report on 2002/03 Support Budget, *Information*
2. Approval to Issue Debt Instruments Including Bonds for the California State University, San Marcos Field House and University Student Union and Related Matters, *Action*
3. Auxiliary Organization Tax-Exempt and Taxable Financing at San Diego State University, *Information*
4. Development of an Enhanced Capital Management Plan for the Trustees Revenue Bond Program, *Information*

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

**November 13, 2001**

**Members Present**

William Hauck, Chair  
Murray L. Galinson, Vice Chair  
Bob Foster  
Laurence K. Gould, Jr., Chair of the Board  
Harold Goldwhite  
Frederick W. Pierce, IV  
Charles B. Reed, Chancellor  
Kyriakos Tsakopoulos  
Stanley T. Wang

**Members Absent**

Shailesh J. Mehta  
Dee Dee Myers

**Other Trustees Present**

Roberta Achtenberg  
Daniel N. Cartwright  
Martha Fallgatter  
Ricardo F. Icaza

**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 to meeting to order at 1:43 p.m.

**Approval of Minutes**

The minutes of July 10, 2001 were approved.

### **California State University 2002/2003 Support Budget**

Prior to presentation of the item, Chair Hauck explained that Item 4 on the Finance Committee agenda had been postponed. He indicated the item, regarding a financing transaction at the El Toro Off-Campus Center would be presented at a later date.

Chair Hauck prefaced the conversation by noting there had been a special teleconference meeting of the Finance Committee held on October 25, 2001. At that meeting, the discussion focused on the fact that California is faced with a significant economic slowdown and that the slowdown has already become acutely evident in diminished revenue to the state. He pointed out CSU is extremely vulnerable to this form of economic slowdown because we depend on the state's general fund for a significant amount of our general operating expense.

As a result, the university is undoubtedly headed into an extremely difficult period. Chair Hauck cautioned that things would be dramatically different from the past several years when there has been ample funding for the programs of the university, as well as for compensation for faculty and staff. At the moment, the projected revenue shortfall to the state is \$1.1 million for the first three months of the year and this trend is expected to continue.

At the October meeting, the board was asked to approve a budget to present to the state governor's office as part of the initiation of the annual budget process. A \$245.3 million partnership budget was also approved.

Mr. Richard P. West, executive vice chancellor and chief financial officer, informed the board there was not much to report since the October teleconference meeting. He indicated discussions have taken place regarding options based on reductions of five, ten and even 15%; however, no formal plan has yet been presented to the state. Only one thing is certain; there will be a shortfall of revenue in the next fiscal year.

Other notes of interest:

The chancellor has sent the presidents a letter asking them to implement a hiring freeze with the understanding they have the ability to exercise judgment with regard to accommodating their campus' academic programs within the context of the freeze.

Campuses have been notified to expect a one percent reduction in current year appropriations. Mr. West explained this is simply the beginning of the process and that we will have more information on the Governor's budget when the board meets again in January. Mr. West acknowledged this is not an optimistic scenario. The university has a long road ahead of it with respect to the process we need to follow, and the information we will need to gather before the final budget is signed.

Mr. Laurence K. Gould, Jr., chair of the board, announced the formation of an ad-hoc subcommittee of the finance committee. The purpose of the subcommittee is to be multi-faceted and will focus on budget issues. It will also allow us to respond more quickly to changes in the budget scene and to provide our oversight on any budget adjustments. Bill Hauck will chair the ad-hoc subcommittee, and trustees Foster, Galinson, and Mehta will act as the other members. Chair Gould noted he would serve as ex officio. He explained the group would meet on an as-needed basis until the final 2002/2003 budget has been approved.

Dr. Charles B. Reed, chancellor, noted there were a number of factors responsible for the current budget situation and in contributing to the pending reductions. The significant increase in enrollments; the downturn in the economy; the events of September 11, 2001; and problems with power and electrical purchasing contracts, have all significantly contributed to the unpredictability of how the state budget will evolve.

Dr. Reed expressed his support for the formation of the ad-hoc subcommittee citing it as a valuable tool to enhance communication and cooperation between the board and the various university sectors as we walk through this extremely difficult fiscal crisis. He also notified the board that he has asked for augmentation to the Systemwide Budget Advisory Committee in order to ensure more widespread consultation from the CSU community about potential budget cuts.

Dr. Reed concluded saying he is committed to working with the entire board and the ad-hoc subcommittee toward making the best case we can to present to the governor and the legislature for our budget requirements. He said, budget cuts are always difficult and require tough decisions by boards and institutions to carry out their fiduciary responsibilities, and CSU is no exception. He assured the board they will be kept informed of important budget decisions as they occur.

#### **Auxiliary Organization Tax-Exempt Financing at California State University, Sacramento**

Chair Hauck introduced the information item concerning the construction of a regional and continuing education building at CSU, Sacramento. Mr. West noted this item had been postponed from the September, 2001 board meeting that was cancelled.

As is the practice, the item is brought to the board for information due to its status as an auxiliary financing transaction. Due to cancellation of the September board meeting and the critical timeline for the construction period, Mr. West informed the board he had permitted the Auxiliary Organization to proceed with the financing. He assured them there is good coverage and the interest rates are very attractive. Moreover, the financing transaction would not create any legal obligation of the State of California or the trustees.

#### **Auxiliary Organization Tax-Exempt Financing at San Francisco State University**

Mr. West presented the information item noting it was for the financing of a faculty and staff

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housing facility at San Francisco State University. The project involves purchase of 153 apartments in the Park Merced complex located adjacent to the campus, and refinancing of an obligation incurred last year for the purchase of 27 apartment units at Tapia Triangle. The project will aid in provision of much needed housing at the San Francisco campus.

Dr. Robert A. Corrigan, president, San Francisco State University spoke about the critical shortage of affordable housing near the campus, and the multiple advantages of approving this type of project. He added that the financing is in place and noted the project is self-sufficient based on the revenues that are currently generated.

### **Campus Third Party Housing Development and Auxiliary Organization Tax Exempt Financing at California State University, San Marcos**

Chair Hauck explained that the item was incorrectly labeled in the agenda as an information item, and that it was in fact, an action item.

Mr. West explained the item concerned CSU, San Marcos' proposal to build its first on-campus student housing project. The project will be financed through an auxiliary organization, San Marcos University Corporation, a recognized auxiliary organization in good standing. The San Marcos University Corporation will be the project owner and will enter into a Development Agreement, and a Management Agreement which includes a Student and Residential Life agreement with Allen & O'Hara Education Services, LLC, a private sector entity. Under contractual terms, Allen & O'Hara will design and construct the facility, and then staff, and manage the facility and residential life program for a minimum of 10 years.

Mr. West introduced Dr. Alexander Gonzalez, president, California State University, San Marcos. Dr. Gonzalez outlined the background and details regarding the need for student housing on the campus. He pointed out there is no campus housing whatsoever at the present time. He indicated the project is transformational in the sense that when it is built, the campus will change. It will become a 24-hour campus. At the moment, it is strictly a commuter campus and that the physical and student life would be managed in partnership with the builder. He stated the builder will manage the actual facility in terms of the physical aspects of it, and the campus staff would provide the residential and student life that will take place in those facilities.

Dr. Gonzalez then introduced Ms. Suzanne Green, associate vice president for finance and administrative services for California State University, San Marcos. Ms. Green briefly described the process/reasoning by which development of the project was determined. The university carefully explored options to build suitable and affordable housing for the CSU, San Marcos students and chose to pursue a variation of the public/private partnership model to further determine the financial feasibility of the project. President Gonzalez emphasized this had been a cooperative effort with input from campus staff, students, and faculty.

Mr. West took a moment to clarify information in the agenda item regarding the actual size of

the parcel being discussed. The item states the board will lease approximately 18.9 acres of real property for development of the 475-bed student housing facility. This item concerns the first of several phases of housing. This first phase will encompass slightly more than five acres for the 475 beds. The full 18.9 acres is actually the master plan adjustment on which additional action will be taken at the session on Campus Planning, Buildings, and Grounds.

A lengthy discussion took place regarding several trustees' understanding of the management of the facility and student life aspects of the project. There appeared to be some discrepancy regarding what was written in the agenda and various statements made during the presentation. The primary area of concern was the need for clarification of the developer's authority vs. the university's role. In addition, union representatives expressed their concern about the possibility of their units losing work due to the structure of the proposal.

At the conclusion of the discussion Dr. Reed summed up his perception of the proposal:

Dr. Reed said it was his understanding that the dorm revenue fund and the revenue that would need to be charged to students will not support building of this first dormitory at CSU, San Marcos. The agreement the campus is proposing to enter is with the developer (Allen & O'Hara Education Services), who will take a fee for ten years to manage the upkeep and maintenance of the facility. Based on the agreed upon fee over the ten year period, the developer is willing to build the dormitory and to do so at a rate that students can afford.

Further, the San Marcos campus will operate all of the other functions of the dormitory. Those functions include, student affairs, the leasing functions, behavioral functions, etc. However, this narrow fee will be charged so that some other entity, not the CSU, will take the risk of building the development.

Dr. Reed asked Dr. Gonzalez if that was a correct summation of the situation. Dr. Gonzalez replied that he was indeed correct and thanked Dr. Reed for clarifying the situation so succinctly.

Trustee Galinson said he was still not entirely clear on certain points and requested that periodic reports on the project be presented to the board.

Chair Hauck assured the trustee this would be done.

Chair Hauck called for a motion to approve the resolution. A motion was taken and there was one 'no' vote.

The committee recommended approval of the proposed resolution. (RFIN 11-01-14).

### **California State University Annual Investment Report**

Before presentation of the item, Chair Hauck introduced Mr. Dennis Hordyk, the new Assistant

Vice Chancellor for Financial Services. Chair Hauck welcomed Mr. Hordyk and extended the board's good wishes on his new appointment.

Chair Hauck asked Mr. Richard K. Leffingwell, Senior Director, Financing and Treasury, to present the report.

Mr. Leffingwell explained the item presents the CSU annual investment report for the year ended June 30, 2001. He noted the item was originally scheduled for presentation at the September 2001 meeting that was cancelled.

As background, in 1997 the board approved the creation of an investment program to manage the investment of funds held in CSU trust accounts. The board also approved an investment policy and agreed to hire an investment manager to invest the funds. Consequently, the firm of Metropolitan West was hired through a competitive process to manage the investment program.

With the assistance of a slide presentation, Mr. Leffingwell presented an overview of the various accounts within the investment program. He noted market conditions for the last fiscal year had been generally favorable to the three CSU fixed income accounts.

The short-term account provided a return of 17.3 percent during the 12 months ended June 30, 2001. This return exceeded the 12-month return for the Local Agency Investment Fund known as, LAIF. However, due to the relatively high performance of U.S. treasuries over corporate bonds, the portfolio under-performed relative to the benchmark index. (The Merrill Lynch 1 – 3 year treasury index).

The total return account provided a return of 11.44 percent during the 12 months ended June 30, 2001. This return exceeded the 12-month return for established benchmarks that are the Merrill Lynch 5 – 7-year index and the LAIF index. Mr. Leffingwell then pointed out a misstatement on page 5 of the written report regarding the total return account. The report indicates the account under-performed relative to its benchmark and that is incorrect. The account in fact, provided a return exceeding its benchmark by a few basis points.

The long-term account provided a return of 12.2 percent during the same period. This return exceeded the 12-month return for established benchmarks that are the Merrill Lynch 5–7-year index and the LAIF index.

Mr. Leffingwell noted additional information was included in the report on the state money investment fund commonly known as SMIF, at 5.7 percent, and the LAIF investment returns at 5.3 percent (which are minor portions of the investment proceeds).

Chair Hauck asked Mr. Russ Gould of Metropolitan West about his observations on the effects of the events of September 11<sup>th</sup>. Mr. Gould replied he continues to see strong returns for the three funds primarily due to the Federal Reserve's actions on reducing interest rates, as well as

the elimination of the 30-year treasury. He said these are the things he and Metropolitan West will be carefully monitoring, as well as continuing to work closely with the Chancellor's Office and the vice presidents on future investment strategies for the three funds.

Trustee Galinson complimented Mr. Gould and his firm on their good work. He observed that the short-term account reflects 31 percent in cash and wondered how they invested the cash and what the return was. Mr. Gould replied they use a combination of cash instruments like money markets as well as very short-term instruments and then add it to corporate securities where they believe there is a benefit to the system.

Chair Hauck thanked Mr. Leffingwell and Mr. Gould for the report.

### **Development of an Enhanced Capital Management Plan for the Trustees Revenue Bond Program**

Chair Hauck indicated this was an extremely important program that has been under development for some time to look at the university's entire debt financing program. The new program, called the Enhanced Capital Management program (ECM), will be an important and valuable tool in bringing the university's capital management plan up to date with modern practices, as well as providing additional financing flexibility that would benefit the CSU.

Chair Hauck explained the item was for information only at this time but would be brought back in January and in March 2002 for approval of the concepts explained in the agenda item.

Using slides, Mr. Leffingwell presented a comprehensive overview of the proposed ECM program.

Trustee Pierce asked whether the new program would carry the same constraints on the use of after debt cash flow existing within the compartmentalized funds. Mr. Leffingwell replied that a program was being developed to allow more flexibility of funds to flow out of the program once all covenants and required tests are performed.

Trustee Cartwright posed a question regarding the handling of conversion of existing bonds, particularly those related to housing, and if they would be covered in conversion to the new program. Mr. Leffingwell referred to a chart in the agenda item noting there are a number of resolutions and indentures covering various bond programs. There is only one indenture for all of the CSU housing, and therefore only one set of covenants that have to be met. It is also the largest program; therefore, its conversion would provide significant benefit to the overall program.

Trustee Cartwright then asked if the current budget situation would affect the quality of the bonds in any way. Mr. West replied that based on the amount of debt service compared to our revenue, there is sufficient room that allows us not to jeopardize our relationship to the market.

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He did caution that of course a 10 to 15 percent budget reduction will naturally strain this relationship and may cause some projects to not be viable. He said we would just have to wait and see.

Mr. Leffingwell concluded the item by saying it would be brought back to the board in January 2002 for further refinement and discussion.

### **Annual Student Fee Report**

Mr. West explained that each year, a report is presented to the board regarding any changes in the state university fee and other mandatory fees. Over the years there have been some modifications to a basic fee policy that recognizes a number of different fee categories.

Highlights of the fee report included:

The State University Fee (SUF) did not increase in 2001/02.

The 2001/02 average campus based fees that must be paid to apply to, enroll in, or attend the university is \$448.00. This represents \$37, or a 2 percent average increase in campus based fees from the previous year.

Mr. West reviewed the fee policy as outlined in the agenda item and explained the composition of the fee advisory committee. He noted that over the years, CSU has managed to maintain a consistent level of fee, while other universities in our comparison institutions have increased their fee. As a result, CSU fees are the lowest in the nation among our comparison institutions.

### **Proposed Revision of Title 5 Regulations --- DVBE Participation Goals for Professional Bond Services**

The item recommended amendment of Title 5, California Code of Regulations Sections 43880 – 43884, comprising Article 2 of Subchapter 9, which currently provides for minority, women, and disabled veteran business enterprise participation goals and procedures in the procurement of professional bond services for the CSU.

Mr. West explained the item was intended to bring CSU into compliance with current law as a result of a court case and appeal related to the acquisition of bond services. He explained Article 2 will be amended to delete minority and women-owned business enterprises but will retain disabled veterans as a recognized group for consideration in competitive procurements and other work. He reiterated the item was simply intended as a compliance request to make sure CSU is consistent with our basic law.

The committee recommended approval of the proposed resolution (RFIN 11-01-15).

The meeting adjourned at 3:07 p.m.

**COMMITTEE ON FINANCE**

**Status Report on 2002/03 Support Budget**

**Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

**Summary**

The 2002/03 Governor's Budget is scheduled for release in the second week of January. A summary status report on the 2002/03 Governor's Budget will be presented, including a comparison between the Board of Trustees' budget request and the Governor's Budget. Additional items of interest to the board regarding the 2002/03 budget may also be discussed.



Budgeted all-in TIC rate, at time of bond sale:	5.94%
Projected debt service coverage, first year of operations:	1.29
Bond insurance commitment:	To be determined prior to bond sale issuance. Comparable bonds have qualified in the past.
Bond intrinsic rating before bond insurance:	To be determined prior to bond issuance. Comparable bonds are rated A (S&P) and A1 (Moody's)

The proposed bond sale amount includes a small contingency to accommodate market changes. At the time of bond sale, the bonds sold will be adjusted to meet market conditions, capitalized interest and other issuance costs. It is anticipated that the construction project will cost approximately \$7,477,000. The proposed financing is consistent with the campus budget for repayment of debt service. Since bond anticipation notes and commercial paper are planned for interim financing during the construction period, it is expected that some additional savings will be achieved and the long-term bond size will be reduced accordingly. In addition, if the Trustees approve the Enhanced Capital Management Program to be presented at a later Board meeting, the permanent bond financing will be marketed under the new bond resolution for that program.

### **Campus Student Union Program**

California State University, San Marcos was founded in 1989 and opened its doors in rented facilities. It moved to its permanent campus site in 1992. The campus has grown significantly in its first decade to now serve over 6,000 students, and continues to grow by approximately 500 students each year. In fall 1992, students approved a fee referendum to assess its first student union fee. Since then, the campus has been striving to meet student needs while mitigating project costs. The project has evolved into a dual purpose facility combining a field house recreation center with a student union.

In November 1995, the campus received the first of several gifts that would support the development of the student union facility, a \$50,000 gift from Mr. and Mrs. W. Keith Kellogg. Since then, the campus has also received a \$1.2 million donation from Helene Clarke towards the creation of a recreational facility for the students of California State University, San Marcos as a tribute to her husband, who had been a lifelong sports enthusiast.

The University Student Union Advisory Board (USUAB), a 16-member board the majority of which are students, will act as an advisor to President Gonzalez on all matters related to campus

student union activities. The President appointed the Associate Vice President for Finance & Administration to serve as the Executive Director of the student union in addition to her other responsibilities. The Executive Director sits on the USUAB as a non-voting member, and has worked with the members of the Board to develop the plans for the student union.

Architects have been working closely with the University Student Union Advisory Board to design the dual-purpose facility. Over time, it became clear that the existing student union fee, even with the Clarke gift, would not be sufficient to support the construction and operation of even a modest field house and university student union. In spring 2000, the University Student Union Advisory Board adopted a student union fee increase resolution, and forwarded it to the Student Fee Advisory Committee (SFAC). The resolution requested a series of three sequential increases in the student union fee over ten years. The first fee increase, effective July 2001, would be used to build and operate the Field House/University Student Union. The second and third fee increases, effective July 2007 and July 2010 respectively, would provide funds to build a separate student union facility in the future to meet the needs of a continuously growing campus student population. After review by the SFAC, the student fee referendum for these fee increases was held in fall 2000 and approved by the students. At the same time, the Clarke gift became the foundation for a fundraising campaign that would help offset construction costs.

### **Proposed Facility**

In May 1999, the Board of Trustees approved a minor capital amendment to include the Field House/University Student Union, and in March 2000, the Board approved the schematic plans prepared by the firm of Robbins, Jorgensen, Christopher. This project falls within the original master environmental impact report for the campus.

The Field House/University Student Union will be located across Campus View Drive near a site that would allow a larger student union facility to be built in the future. The proposed site was selected to keep the project affordable. This site will require minimal infrastructure build-out since it is adjacent to existing roadways, and water, sewer and power supplies. The new facility will be approximately 34,160 square feet and include a multi-purpose recreational room, a weight room, men's and women's locker rooms and showers, equipment check-out area, four meeting/conference rooms, a catering kitchen, office space, and a convenience store.

### **Trustee Resolution**

The Board of Trustees is being asked to approve interim financing via bond anticipation notes and commercial paper to finance the project during the construction period. Additionally, the Board is being asked to approve the long-term bonds issued pursuant to a new campus student union program bond indenture to replace the interim debt and permanently finance the project. Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at

this meeting 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 the California State University, San Marcos Bond Anticipation Notes and California State University, San Marcos Student Union Revenue Bonds in an amount not to exceed \$6,300,000 and certain actions relating thereto.
- (2) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

**Recommended Action**

Approval of the resolutions presented at this meeting is recommended.

## **COMMITTEE ON FINANCE**

### **Auxiliary Organization Tax-Exempt and Taxable Financing at San Diego State University**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

San Diego State University Foundation (Foundation), a recognized auxiliary organization in good standing, is proposing a financing, which is a combination of tax-exempt and taxable bonds, in an amount not to exceed \$35,500,000 to refinance existing debt, construct a Coastal Waters Laboratory building, and to renovate a structure that includes a parking garage. The Foundation will issue the bonds pursuant to an indenture entered by the auxiliary organization and a bank serving as trustee for the bonds. The bonds will be secured by the general obligation of the Foundation.

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

#### **Refinancing Description**

##### *City Heights buildings, \$2,620,000*

In May 1999, the Foundation Board of Directors approved the acquisition and remodel of the City Heights buildings using financing provided by Price Charities. This financing was intended to provide interim financing while the building was being remodeled and occupied. These two commercial buildings are 84,000 square feet in total located on 1.41 acres. These buildings were purchased to house the Foundation grant and contract projects as well as other University tenants.

##### *City Heights parking lot, \$270,000*

In December 2000, the Foundation Board of Directors approved the acquisition of the property at 4246 43<sup>rd</sup> Street adjacent to the City Heights buildings. This multi-family residence property was acquired and demolished to provide surface parking for the City Heights buildings. This acquisition was financed using the Foundation's line of credit with US Bank. This financing was

intended to provide interim financing while the building and the parking lot were being remodeled.

*Mission Valley Building, \$2,000,000*

In April 2001, the Foundation board of directors approved the acquisition of the property at 3590 Camino Del Rio North (Mission Valley building), a two story 15,872 square foot commercial building on 1.24 acres. This acquisition was prompted by an immediate need to relocate grant and contract projects and project staff from other Foundation buildings, which were impacted by the Metropolitan Transit Development Board (MTDB) trolley project on the campus. MTDB identified significant noise and vibration impacts associated with the trolley line and station construction that could not be mitigated. This acquisition was not financed with external funds but was purchased with cash.

*97 Bond Issue \$7,745,000*

In October 1997, the Foundation board of directors approved the refinancing of its 1992 bond issue. The purpose of the 1992 bond issue was to refinance the existing debt on certain Alvarado properties and to provide funds for improvements to those properties. The properties house grant contract projects, University tenants as well as a few commercial tenants.

*Alvarado/Lindo Paseo endowment financing \$2,931,000*

In April 1992, the Foundation Board of Directors approved the refinancing of certain debt related to the acquisition of the Foundation's Alvarado properties with "endowment financing." This financing was used for the "commercial component" of the Foundation's Alvarado properties. This financing was structured to have a balloon payment due in March 2002 and therefore must be refinanced. Due to IRS regulations, this financing cannot be refinanced using tax-exempt debt. The original financing was approximately 10 years ago and was essentially financed internally.

*Clairemont Mesa building, \$2,268,000*

In October 2000, the Foundation board of directors approved the acquisition of the Clairemont Mesa building using the Foundation's line of credit for \$1,425,000 and \$850,000 in cash. This financing was intended to provide interim financing while a permanent financing solution was sought. This two story commercial building is 24,155 square feet located on 1.04 acres of land. This building provided critically needed space in the Kearny Mesa area of San Diego for grant and contract projects.

## **New Financing Project Descriptions**

### *Coastal Waters Laboratory, \$7,578,000*

As part of a multi-faceted reuse plan by the City of San Diego Naval Training Center Base Reuse Committee, 8.5 acres of the former Naval Training Center was designated for shared use by the City of San Diego's Metropolitan Waste Water Department (MWWD) and San Diego State University for scientific and research purposes. The site would allow the University to establish a marine research laboratory with direct access to seawater. The University's portion of the site will be provided to the Foundation under a lease or joint use agreement with the City at no cost to the Foundation. To retain the conveyance, construction of a building must be started within three years.

To enable the construction of a facility on the site the University established a collaborative relationship with the U.S. Geological Survey (USGS), Water Resources Division. The USGS agreed in a Memorandum of Understanding to move its local offices to a new facility to be constructed by the Foundation at the site. The USGS will provide a cash flow for the debt service and operating costs for a facility that will include space for the University.

The architecture firm of Pacific Cornerstone Architects, Inc. has been selected to design the SDSU facility. A design advisory committee has been established; it includes participation by SDSU, the Foundation, and USGS representatives. A two-story 48,300 square foot building is envisioned along with an outdoor area provided for open research tanks. A seawater system will be included as well as access to a new dock to be constructed for use by MWWD and SDSU.

### *City Heights Parking structure and building renovation, \$4,320,000*

In December 2001, the Foundation approved the development of a parking structure and capital and tenant improvement costs for building renovation at the City Heights center. The parking structure will enable the allowable development capacity of the City Heights buildings to expand from 27,000 to up to 72,000 square feet based on the City of San Diego parking requirement of approximately three spaces per 1,000 square feet of office space. A three level, 180 space, parking structure is feasible on an existing 45 space surface lot at the center.

Only with increased parking capabilities provided by a parking structure, is it possible to fully build out the City Heights center program. Completing the capital and tenant improvements associated with the remaining building renovation would result in reaching the total leasable square footage of the center. When complete, the center is planned at approximately 75,000 square feet, consisting of about 58,000 square feet of office and classroom space and about 17,000 square feet of warehouse and utility space.

## **Financing Structure**

The bonds will be a general obligation of the Foundation. The pledged revenues will also secure, on a parity basis, the Foundation's outstanding \$9.1 million bonds issued during 1999. The amount of \$35,500,000 includes the funds for the projects and refinancings noted above as well as cost of issuance and capitalized interest during construction period of the Coastal Waters Laboratory and the parking garage. Due to the current interest rate environment, the Foundation is capitalizing on an opportunity to level debt service payments over time by wrapping new debt issuances around existing obligations. As the Foundation has issued tax-exempt bonds, inevitably the annual debt service obligations begin to taper off in the later years (e.g. 20 to 30 years) as debt is serially repaid. By leveling the overall debt service, the Foundation can better manage its total revenues and expenditures and the portion of current fund revenues dedicated to debt service. Today's low interest rate environment makes this an excellent time to implement this type of wrapping opportunity. The one obligation that the Foundation is not able to refinance, due to IRS restrictions, is the bond financing for the Gateway building that was already refinanced in 1999. In effect, the debt service is being structured to level out the debt service as if the 1999 financing were included in the refinancing. Additionally with the yield curve currently being flat beyond 25 years, a 35-year debt repayment lowers current debt service since it only adds additional 3 to 5 basis points to the cost of capital, and drops the annual debt service payment.

The following summarizes key information on the proposed financing:

Taxable finance amount:	\$10,385,000
Tax-Exempt finance amount:	\$23,650,000
Total finance amount not to exceed:	\$35,500,000
Term not to exceed:	35 years
Taxable interest rate:	6.84%
Tax-Exempt interest rate:	5.13%
Average interest rate not to exceed:	6.50%
Projected debt service coverage (auxiliary revenues):	2.3
Bond insurance:	Commitment anticipated
Bond Intrinsic credit rating before bond insurance:	BBB+ from Standard & Poors

Financing Team	Underwriter:	A.G. Edwards & Sons, Inc.
	Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP
	Underwriter's Counsel:	Luce, Forward, Hamilton & Scripps LLP
	Trustee:	U.S. Bank Corporate Trust Services

### **Other Information**

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

**COMMITTEE ON FINANCE**

**Development of an Enhanced Capital Management Plan for the Trustees Revenue Bond Program**

**Presentation By**

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**Introduction**

This item provides an update to the Board of Trustees on the planning and development of the Enhanced Capital Management (ECM) program consisting of a new long term debt management plan utilizing the existing Trustee's authority available under the State University Revenue Bond Act of 1947. The Board initially reviewed the program at the November 2001 meeting, and information will be presented at this meeting regarding the additional development steps that have occurred.