

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:45 p.m., Tuesday, January 28, 2003
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of November 12, 2002

Discussion Items

1. Status Report on the 2002/2003 and 2003/2004 Support Budgets, *Information*
2. Sale of Systemwide Revenue Bonds in January 2003, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
4. Auxiliary Organization Tax-Exempt Financing at California State University Chico, *Action*
5. Public Sector Partnership in the Development of a California Regional Crime Laboratory Facility at California State University, Los Angeles, *Action*
6. Real Property Development Project at California State Polytechnic University, Pomona for the Southern California Regional Blood Processing Center for the American Red Cross, *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**

November 12, 2002

Members Present

Murray Galinson, Acting Chair
Debra S. Farar, Chair of the Board
Harold Goldwhite
Frederick W. Pierce, IV
Charles B. Reed, Chancellor, ex officio
Erene S. Thomas
Kyriakos Tsakopoulos
Anthony M. Vitti

Members Absent

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Dee Dee Myers

Other Trustees Present

Roberta Achtenberg
Bob Foster
Alexander Lopez
Ralph R. Pesqueira

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

Trustee Galinson called the meeting to order at 2:45 p.m.

Approval of Minutes

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Fin.

The minutes of September 17, 2002 were approved.

2002-2003 Student Fee Report

Mr. Richard P. West, executive vice chancellor and chief financial officer, explained this was an annual report to the board of trustees reflecting the status of the broad base of campus and systemwide fees. He noted the main purpose of this report was to focus on the campus mandatory fees and any changes in our state university fee.

Mr. West explained there are four fee categories: Mandatory enrollment fees including the state university fee and the non-resident fee; campus mandatory fees; usage fees; and penalty and deposit fees.

The following is a brief synopsis of Mr. West's oral report:

Mr. West referred to the charts contained in the printed agenda item, and briefly reviewed the changes since the last report.

CSU's current average fee is \$1,926.00, which includes both the state university fee (full time student) and the average of our campus-based fees.

There has been no increase in the state university fee; in fact, there have been reductions over the past four or five years.

There has been an average increase of about \$50 in systemwide campus based fees (based on comparison with the 2001/02 to the current 2002/03 fee level).

The only significant change was a 15 percent increase in the non-resident fee this spring. Mr. West put this in context by noting this was the first increase since 1991/92 in this category.

Mr. West called attention to the chart reflecting current fee rates among our comparison institutions. The average fee increase among our 15 comparison institutions was 9.1 percent. The CSU's fee, (which is based on campus-based fees) was an average of 2.6 percent for the system. Even with this 2.6 percent increase, CSU remains the lowest of all our comparison institutions.

Vice Chair Galinson inquired about how we determine whom our comparison institutions are. Mr. West explained that the logic is based on various discussions with CPEC about what are thought to be comparable public institutions from which we draw, or compete for, faculty. As a result, we have chosen to use those same institutions for fee comparisons as well.

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

Vice Chair Galinson introduced the item requesting approval by the committee for issuance of debt instruments for projects at three separate campuses (San Jose, Monterey Bay, and Stanislaus). He indicated that specific details on all the projects were included in three separate handouts.

Before reviewing the projects, Mr. Dennis Hordyk, assistant vice chancellor, financial services, took a moment to update the committee on the status of the conversion to the systemwide revenue bond. Mr. Hordyk pointed out we are currently about \$326 million below the conversion point. He explained that approval of the three projects presented at this meeting combined with previously approved projects that are already in our commercial paper program, would enable us to sell a bond in early January 2003. Mr. Hordyk noted the actual amount of the bond would be adjusted between now and then to reflect an exact amount. Sale of the bond will enable CSU to complete the conversion process.

Mr. Hordyk then presented background information on the three projects. Mr. Richard P. West, executive vice chancellor and chief financial officer, provided additional comments and information for clarification purposes. He emphasized there were always two approval points for all projects of this nature. One is from the building and grounds committee for design, architecture, and CEQA approval; and the other from this committee (Finance) for the financial aspect.

Trustee Pierce conveyed his compliments to Mr. Hordyk and his staff on their work in restructuring the debt program. He asked if there had ever been any exploration of pricing-out of a forward commitment and what it would cost to lock-in a rate for take out financing. If not, was that something our investment bankers could pursue for possible future consideration? Mr. West replied that we have not done so primarily because of the success of our commercial paper program. He concurred that we certainly want to look at all options, and acknowledged we will do that.

Vice Chair Galinson agreed, that looking into lock-in rates would be a good idea.

A brief discussion took place regarding management of the proposed CSU, Monterey Bay project. Dr. Peter S. Smith, president, CSU, Monterey Bay, said the foundation would directly manage the property, however, the campus has the ultimate responsibility to establish a contract that specifies all relationships and responsibilities associated with the housing project.

The committee recommended collective approval of the three proposed projects (RFIN 11-02-12).

The meeting adjourned at 3:07 p.m.

COMMITTEE ON FINANCE

Status Report on the 2002/2003 and 2003/2004 Support Budgets

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

On January 10, Governor Davis released his 2003-04 budget that included significant program reductions, the realignment of state/local programs and services, funding shifts, transfers, and some borrowing to close an estimated \$34.6 billion budget gap. The Board will be given an overview of revenue and expenditure assumptions in this budget and the fiscal implications for the California State University in the 2002-03 and 2003-04 fiscal years.

2002-03 Budget Adjustments

During the special meeting of the Board of Trustees in December we discussed the Governor's proposed \$59.6 million mid-year reduction to the CSU budget, which is one element of his effort to address the state's current fiscal crisis. The initial 2002-03 budget cuts, mid-year budget reductions, and current year unfunded costs resulted in a total \$125.4 million budget reduction to the CSU.

\$59.6 million	Mid-Year Budget Reduction
\$43.0 million	One-Time, Long-Term Needs (Technology – Network Equipment, Libraries, and Deferred Maintenance)
\$18.5 million	Unfunded Health Care Costs
\$4.3 million	Unfunded Compensation Costs
\$125.4 million	Total

In order to address these reductions the campuses will take the following actions:

\$43 million	Reduced funding for technology equipment, libraries, and scheduled maintenance
\$62.5 million	Through one-time actions such as filling only critically needed positions, administrative and travel reductions, reduced funding for plant maintenance and academic support
\$20.0 million	Through additional student fee revenues.

\$125.4 million Total

The Board was briefed on the fiscal impact to the CSU and presented with a short-term strategy to a number of approaches to address these cuts including a 10 percent (\$72) mid-year increase in undergraduate fees and a 15 percent (\$114) mid-year increase in graduate fees. The Board approved a motion to increase annual undergraduate fees by 10 percent (\$144) and graduate fees by 15 percent (\$228). Increasing student fees mid-year will generate a total of \$30 million, of which \$10 million will be set-aside for State University Grants, the system-based financial aid program. In addition, the Governor's proposed 2003-04 budget augments the Cal-Grant program by \$5.4 million to adjust grants to students reflecting fee increases in the current year.

Governor's Proposed 2003-04 Budget

The Governor's 2003-04 budget proposes total expenditures of \$96.5 billion, of which \$62.8 billion is state General Fund, \$26.5 billion is from Special Funds, and \$7.2 billion is from bond funds. The total General Fund expenditures are \$12.6 billion less than total General Fund program expenditures for the 2002-03 fiscal year. The 2003-04 budget also proposes to close the \$34.6 billion gap between revenues and expenditure over the next 18 months and maintain a prudent reserve of \$531 million.

The \$34.6 billion budget gap is considerably higher than the \$21 billion budget deficit identified by the Legislative Analyst Office in mid December. The governor's budget assumes \$10.2 billion in adjustments to the 2002-03 budget and \$24.4 billion in adjustments to the 2003-04 budget to close the gap of \$34.6 billion. The budget gap would be addressed with \$20.7 billion in program reductions, \$8.2 billion by realigning state programs to local government, \$4 billion in fund shifts and transfers, and \$1.7 billion through loans.

The Administration's recommendation to shift \$8.2 billion in programs from the state to local government is accompanied by new tax increases to support the current program funding levels. The budget funds the realignment proposals through a one cent increase in the sales tax (\$4.58 billion), adding the 10 and 11 percent personal income tax brackets (\$2.58 billion), and increasing the excise tax on cigarettes and tobacco products by \$1.10 (\$1.17 billion). This

proposal allows for tax increases that would not go to the state General Fund, but to local government, and avoid having any of these new revenues dedicated to fund K-14 programs under Proposition 98. However, these same programs are vulnerable to outright budget cuts if support for the tax revenue doesn't receive the two-thirds vote needed from the legislature.

Proposed 2003-04 CSU Support Budget

The Governor's budget proposes to reduce the California State University, support budget by \$326 million, leaves unfunded an additional \$78.6 million in mandatory costs, and make permanent the \$43 million reduction for the long-term needs. The Governor continues his commitment for student access by providing the CSU with an additional \$105.8 million to fund a 5 percent student enrollment increase (16,057 FTES) for 2003-04. The budget also calls for \$45 million to partially fund the 8,000 FTES students that the CSU enrolled in the current fiscal year without any funding from the state. Finally, the CSU would receive a net increase of \$142 million in student fee revenue as a result of annualized revenue to the current year fee increase and fee revenue assumptions in the Governor's budget.

The Governor's budget assumes annual fee revenue of \$212.2 million, which would be generated from the current year increase in student fees and an additional undergraduate fee increase of 25 percent (\$396) and a graduate fee increase of 20 percent (\$348) effective in 2003-04. To place this in perspective, the UC base budget is being reduced by \$373 million and the Governor's budget assumes additional fee revenue of \$270 million to increase undergraduate and graduate fees by 24 percent at the UC. Community colleges, facing a \$279 million reduction in the current year and \$251 million in the budget year, will receive \$149.1 million in revenue as a result of raising the student fees from \$11 to \$24 per unit.

From the new revenues for CSU, the budget assumes \$60.7 million for the State University Grant (SUG) program to ensure that financially needy CSU students receive increased assistance associated with the higher fees. Additionally, the state budget augments by \$48.3 million the Cal Grant program to meet the state's financial aid entitlement commitment to eligible students and fully mitigate fee increases at CSU as well as UC and the community colleges.

Beyond the investment in student financial aid programs, the governor has called for the acceleration of construction projects using bond funds approved by voters last year. That includes funds from Proposition 47, which will support capital improvement projects at all 23 CSU campuses.

Budget hearings are scheduled for the second week of January to review and approve the 2002-03 mid-year budget reductions proposed by Governor Davis. The Governor's 2003-04 budget proposal now goes to California's Senate and Assembly budget committees, which will hold hearings on and debate various budgetary options after receipt of the LAO's budget analysis due

out in February. In May, Governor Davis will release the “May Revise,” an updated version of the budget that is based on the April forecast of state revenues and that may show a change in the state’s estimated deficit. The governor and the legislature are scheduled to approve a final budget by July 1, the first day of the 2003-04 fiscal year.

**2003-04 Reductions to the CSU Support Budget
 (\$326.1 million)**

- Reduce the base budget – all programs and services \$142,752,000
- Reduce academic and institutional support 58,091,000
 (e.g., administration, libraries, telecommunications, public safety)
- Generate savings by increasing the student/faculty ratio
 from 18.9:1 to 19.9:1 53,542,000
- Reduce student services by 20 percent 53,197,000
- Reduce CSU outreach funding by 50 percent 12,596,000
- Eliminate the CalTeach recruitment program 2,000,000
- Eliminate bilingual teacher recruitment program 2,000,000
- Reduce the Center for California Studies by 50 percent 1,444,000
- Reduce public service programs 450,000

2003-04 Budget Reductions	\$326.1 million
Unfunded Mandatory Costs	\$ 78.6 million
Permanent Reduction in Long-Term Needs Program	\$ 43.0 million

Total Fiscal Impact to Campuses in 2003-04 \$447.7 million

**2003-04 Revenue to the CSU Support Budget
 (\$187 million)**

Assumed Net Student Fee Revenue (less SUG allocation)	\$142.0 million
General Fund Revenue from 2002-03 Student Enrollment	\$45.0 million
2003-04 Revenue to the CSU Support Budget	\$187.0 million

Fiscal Impact to Campuses in 2003-04 \$447.7 million
2003-04 Revenue to the CSU Support Budget \$187.0 million

Permanent Budget Reductions to CSU \$260.7 million

2003-04 Enrollment Growth

- BOT request for full marginal costs for

5% enrollment growth @ \$6,594 marginal costs	(\$105,880,000)
• CSU fee revenue for enrollment growth	(\$31,128,000)
• Governor's budget augmentation for General Fund support for 5% enrollment growth	\$105,880,000
• CSU fee revenue for enrollment growth	\$31,128,000

COMMITTEE ON FINANCE

Sale of Systemwide Revenue Bonds in January 2003

Presentation By

Richard West
Executive Vice Chancellor
and Chief Financial Officer

Summary

Under the authority from previous financing approvals provided by the Board of Trustees since May 2002 for various revenue bond projects the staff is planning a sale of Systemwide Revenue Bonds for the month of January. Details of the sale will be presented at the meeting of the Trustees.

COMMITTEE ON FINANCE

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

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$20,630,000 for the construction or acquisition of two projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds, when sold for the projects are expected to bear the same ratings as the existing Systemwide Revenue Bonds from Moody's Investor Services and Standard and Poor's Corporation. It is also expected that the long-term bonds will be issued pursuant to and with the full implementation of the new bond covenants of the Systemwide Revenue Bond indenture.

The projects are as follows:

1. Sonoma Student Union Recreation Center

Previously, the Board of Trustees approved a student union recreation center of approximately 52,000 gross square feet at Sonoma State University for the Nonstate Funded Capital Outlay Program and schematics/designs for the project. In addition, in November 2000, the students of Sonoma voted to raise their student union fees to construct the student union recreation center and the board approved financing the facility with a not-to-exceed amount of \$16,400,000 based on the best estimates for the project in September, 2001. The board is now being asked to re-approve the financing of the project at the increased amount indicated below based on the receipt of construction bids. The campus has developed a comprehensive multi-year financial plan that supports the project utilizing revenues from the increase in the student union fees. The total project costs of \$15,550,920 is to be paid for with financing proceeds and a student union reserve contribution of \$111,000. The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 17,155,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$ 1,156,688
Projected debt service coverage including the new project: ¹	
Gross revenue – all Sonoma pledged revenue programs	4.53
Net revenue – all Sonoma pledged revenue programs	1.72
Net revenue – projected for the campus Student Union Program	1.24

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

The not-to-exceed amount shown above, the maximum annual debt service and the ratios above are based on the final construction project bid, debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate - 5.41%; December 12, 2002), 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 financial plan for repayment of the not-to-exceed amount is based on a 3.2% increase in annual enrollment and the approved increase in student body center fees, including an automatic inflationary increase.

2. San Francisco State University, Property Acquisition – Park Merced Lot 41

The Committee on Campus Planning Buildings and Grounds will be asked to approve the Nonstate Funded Capital Outlay Program and the schematic/design at this meeting for the acquisition of this property adjacent to the campus. The campus is asking for approval to finance a portion of the property related to housing with revenue bonds. The opportunity to acquire this property, currently known as the Villas and formerly known as Park Merced, will allow the campus to address long term planning and program goals as explained in the Campus Planning Design and Construction items. The property consists of 16 three-bedroom apartments, playing field, tennis, basketball and racquetball courts, parking garage and a preschool building. The campus plans to use the apartments for student, faculty and/or staff housing as the current tenants vacate and utilize the field, courts and preschool building for educational purposes. The not-to-exceed par value of the proposed bonds is based on an estimated total project cost of \$19,058,000 of which approximately \$3,475,000 is to be paid for with bond financing proceeds. The remaining \$15,583,000 will be funded from cash in campus trust funds. The apartments will be a part of and operated by the campus housing program. The campus wishes to move forward with the financing approval to provide funds for the acquisition of the property.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 3,475,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$ 235,380
Projected debt service coverage including the new project: ¹	
Gross revenue – all San Francisco pledged revenue programs:	5.91
Net revenue – all San Francisco pledged revenue programs:	0.54
Net revenue – projected for the campus Housing Program:	0.83

1. Projected information – Combines the 2001/02 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service

The not-to-exceed amount, the maximum annual debt service and the ratios above are based on the current negotiated agreement with the owner, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate - - 5.39%; December 17, 2002), 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. At a project level the campus financial plan shows that this housing project will cover the proposed debt service from the first full year of the new project's operation. However, as indicated by the campus housing program ratio above, the housing program has experienced financial difficulties which are due to mold contamination in one of its newer housing facilities. Recently, the campus entered into a legal settlement regarding this problem and is expecting a recovery and improvement in its financial position of the housing program as the facility with mold contamination is repaired and becomes operational again in 2004-05. The current and expected-to-be temporary shortfalls are being covered by reserves and other campus support.

Trustee Resolutions and Recommended Action

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

- (1) Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University, Systemwide Revenue Bonds in an amount not-to-exceed \$20,630,000 and certain actions relating thereto.

- (2) Provide a delegation to the Chancellor, the Executive Vice Chancellor And Chief Financial Officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

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

Sonoma Student Union Recreation Center

San Francisco State University, Property Acquisition – Park Merced Lot 41

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at California State University Chico

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

California State University, Chico Research Foundation (“Foundation”), a recognized auxiliary organization in good standing, is proposing a tax-exempt borrowing in an amount not to exceed \$5,500,000 to finance the acquisition and renovation of an office building and to refinance existing debt.

The financing transaction is structured to not create any legal obligation of the State of California or the Board of Trustees (Board), however, the transaction will be included on the balance sheet of the CSU’s financial statements, and will be considered a use of its available credit. The Foundation will issue the bonds pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. The bonds are general corporate obligations of the Foundation and are secured by the agreements and revenues as set forth and defined in the indenture. Subsequent to the review of this item by the Board, the Chancellor will take the necessary action on behalf of the Board to assist the Foundation pursuant to the Chancellor’s delegation in the Board’s policy for financing activities.

Building Description

The two-story office building, approximately 19,000 square feet, is located on .47 acres of land adjacent to the University campus. The building will provide additional space to support the instruction, research, and public service functions of the Foundation and certain University programs.

Refinancing Description

The financing will also refund approximately \$2,110,000 of existing auxiliary organization debt through an advance refunding structure that produces net present value savings of approximately

\$53,000. This amount equates to a net present savings of approximately 2.53%, which is slightly less than the threshold savings of 3% used by the State Treasurer's Office and the CSU.

Auxiliary Organization Financing

The bonds will be issued pursuant to an indenture entered into by the Foundation and a bank trustee for the bonds. The bonds will be secured by a general pledge of the Foundation's revenues. The following summarizes key information regarding the proposed financing:

Finance amount not to exceed:	\$5,500,000
Term:	30 years
Estimated All-In True Interest Cost:	5.34%*
Projected debt service coverage:	2.65 x debt service
Bond insurance commitment:	Commitment anticipated
Bond intrinsic rating before insurance:	Baa3 from Moody's

Financing Team

Underwriter	A.G. Edwards & Sons, Inc.
Underwriter Counsel	Kronick, Moskowitz, Tiedemann & Girard
Bond Counsel	Orrick, Herrington & Sutcliffe LLP BNY
Trustee	Western Trust Company

*Assumes no contingency for market conditions

Tax Information

Kronick, Moskowitz, Tiedemann & Girard has reviewed the circumstances for the proposed tax-exempt financing and determined that they are substantially similar to the circumstances in the private letter ruling 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 tax law and streamline some procedures that result in financing cost savings. The ruling also permits the subject organization to cause tax-exempt governmental obligations to be issued in its own name, without taking the additional steps and incurring the additional costs that are associated with the issuance of tax-exempt

obligations through a third party governmental unit, which would be more complicated and costly.

Other Information

In the Spring of 2002, after implementation of the Trustees Policy on Financing Activities (January 2002) and the initial sale of Systemwide Revenue Bonds (April 2002) the campus met with the Chancellor's Office to discuss financing options. If SRB bond proceeds (i.e. Trustee funds) were used to purchase the real property component of this project, state law requires procurement of property pursuant to the State Property Acquisition Law, which involves the Department of Finance and the Department of General Services. Furthermore, disposition of such property purchased with Trustee funds by the Trustees would involve more complicated state administered processes and could have a less controllable outcome. Because of these issues, and subsequent to the meeting with the Chancellor's Office, the campus determined that acquisition by the Trustees under these conditions was not practical and ownership by an auxiliary organization was imperative for the project. Therefore, the campus is requesting to finance and own the project through a new auxiliary organization issuance of debt.

The campus recognizes that a stand alone-auxiliary organization financing is more costly than a financing of the Trustees SRB program, and is a less efficient use of the Trustees debt capacity. This is partially caused by the requirement for an approximately \$316,000 bond reserve in this proposed transaction. Furthermore, bond insurance is estimated at a rate of 145 basis points of total debt service and reflects the transaction's relatively low investment grade intrinsic rating, and is primarily available because of the auxiliary's relationship to the university and the fact that the financing will be considered a use of the university's credit ("on credit") by credit rating agencies. Comparable bond insurance cost approximately 20 basis points in the last SRB transaction. Other costs of issuance (\$95,000) are approximately five times higher than for an equivalent debt amount in the last SRB transaction where such costs are disbursed over a greater base.

Recommend Action

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of the California State University, that the trustees

1. Approves the concept of the proposed auxiliary organization financing in an amount not-to-exceed \$5,500,000 as described and for the purposes indicated in agenda item 4 of the January 28-29, 2003 meeting of the trustees' Committee on Finance.

2. Confirms that the Chancellor, the Executive Vice Chancellor Business and Finance, the Assistant Vice Chancellor, Business Services, and the Senior Director, Financing and Treasury are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in this agenda item.

COMMITTEE ON FINANCE

Public Sector Partnership in the Development of a California Regional Crime Laboratory Facility at California State University, Los Angeles

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

James M. Rosser
President
California State University, Los Angeles

Summary

California State University, Los Angeles (CSULA) proposes to enter into a partnership with the City of Los Angeles, County of Los Angeles, and the State of California to develop 5.87 acres at the southwest corner of the campus for a regional forensic science laboratory facility. The State will issue lease revenue bonds to finance the construction of the facility and will assume responsibility for the repayment of the debt. The facility will be leased by the State to the Trustees, and the Trustees will in turn lease a majority of the project for period of 75 years to a joint powers authority consisting of the City of Los Angeles and the County of Los Angeles for the operation of their respective science laboratories. The University stands to benefit both from space in the facility to house its Criminal Justice and Criminalistics department and its newly formed California Forensic Science Institute, and from the close operational collaboration expected between the Los Angeles Police Department (LAPD) and Los Angeles County Sheriff (LASD) crime laboratories and various University departments such as chemistry, biological sciences, psychology, anthropology, nursing and criminal justice.

The Board of Trustees on May 11-12, 1999, approved the concept of allowing the state of California to develop, finance, construct, operate, and maintain a forensic science facility at California State University, Los Angeles and authorized the chancellor to enter into agreements that would result in a finalized development plan for subsequent approval by the Trustees. This agenda item requests the Trustees to approve the specific development plan for the regional crime laboratory through a public/public partnership. The proposed site has been approved and incorporated into the campus master plan of the 1999/2000 Capital Outlay Program. A separate agenda item is being presented at this January 28-29, 2002 meeting to the trustees Committee on

Campus Planning, Buildings and Grounds for the approval of schematic plans, including the Mitigated Negative Declaration filed by the State Office of Criminal Justice Planning pursuant to the CEQA.

Background

The construction of a regional crime laboratory facility on the campus of California State University, Los Angeles has been the goal of the campus, the LASD and the LAPD for many years dating back to 1998 when an in-depth feasibility study and needs assessment was completed. The needs assessment indicated that development of the laboratory was practical and sensible with numerous benefits to the region, including educational enhancement and other aspects of public service. From the start, the project has been expected to provide new scientific laboratory space, support offices, educational and training capabilities, advanced technology in the form of equipment and software, along with efficient and productive educational/work environments.

As initially proposed, the facility was estimated to be approximately 326,000 gross square feet to be used by the various agencies with an estimated cost of \$131 million. The funds were to be made available by the State through a grant to the City and County of Los Angeles for the design, construction and operation of the crime laboratory facility under a long-term ground lease arrangement with the trustees. At the start of the 2001/02 Fiscal Year, in anticipation of changing economic conditions, the State revised its initial commitment from \$131 million to \$96 million and changed its method of funding from direct grant appropriation to the issuance of State lease revenue bonds.

Proposed Facility

Under the new budget of \$96 million, the proposed facility is estimated to be approximately 200,000 gross square feet which includes individual spaces to be used by the various agencies separately, and common areas that will support and be used by all occupants jointly. The common space use of the facility increases the efficiency and reduces costs for all entities. The project also incorporates parking to be utilized by the building tenants.

The proposed site is currently used for surface parking. The site is bounded by Paseo Rancho Castilla on the west and by State University Drive on the south. The proposed five-story building will be located on 5.87 acres at the southwest corner of the campus with a single point of entry for university and crime lab staff plus visitors. The project's architecture is in keeping with the character of the Los Angeles campus. The campus is in the process of planning a parking structure at a different location that will replace the spaces displaced by this project.

The facility will include a separate and secure yard and entry for the LAPD Scientific Investigation Division and the LASD Scientific Services Bureau. CSULA's Criminal Justice and Criminalistics Department and its California Forensic Science Institute will occupy the majority of the first floor and will provide an open access environment. The areas occupied by the County Sheriff and LAPD laboratories will be secured throughout the building.

Educational Benefits

The placement of the regional crime laboratory on the Los Angeles campus presents a unique opportunity to use the facility for instructional purposes with direct access to state-of-the-art laboratory facilities. The University space includes several lecture halls, seminar rooms, and faculty/student teaching and research laboratories. The facility will also house the CSULA Criminal Justice Department, which offers a Master of Science Degree in Criminalistics (one of the oldest forensic science degree programs in the western United States), and also provide space for the CSULA California Forensic Science Institute. The goal of the institute will be to develop educational opportunities between the LAPD, LASD, and the University.

The proximity of the LAPD and LASD crime laboratories will create internships and full-time professional career opportunities for CSULA undergraduate and graduate students, as well as increased opportunities for faculty-applied research. Further, the professional staff of the laboratories will be a ready source of forensic adjunct faculty positions for the university programs.

Overall, the close collaboration between the operational LAPD and LASD crime laboratories, and CSULA departments (chemistry, biological sciences, psychology, anthropology, nursing, criminal justice and criminalistics, and others) will benefit the entire criminal justice community.

Development Approach

Under the current development approach, the following three agreements are needed for the state to utilize its ability to issue lease revenue bonds to finance the construction of the crime laboratory facility:

- Trustees to enter into a 40-year ground lease with the State Department of General Services to provide the land for and to facilitate the financing and construction of the regional crime laboratory facility.
- The Department of General Services will enter into a site lease with the State Public Works Board of the State of California (SPWB) to facilitate the issuance of state lease revenue bonds for the financing and construction of the project.

- The SPWB will enter into a site and facility lease with the State Office of Criminal Justice Planning (OCJP), which will serve as the lead agency for the state responsible to the SPWB for the project and the annual lease payments. OCJP will pay from its state appropriations lease payments to cover debt service on the bonds and other costs related to the financing.

In addition, there is a need for the following two agreements to facilitate the operation of the facility:

- The OCJP will enter into a 40-year site and facility lease with the CSU Trustees.
- The Trustees will enter into a lease and operating agreement with the Joint Powers Authority (City of Los Angeles and County of Los Angeles) for the lease and operation of the site and facility.

At the time this agenda item was prepared the various agencies had reached conceptual agreement on the terms of the partnership and were in the process of finalizing agreements. The Joint Powers Authority is scheduled to review and approve schematic design, project budget, and the related lease agreements at its meeting of January 30, 2003. Subsequently, on February 4, 2003, the County of Los Angeles Board of Supervisors and the Los Angeles City Council are scheduled to independently review and approve the project. The SPWB is scheduled to meet on February 14, 2003 to review and approve the schematic design and budget. The SPWB approval is contingent on the completion and acceptance by the participating agencies of the schematic design, budget estimate, and the various lease agreements.

The following summarizes the significant business terms of the leases:

Summary of Agreements with State

Ground Lease between Trustees and State Department of General Services

- A 40-year ground lease to facilitate the design and construction of the Los Angeles Regional Crime Laboratory.
- The site will be used for the purpose of constructing, operating, and maintaining a regional crime laboratory facility.
- Trustees will have the right to participate in the design of the project.
- Trustees will have the ability to do future expansions on site.
- State will meet insurance requirements via self-insurance.
- The ground lease will terminate upon full repayment of the bonds by the state.
- Unencumbered title to the project will be vested in the trustees at the end of ground lease.

Site and Facility Lease between OCJP and Trustees for Operation of Site and Facility

- A 40-year ground lease for the Trustees to operate and maintain the Site and Facility.

Summary of Lease and Operating Agreement between Trustees and Joints Powers Authority (City and County of Los Angeles) for Operation of Site and Facility

- 75-year term.
- Operation of the facility by the Authority will be solely for the operation of crime laboratories.
- Trustees will occupy approximately 14% of the assignable building area during the term of the lease at no charge to house classrooms, meeting rooms, library and various related University programs.
- Trustees will have use of the Authority's 400 parking spaces during non-regular working hours, weekends, and holidays.
- Authority will have sole responsibility for all maintenance and repair, both ordinary and extraordinary, of the site and facility.
- Trustees will operate all commercial activities in all the public areas and University designated areas of the facility.
- Leased space to authority will revert back to trustees during the term of the agreement in the event that space is used for other than crime laboratories activities or vacant longer than pre-agreed term.
- Trustees will reimburse Authority for costs associated with its assignable building area and related percentage space of the common public areas.
- Trustees will review and approve any future construction of additions to site and facility with future improvements to revert to trustees at expiration of lease.
- Leased space to Authority will be limited to laboratory personnel and visitors, excluding individuals meeting court sentencing work requirements.
- Authority will have option to meet insurance requirements via City of Los Angeles and/or County of Los Angeles self-insurance certificates.

It is the intent of all the parties that upon the repayment of the lease revenue bonds, that the various financing leases, including the lease from OCJP to the trustees, will terminate and the Lease and Operating Agreement between the trustees and the Joint Powers authority will be the only remaining lease arrangement.

Recommended Action

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of The California State University, that the trustees

1. Approve the specific development program as presented in agenda item 5 of the January 28-29, 2003 meeting of the Committee on Finance for the construction and operation of a regional crime laboratory facility as developed by California State University, Los Angeles working jointly with the State of California, and the City and County of Los Angeles through its Joint Powers Authority, and
2. Confirm the chancellor's authority to enter into such leasing and other associated agreements as necessary to implement the specific development program.

COMMITTEE ON FINANCE

Real Property Development Project at California State Polytechnic University, Pomona for the Southern California Regional Blood Processing Center for the American Red Cross

Presentation By

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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 project with multiple buildings and was incorporated into the campus master plan at a previous Board meeting (July 2000). Since that meeting, the first project consisting of 52,000 square feet, a center for training, technology, and incubation, was approved by the Board and has recently opened. The campus is currently proposing to enter into a long-term relationship with the American Red Cross to construct a new Southern California Region blood processing facility called the "SoCal Project" at Innovation Village.

Background

The American Red Cross is an independent organization that is organized as a nonprofit, tax-exempt, charitable organization pursuant to a charter granted to it by the United States Congress in 1881. The American Red Cross Southern California Blood Region (SCR) distributes over 800,000 blood components, such as red blood cells, plasma, and platelets, each year. The American Red Cross wants to construct a new facility that will meet their present and future needs as technological advancements are made. In September 2002, Innovation Village at Cal Poly Pomona was selected as the preferred location for the project.

Project Description

The project will be entirely financed by the American Red Cross and they will have sole responsibility for the debt service. Therefore, no State or Trustees financing will be required. In addition, the transaction will not be reflected as a debt on the CSU's financial statements and have no impact on the CSU's credit. The project will be built on 15 acres and will construct a 230,000 square foot blood processing facility that will include laboratory, administrative, materials management spaces, and a donor room. This new facility will be designed to process the total blood supply needed for Southern California.

This new facility at Cal Poly Pomona will enable the American Red Cross Southern California Blood Region to:

- Serve over 150 hospitals in Los Angeles, Orange, and San Diego Counties
- Perform red cell antibody identification and cross-matching
- Perform HLA typing and antibody testing, platelet cross-matching and specialized platelet transfusion
- Provide medical consultation regarding the diagnosis and management of transfusion reactions and transfusion medicine needs
- Provide therapeutic apheresis and therapeutic phlebotomy services
- Recruit many blood, marrow and apheresis donors
- Instruct and train transfusion medicine professionals

The proposed second phase of the SoCal project (for which the American Red Cross has an option for 4 acres of additional land) could include a 50,000 - 60,000 square foot research laboratory.

Summary of Agreement Terms

Cal Poly Pomona 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 American Red Cross.

- An initial 55-year term, with an option for two 20-year extensions.
- American Red Cross will finance and construct the SoCal project on 15 acres of land, with an option for an additional 4-acre adjacent parcel.
- Base rent has been established at \$0.45 per square foot of gross land area. \$0.10 per square foot will be added to the base rent to cover the common infrastructure (first year total rent will be \$359,370).

- Rent will commence 18 months after the Board approves the schematic architecture or upon issuance of a certificate of occupancy, whichever occurs first.
- Rent escalations will be tied to the Consumer Price Index beginning in year 6 with a floor of 2% and a cap of 5% annually.
- The Red Cross will have the authority to sublease less than 10% of the facility provided the sublease complies with the CC&R's and Use Restrictions. The Red Cross cannot sublease more than 50,000 square feet of the facility without the consent of the lessor, which consent may be withheld in the sole and absolute discretion of the lessor during the first 15 years following the rent commencement date. Thereafter (and during the first 15 years for subleases greater than 10% and less than 50,000 square feet), consent may be withheld in the lessor's reasonable discretion, which includes consideration of whether the sublease is consistent with the mission of the university.
- If a 20-year option is exercised, the rental rate will be adjusted according to a new land appraisal and the new market rate will be discount by 10%.
- 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.

Educational Benefits

This project holds academic benefits for the students and faculty at Cal Poly Pomona. The American Red Cross is interested in collaborative research with the University and is currently exploring opportunities with faculty in several colleges. The Red Cross has stated that the SoCal Project will provide internship opportunities for Cal Poly Pomona students as well as employment opportunities for our graduates. The University and the American Red Cross are also exploring education and training programs for mutual benefits.

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 SoCal Project of the American Red Cross at California State Polytechnic University, Pomona as described in agenda item 6 of the January 28-29, 2003 meeting of the Committee on Finance and confirm the Chancellor's authority to execute the agreements necessary to implement the development plan for this project.