

AGENDA

COMMITTEE ON FINANCE

Meeting: 8:00 a.m., Wednesday, March 13, 2002
CSU, Sacramento--University Union Ballroom

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 January 29, 2002

Discussion Items

1. Status Report on 2002/03 Support Budget, *Information*
2. Approval to Proceed With a New Debt Financing Program for the California State University with Corresponding Revision and Restatement of the California State University Policy on Financing Activities, *Action*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds Not-to-Exceed \$145,210,000, and Approval of Related Matters, *Action*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Sonoma Housing Project Not-to-Exceed \$42,700,000, and Approval of Related Matters, *Action*
5. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Northridge Parking Project Not-to-Exceed \$11,280,000, and Approval of Related Matters, *Action*
6. Auxiliary Organization Financing at California State University, Sacramento, *Information*
7. Conceptual Approval of Private Sector Participation in the Development of a 49.5-acre Avocado Orchard at California Polytechnic State University, San Luis Obispo, *Action*

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

January 29, 2002

Members Present

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

Members Absent

Murray L. Galinson, Vice Chair
Shailesh J. Mehta

Other Trustees Present

Cruz M. Bustamante, ex officio
William D. Campbell
Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
Ralph R. Pesqueira
Erene S. Thomas

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 Affairs
Jackie R. McClain, Vice Chancellor, Human Resources
Christine Helwick, General Counsel

Chair Hauck called the meeting to order at 2:45 p.m.

Approval of Minutes

The minutes of November 13, 2001 were approved.

Status Report on 2002/03 Support Budget

Chair Hauck took a moment to report on his attendance at the recently expanded Systemwide Budget Advisory Committee meeting. He attended the meeting as the trustees' representative to the group and said it was a good discussion. He relayed there is widespread approval of the format and content of the budget submitted to the Governor and the legislature. The group recognized there is an enormous amount of work to be done, and many issues requiring attention between now and the time the final budget is approved. Chair Hauck said he would continue to keep the board informed on the discussions and progress of the group.

Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer then presented the status report on the 2002/03-support budget.

Mr. West indicated a handout had been distributed containing the most current information on budget issues. The handout outlined the reductions and increases that were received in the Governor's budget proposal. Mr. West observed that this is a positive budget given the state's current economic environment. There is an increase overall for the university, and we did get full funding for our proposed 4% enrollment increase. There were some reductions, (mostly targeted) and a small amount will be available for other uses. Mr. West indicated that amount would be identified for compensation and mandatory costs.

The new budget is a budget that recognizes the need for certain reductions due to the deficit between funding and expenditures; and there are proposals in the budget that transfer expense to future years. It is as the Governor indicated, very much a 'multi-year' budget. In all, there are approximately \$5.5 billion in actual reductions; \$5.5 billion in postponements of one type or another; and an additional \$2 billion for fund source shifts and expected payments from the federal government. In all, that entails a \$12.5 billion budget shortfall to be addressed.

Trustee Cartwright expressed some concern about the possibility of a fee increase from his interpretation of some of the budget language. Mr. West said he sincerely doubted the Governor intended to imply a fee increase.

Trustee Pierce asked about the difference in the enrollment growth amount of \$87 million and the \$79 million the Governor has provided. Mr. West explained the difference between the Governor's budget and the Trustees' request was the university's request includes funding for conversion to year-round operations of six campuses, while the Governor's budget funded only one campus (Chico). With regard to current year reductions, CSU's portion of the \$2.5 billion state budget reduction package is \$29.5 million. Mr. West outlined where those reductions

would occur and informed the board that the \$29.5 million would be a permanent ongoing reduction.

Other factors to be addressed are resolution of the energy bond issue, and the less-than-anticipated state revenue collections. Mr. West indicated this is a fragile budget, and one that is likely to change frequently once the legislative hearings commence in March.

Approval to Issue Debt Instruments Including Bonds for the California State University, San Marcos Field House and University Student Union and Related Matters

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services, presented the action item. The item calls for the board to authorize the issuance of debt not to exceed \$6.3 million for a field house and student union building at CSU, San Marcos.

Mr. Hordyk explained the intended financing procedure for the project. He noted the project has been reviewed in the non-state capital project process, including presentation to the board of the schematics in March 2000. The resolution and documents presented at this meeting would authorize the issuance of commercial paper and bonds not to exceed \$6.3 million and provide delegation to the chancellor and his staff to execute the financing transactions on behalf of the board.

Dr. Alexander Gonzalez, president, California State University, San Marcos, said the proposed building is a vital and necessary component of campus life. The student union is sorely needed and will be used extensively by students as growth continues on the San Marcos campus.

Trustee Pierce commented that the commercial paper program was a good program, but he was concerned about the potential for a rise in interest rates and whether the university had considered this in their calculations. He suggested it might be worthwhile to issue a significant amount of long-term fixed rate debt if rates are likely to move. Mr. West agreed there was the possibility of a small interest rate increase and said there is a plan to take out the long-term debt over the next six-month period.

The committee recommended approval of the proposed resolution (RFIN 01-02-01).

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

Mr. Hordyk explained the San Diego State University Foundation was proposing the financing of an amount not to exceed \$35.5 million. Twelve million is designated for two new projects; and \$23.5 million for refinancing previous projects. He noted there was a list of approximately eight projects in the agenda item. There will be both taxable and non-taxable bonds involved in the project (approximately \$10 million for taxable and \$23.6 million for non-taxable). The transaction has an investment grade rating of BBB+ from Standard and Poor's and the interest

rates are competitive in today's market. Mr. Hordyk indicated the item was being presented for 'information only' at this time.

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

Mr. Hordyk introduced the item noting it was intended to provide an update on progress made in establishing the Enhanced Capital Management (ECM) program. He reminded the committee of the specific item presented at the November 2001 meeting that contained the full description of the new debt-financing program. Mr. Hordyk reviewed the process and history leading to development of the ECM program.

Since the November meeting, CSU has been working to further develop the program with the rating agencies, bond insurers, and the state treasurer's office. The rating agencies have been very enthusiastic about the proposed program. Bond insurers likewise, understand that CSU's credit quality will be enhanced. We have also presented the program to the state treasurer's office and they feel this would be a major step in improving our overall program.

Coordinating the conversion from the old process to the new will take some time. If all goes well, the program will be introduced in March 2002 with a proposed first sale consisting of about 10 projects for an estimated amount of \$200 million.

Steps need to be taken to ensure the critical mass of votes required from existing bondholders to convert many of the existing bonds in starting the new program. The new bonds, when sold, will automatically count toward obtaining the critical mass. The program also envisions incorporating auxiliary financings into the program. There have been some initial difficulties in pursuing this relating to issues like time-to-project and ease-of-construction. As a result, the board will be presented with some auxiliary organization financings during the conversion period.

In the meantime, the primary focus is to get the new ECM program underway with the large bond sale in March. It is also anticipated the board will be asked to amend the policy on financing activities originally implemented in 1998. The amendment would encompass the change to the new ECM program and general updates.

Trustee Pierce reminded the committee of a suggestion he introduced at a previous meeting regarding the use of net cash flow after debt service. He asked if any progress had been made in exploring the possibility of using those funds for broader general purposes than previously allowed. He wondered if that still looked promising after introduction of this program and as work continues with the bankers.

Mr. West replied they were still looking at that potential however, some problem exists regarding ease-of-construction and the various trade-offs that would naturally occur.

Trustee Pierce commented that as we move forward, the last thing we want to do is adopt a policy that constrains our flexibility. He stated it was important to implement a policy that would give us an option to go in a certain direction, but not mandate it if there are reasons pointing to a more beneficial structure that is in the best interest of our campuses. Mr. West agreed reiterating the inevitability of trade-offs, and the intent to bring those trade-offs into perspective through the new program. Mr. West also pointed out the additional benefits of the new program in presenting projects to the board in a more concise manner, in larger context, and with more detailed analysis of costs.

Chair Hauck raised the issue of variable rate debt instruments and how they would affect the ECM program if interest rates rise significantly. Richard K. Leffingwell, senior director, financing and treasury, responded that the first bond issuing under this program would probably not involve a variable rate. He indicated there would be the possibility of a variable when entering into the second bond issue. There are hedges that exist and we will be exploring them to limit our exposure.

Chancellor Reed summed up his understanding as follows:

This is a developmental effort reported at the November 2001 board meeting, today, and again in March, and throughout the spring and summer. Our primary intent is to maximize the fiduciary responsibilities held by this board in debt management. We also want to be able to leverage the CSU system. With almost 400,000 students, and a budget of over \$5 billion, we want to obtain the least amount of cost possible in capital for all of our campuses. That is why we stared down this road, coupled with Chair Hauck's concern regarding our expanding debt, and the somewhat confusing process of coming to the board on these matters on an ad-hoc basis.

The Chancellor acknowledged and thanked everyone involved in development of the new program. He said it was a huge project and one that will keep coming back to the board as it develops further. Meanwhile, the idea is to drive down costs, increase our rating, and to provide more resources for campuses to build the kind of facilities they need.

Chair Hauck thanked the Chancellor for his input and indicated his support for the program.

The meeting adjourned at 3:28 p.m

COMMITTEE ON FINANCE

Status Report on the 2002/03 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

A report on the status of the 2002/03 support budget will be made. The table on page two displays the recommendations made by the Legislative Analyst of the 2002/03 Budget Bill that affect the CSU 2002/03 budget request. All of the recommendations made by the Analyst deal with CSU budget appropriations; there are no recommendations made to alter the Board's expenditure plan for 2002/03 approved in October 2001. The CSU response to the Legislative Analyst recommendations is being prepared and will be provided to the Board.

2002/03 Budget Plan – Legislative Analyst’s Recommendations

2002/03 CSU Support Budget Status Report

| Source of Funds | BOT October Budget | Governor's Budget | LAO Recommendations |
|--|----------------------|----------------------|--|
| 2002/03 General Fund Budget Increases | | | |
| <i>Partnership Funding</i> | \$129,925,000 | \$37,709,000 | |
| <i>4 Percent Enrollment Increase (12,030 FTES) and CSU Chico YRO</i> | 87,304,000 | 79,208,000 | Recommends legislature use funding approach based on original \$19.9 million fee buy down appropriation instead of YRO funding currently remaining in CSU base budget. Reduces State marginal cost funding obligation for CSU Chico conversion by \$183,000. |
| <i>YRO Enrollment Conversion (240 FTES)</i> | 9,265,000 | 1,157,000 | |
| <i>Student Fee Increase Buyout</i> | 27,854,000 | 0 | Recommends the state enact a new statutory fee policy based on one of two recommended options: (1) set fees as a fixed percentage of educational costs or (2) set fees at the average fees charged at national comparison institutions. |
| <i>Revenue Above the Partnership Agreement</i> | 300,000 | 7,000 | |
| 2002/03 State University Fee Revenue Increase | | | |
| <i>4% Enrollment Growth</i> | 20,541,000 | 20,541,000 | |
| <i>YRO Enrollment</i> | 3,202,000 | 370,000 | |
| Total Budget Plan Revenue Increase | \$269,126,000 | \$137,835,000 | |
| Permanent Reduction 2001/02 Natural Gas | | (20,000,000) | |
| Net 2002/03 Budget Revenue Increase | | \$117,835,000 | |
| Base Budget Adjustments | | | |
| Governor's Teaching Fellowships (-\$21 million) | | | Recommends legislature redirect \$21 million in CSU base budget for the Governor's Teaching Fellowship program to the Student Aid Commission Assumption Program of Loans for Education (APLE). |
| CSU Financial Aid Programs (-\$122 million) | | | Recomends that the legislature expand the State Cal Grant program by redirecting funds currently in the CSU base budget for State University Grants and Education Opportunity Program grants. |
| Governor's Education Technology Program (-\$6 million) | | | Recommends redirecting CSU base budget support for the Governor's Education Professional Development program and the CSU CalState TEACH program to a formula-based state block grant program for Teacher Support and Development totalling \$721.8 million. |
| CalState TEACH (-\$2.3 million) | | | |

COMMITTEE ON FINANCE

Approval to Proceed With a New Debt Financing Program for the California State University with Corresponding Revision and Restatement of the California State University Policy on Financing Activities

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item requests the Board of Trustees to consider and approve a new systemwide revenue bond debt financing program for the California State University, and to approve a revision and restatement of the California State University Policy on Financing Activity originally approved in November, 1998. The new debt-financing program is designed to assist the Board in strategically planning its issuance of debt, while taking advantage of the cost and other benefits of a large pooled debt program. The approval of the new debt-financing program includes a process to convert a large component of existing debt to the new program. The Board has received information on development of the new debt-financing program at the previous November and January meetings.

The Proposed New Systemwide Revenue Bond (ECM) Financing Program

In January 2001, the Board reviewed a debt capacity study of the California State University. That discussion included a commitment by the staff to further review California State University long-term debt programs and explore ways to reduce financing costs and strategically manage the issuance of debt.

Consistent with related presentations in November 2001 and January 2002, staff has completed the groundwork to achieve those objectives. On a per project basis and a system basis, the newly designed multi-source and systemwide revenue pledge program previously referred to as Enhanced Capital Management (ECM) will be able to achieve savings in the following areas:

- ❑ Interest rates on bond maturities
- ❑ Bond reserve requirements
- ❑ Cost of issuing bonds
- ❑ Capitalized interest

In addition, the ECM program will have a positive impact on using and extending the bond debt

capacity of the California State University. The new ECM program is designed to eventually replace almost the Board's entire current revenue-based project financing programs, with a single debt issuance program authorized pursuant to the State University Revenue Bond Act of 1947. The new program would have a systemwide multi-source revenue pledge creating a larger pool of funds to support the debt thereby achieving a superior quality of credit in the process. Current programs pledge approximately \$94 million in project revenues. The ECM program would have the potential to have approximately \$356 million of annual revenue pledged to repay the debt if all existing debt were converted to the new program. These revenues would be made up of the following fee categories, consistent with the pertinent sections of the Education Code:

- ❑ Student (Rental) Housing Fees (Ed Code Sections 89700(a), 90002, 90012(c), 90074 fees)
- ❑ Student Union Fees (Ed Code Section 89304 student body center building and operating fee)
- ❑ Parking Fees (Ed Code, Section 89701 fees)
- ❑ Health Center Facility Fees (Ed Code, Section 89702 fees)
- ❑ Continuing Education Fees (Ed Code, Section 89704 fees)

The program is being structured so that each project will continue to provide the needed revenue to repay its portion of the debt incurred, however, the revenue sources noted above not directly associated with a project would also be pledged for bond repayment to increase the creditworthiness of the ECM program. This would give campuses greater resources to draw upon in any circumstance where one source of debt repayment revenue decreased due to unforeseen conditions.

In addition, the new ECM debt-financing program would have several new bond covenants that are needed to take advantage of more modern financing concepts not currently available in the older bond program resolutions. For example, the ability to issue variable rate debt, a lowering of the coverage requirement, elimination or lowering of the bond reserve requirement, and the flexibility to use surplus funds for other purposes are all desirable characteristics that will reduce debt costs and increase flexibility to assist the campuses in meeting their educational missions.

Additional benefits will accrue to the California State University by having the ability to finance many of what have been auxiliary organization projects through this new debt-financing program. Because auxiliary organization projects are inherently less creditworthy, and because they are included in the debt capacity of the California State University, those financings have slightly eroded the credit of the Trustees. Credit rating agencies have expressed a positive reaction to the program because they feel it will reduce this credit quality erosion and help forestall a credit downgrade. This is an especially important benefit of the program because auxiliary organization projects have proportionally grown at an increasing rate when compared

to Trustees' debt. With the new program, this issue can be better managed.

The Transition to the New ECM Program

Given the presence of currently outstanding "old" bonds, the new debt-financing program will be implemented as new ECM system bonds are issued and as the old housing system bonds originally issued under a 1968 master bond resolution are retired or refunded. The new consolidated revenue pledge will take effect with the first issuance of ECM bonds, which is proposed for approval at this meeting. However, the new ECM bond covenants will not be implemented until a sufficient number of new bonds are issued to "vote in" the new covenants and effectively convert the old housing system bonds to the new ECM program. The old resolution already permits varying types of approved trustees' projects to be financed, and therefore the first issuance of the ECM bonds is proposed to contain a number of different project types.

Under the '68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Furthermore, the new ECM bonds will qualify as additional bonds under the '68 resolution, and will require that the new ECM covenants automatically take effect when the amount of new ECM bonds reaches 2/3 of all the bonds outstanding under the '68 resolution.

When the transition is completed, all of the Board's housing system bonds and almost all of the new projects financings authorized in the future will be in the new ECM debt financing system. Other old bonds issued for student unions and parking will represent a minority of the CSU's bond portfolio and will continue to be governed by old bond covenants until retired or refunded. However, these will be pulled into the new system as soon as practicable.

As old '68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued under ECM program will also move the new ECM bonds closer to the 2/3-approval requirement. However, because the California State University has actively managed its bond portfolio and has taken advantage of refunding opportunities in the past, a majority of the existing bonds are not available for refinancing at this time. Nevertheless, our financial advisors will continually evaluate refunding opportunities.

To reach the 2/3-bond holder approval objective, the Board will have to issue approximately \$517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could issue approximately the needed \$517 million in long-term bonds as early as October 2002.

The Proposed Revised and Restated California State University Policy on Financing Activities

The first California State University Policy on Financing Activities approved in 1998 was intended to form the nucleus of a financing policy for the Board that would cover all issues for long-term debt programs available to the Board. Therefore, the policy included certain delegations and other related topics for financing the administration of both state funded programs and the Board's non-state funded debt-financing programs. The proposed changes to the state funded sections of the financing policy are primarily ministerial. However, there are significant changes to the non state sections of the policy that are intended to shift the Board's primary financing vehicle from individual revenue-based State University Bond Act and auxiliary financing programs to the proposed State University Bond Act ECM program.

The following are key elements of the revised proposed policy:

- ❑ Includes the principles on general debt management concepts reviewed by the Board at the January, 2001 meeting (Section 1).
- ❑ Includes important principles of the new ECM debt program that replace sections pertaining to the current programs for debt issued by the Board and auxiliary organizations (Section 2 and 3). These sections would permit the Chancellor to further define policy needed to implement the debt policies of the Board. Most kinds of projects previously financed by auxiliary organizations would be financed directly by the trustees and any exceptions would require initial approval to proceed by the Chancellor with final financing approval by the Trustees.
- ❑ Restates and updates delegations for the Public Works Board bonds issued on behalf of the California State University (Section 4).
- ❑ Updates ministerial sections on credit of the State of California, the tax laws and the implementation of the policy (Sections 5, 6 and 7).

Recommended Action:

Approval of the following revision to the California State University Policy on Financing Activities that embodies a restructuring of the Board's debt policies consistent with the principles of the newly developed Enhanced Capital Management Program outlined in this agenda item.

Board of Trustees' Resolution

WHEREAS, The Board of Trustees of The California State University (“the Board” or “the Trustees”) finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the California State University and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the California State University and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

WHEREAS, The Board finds it appropriate to establish the lowest cost debt financing programs for the California State University, and to use the limited debt capacity of the California State University in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of The California State University as follows:

Section 1. General Financing Policies

- 1.1 The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

- 1.2 The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A" category.
- 1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.
- 1.4 The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.
- 1.5 The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.
- 1.6 The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.
- 1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Program Structure of the California State University's Debt Program

- 2.1 To use the limited debt capacity of California State University in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (See Section 3 below).

- 2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees'

debt programs. The Chancellor shall also define and describe the respective campus program categories.

- 2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, “Authorized Representatives of the Trustees”), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

- 3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct whose financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that the transaction cannot be accommodated through the Bond Act financing program.
 - 3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project’s conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.
 - 3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.
 - 3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively,

“Authorized Representatives of the Trustees”) are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

- 3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

- 4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.
- 4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, “Authorized Representatives of the Trustees”) are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery

thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

- 5.1. The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

- 6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:
 - 6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and
 - 6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

- 7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

- 7.2 This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on a individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds Not-to-Exceed \$145,210,000, and Approval of Related Matters

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item requests the Board of Trustees to authorize the issuance of systemwide revenue bonds under a new systemwide revenue bond program. The resolution would replace the authorizations to sell long-term bonds for eight projects previously approved by the board. The board is being requested to authorize the issuance of systemwide revenue bonds in an aggregate total for these projects not-to-exceed \$145,210,000.

Background

The Board of Trustees is being requested to authorize the first issuance of systemwide revenue bonds under a new debt financing program as described to the Board under a separate agenda item presented at this meeting. The new debt program incorporating a broad multi-source and systemwide revenue pledge previously referred to as the Enhanced Capital Management (ECM) program, will provide a larger pool of funds as security for the debt issued, thereby achieving a superior credit quality than existing Trustee bonds. While the program is being developed to capitalize on the strength of the pooled revenue sources, the administrative aspects of the program are being structured to assure that each project will continue to repay its portion of debt incurred. The revenue sources pledged to this pooled program are student (rental) housing fees, student union fees, parking fees, health center facility fees and continuing education fees.

This agenda item requests the Board to authorize the issuance of new systemwide revenue bonds for projects in an aggregate total not-to-exceed \$145,210,000. The request is to provide a replacement authorization to sell long-term bonds for earlier Board authorizations of eight projects. The replacement authorization is needed to be able to sell the long-term bonds for these projects in the newly developed systemwide revenue bond program. Each of the existing previously approved resolutions to sell bond anticipation notes will remain in effect, and this replacement resolution for long-term bonds will take effect for each of the eight projects at the time that long-term bonds are sold for that project. Once this resolution is approved, timing of

these projects and the need for funds will determine how they and other projects approved by separate resolutions at different times are aggregated into efficient bond sale transactions.

Each of the projects has a multi-year financial plan developed by the campus that supports its previously approved debt and program obligations. Additionally, each project has been approved by the board through amendments of its non-state capital outlay program and reviews of schematic design. The financing of these projects will be accomplished under the Trustee's 1968 housing system bond resolution which will be converted into the new systemwide revenue bond indenture.

The following summarizes key financial information on the proposed long-term systemwide revenue bonds:

| | |
|---|---|
| Aggregate not-to-exceed amount: | \$145,210,000 |
| Amortization: | Substantially equal payments by project not exceeding 30 years |
| Estimated all-in TIC rate, at time of the bond sale: | 5.00 to 5.25% |
| Projected debt service coverage: | 1.9 times |
| 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. Expected ratings by Moody's Rating Services and Standard & Poors in the "A" category |

The proposed bond sale total includes a contingency to accommodate market changes. At the time(s) bonds are sold for all or a portion of the projects, the aggregate bond sale will be adjusted to account for market conditions, capitalized interest and other issuance costs. Almost all of these projects are now in various stages of the construction process and have benefited from the commercial paper program's low cost of borrowing. The following listing identifies the projects along with the Board's approved long-term bond and bond anticipation notes (BAN's). It also identifies the not-to-exceed amount for each project that would be carried forward in the replacement resolution being proposed by this agenda item:

| <u>Project Description</u> | <u>Authorized Amount</u> |
|--|--------------------------|
| • Fullerton Housing Project | \$ 25,510,000 |
| • Humboldt Student Union Project | \$ 4,060,000 |
| • San Luis Obispo Housing Project | \$ 56,425,000 |
| • Sonoma Parking Project | \$ 10,785,000 |
| • San Bernardino Housing Phase II Project | \$ 18,725,000 |
| • Sacramento Parking Structure II Project | \$ 7,005,000 |
| • Sonoma Student Union Recreation Center Project | \$ 16,400,000 |
| • San Marcos Field House/Student Union Project | \$ 6,300,000 |
| Total | \$145,210,000 |

The following resolution is recommended for approval:

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize the long-term financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of the Trustees of the California State University, Systemwide Revenue Bonds and certain actions relating thereto in an aggregate amount not-to-exceed \$145,210,000 for eight previously approved projects described in this agenda item. This resolution will be effective to replace each former bond resolution for a project at the time new Systemwide Revenue Bonds are issued for that project.
- (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 revenue bonds.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Sonoma Housing Project Not-to-Exceed \$42,700,000, and Approval of Related Matters

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item requests the Board of Trustees to authorize the issuance of new systemwide revenue bonds and the issuance of interim financing under the commercial paper program in an amount not-to-exceed \$42,700,000 for the construction of a student apartment complex (Phase I) at Sonoma State University. It is anticipated that this project would be combined with other financing authorizations approved at this meeting to sell bonds at the most opportune time and in the most cost effectively sized transaction.

Background

The Board of Trustees is being requested to authorize the issuance of systemwide revenue bonds under the Trustee's 1968 housing system bond resolution, which will be converted into a new debt-financing program as described to the Board under a separate agenda item presented during this meeting. The new debt program incorporating a broad multi-source and systemwide revenue pledge previously referred to as the Enhanced Capital Management (ECM) program, will provide a larger pool of funds as security of the debt issued, thereby achieving a superior credit quality than existing Trustee bonds. While the program is being developed to capitalize on the strength of the pooled revenue sources, the administrative aspects of the program are being structured to assure that each project will continue to repay its portion of debt incurred. The revenue sources pledged to this pooled program are student (rental) housing fees, student union fees, parking fees, health center facility fees and continuing education fees.

This agenda item requests the Board to authorize the issuance of new systemwide revenue bonds for a student apartment complex project named the Beaujolais Village Apartments, Phase I, in an amount not-to-exceed \$42,700,000. The campus has developed a comprehensive multi-year financial plan supporting the project. The debt service for the proposed debt instruments will be paid from revenue generated by the project.

The Board of Trustees is being requested at this time to approve the issuance of both bond financing and interim financing of this project. While the chancellor's staff is working on issuing systemwide revenue bonds for this and several other approved projects, if an unforeseen temporary market event or delay in the financing process should occur, the issuance of bond anticipation notes and commercial paper will allow the projects to proceed as scheduled.

The following summarizes key financial information on the proposed long-term systemwide revenue bonds:

Not-to-exceed amount: \$42,700,000

Amortization: Substantially equal payments over 30 years

Estimated all-in TIC rate,
at time of the bond sale: 5.00 to 5.25%

Projected debt service coverage
For first year of project's operations: 1.75 times for the campus
1.55 times for the project

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. Minimum expected ratings by Moody's Rating Services and Standard & Poors in the "A" category

The proposed bond sale amount includes a contingency to accommodate market changes. At the time of bond sale, the bonds will be adjusted to meet market conditions, capitalized interest and other issuance costs. The bond size is anticipated to be at an amount below the not-to-exceed par value.

Campus Housing Program

The campus currently has 1,754 bed spaces in suite and apartment accommodations. The most recent campus housing initiative, Sauvignon Village, fully opened in the fall of 2000 immediately filling all 892-bed spaces. In response to strong demand for student housing, the university has tripled many living accommodations in its residential community and still

maintains a waiting list for students wishing to live on campus. Market demand has been verified by an independent real estate and valuation firm which has concluded that on-campus housing has reached full capacity with unmet demand in this fiscal year totaling almost 1,127 students and rising to over 2,360 students by 2005-06. The campus is planning on building 1,350 bed spaces in two phases beginning with the Beaujolais Village, Phase I.

Proposed Facility

The Beaujolais Village Phase I project consists of four bedroom/four bath apartment units, totaling 650 bed spaces. The design of the buildings will be compatible with existing residential community architecture. The project is estimated to cost approximately \$35,691,000. The Beaujolais Village Phase I project is expected to financially support itself as a stand-alone project without the assistance of current housing revenues. The Housing Proposal Review Committee reviewed the housing plan in July 2001, and provided a positive recommendation for the project to the chancellor and the president of the university. In March 2001, the Board of Trustees approved the project when it was amended into the non-state funded capital outlay program, and in September 2001, the Board approved schematics for the project.

The following resolution is recommended for approval:

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 Sonoma State University Housing Bond Anticipation Notes and authorize the related sale and issuance of the Trustees of the California State University, Systemwide Revenue Bonds and certain actions relating thereto in an amount not-to-exceed \$42,700,000, and certain actions relating thereto. This authorization would be combined with other financing authorizations to sell bonds at the most opportune time and in the most cost effectively sized transaction.
- (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.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Northridge Parking Project Not-to-Exceed \$11,280,000, and Approval of Related Matters

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item requests the Board of Trustees to authorize the issuance of systemwide revenue bonds and the issuance of interim financing under the commercial paper program in an amount not-to-exceed \$11,280,000, for the construction of a 1,301 space parking structure at California State University, Northridge. It is anticipated that this project would be combined with other financing authorizations approved at this meeting or in the future to sell bonds at the most opportune time and in the most cost effectively sized transaction.

Background

The Board of Trustees is being requested to authorize the issuance of systemwide revenue bonds under the Trustee's 1968 housing system bond resolution, which will be converted into a new debt-financing program as described to the Board under a separate agenda item presented during this meeting. The new debt program incorporating a broad multi-source and systemwide revenue pledge previously referred to as the Enhanced Capital Management (ECM) program, will provide a larger pool of funds as security of the debt issued, thereby achieving a superior credit quality than existing Trustee bonds. While the program is being developed to capitalize on the strength of the pooled revenue sources, the administrative aspects of the program are being structured to assure that each project will continue to repay its portion of debt incurred. The revenue sources pledged to this pooled program are student (rental) housing fees, student union fees, parking fees, health center facility fees and continuing education fees.

This agenda item requests the Board to authorize the issuance of new systemwide revenue bonds for a 1,301 space parking structure (Parking Structure I) at California State University, Northridge in an amount not-to-exceed \$11,280,000. The campus has developed a comprehensive multi-year financial plan that supports the project utilizing revenues generated from the campus parking program.

Approval to issuance of both bond financing and interim financing for this project is being requested at this time. While the chancellor's staff is working on issuing systemwide revenue bonds, if an unforeseen temporary market event or delay in the financing process should occur, the issuance of bond anticipation notes and commercial paper will allow the projects to proceed as scheduled.

The following summarizes key financial information on the proposed long-term systemwide revenue bonds:

| | |
|--|---|
| Not-to-exceed amount: | \$11,280,000 |
| Amortization: | Substantially equal payments over 25 years |
| Estimated all-in TIC rate, at time of the bond sale: | 5.00 to 5.25% |
| Projected debt service coverage for first year of project's operations: | 3.62 times |
| 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. Minimum expected ratings by Moody's Rating Services and Standard & Poors in the "A" category |

The proposed bond sale amount includes a contingency to accommodate market changes. At the time of bond sale, the bonds will be adjusted to meet market conditions, capitalized interest and other issuance costs. The bond size is anticipated to be at an amount below the not-to-exceed par value.

Campus Parking Program

California State University, Northridge's current enrollment is approximately 23,000 full time students and 29,000 total enrollment. The campus' parking inventory currently is estimated at 9,907 spaces. An independent study completed in 2001 anticipates a shortfall of up to 3,000 spaces in the next five years due to current enrollment and growth. The construction of Parking Structure I will help reduce the shortage of parking on campus.

Proposed Facility

The Parking Structure I project will provide a 4-story post tension concrete facility with a capacity of 1,301 parking spaces. The project is estimated to cost approximately \$14,800,000 and is supported by a balanced financial plan that includes funding part of the project from parking reserves, with repayment of the debt funded from the campus parking system revenue. The Board of Trustees approved the project in July 2001, when it was amended into the non-state funded capital outlay program. The Trustees certified the requisite CEQA analysis and approved the schematic design at the November 2001 Board meeting. The campus has recently experienced unexpected delays in the bidding process. The financing transaction will only go forward if the campus receives good construction bids, which are now expected to be received before the Trustees meeting in early March.

Recommended Action

The following resolution is recommended for approval:

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, Northridge Bond Anticipation Notes and authorize the related sale and issuance of the Trustees of the California State University, Systemwide Revenue Bonds and certain actions relating thereto in an amount not-to-exceed \$11,280,000 and certain actions relating thereto. This project would be combined with other financing authorizations approved at this meeting or in the future to sell bonds at the most opportune time and in the most cost effectively sized transaction.
- (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.

COMMITTEE ON FINANCE

Auxiliary Organization Financing at California State University, Sacramento

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

The California State University, Sacramento Foundation (Foundation), a recognized auxiliary organization in good standing at CSU Sacramento, is proposing a borrowing in an amount not to exceed \$24,300,000 (a portion of which will be tax-exempt) to finance the planning and construction of Modoc Hall, a four-story building of approximately 85,402 square feet.

The financing transaction will not create any legal obligation of the State of California or the Trustees. The Foundation will issue the bonds pursuant to an indenture entered 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 of Trustees, 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 of Trustees' policy for financing activities.

Project Description

The new building will be located on the southeast side of the University campus. The four-story building is expected to provide 85,402 square feet of office and administrative support space for use in part by the United States Geological Survey (USGS), the University's Office of Water Programs, the University's Office of Research, Graduate and Extended programs, and by the Foundation. Project planning began several years ago as an auxiliary organization financed project. The auxiliary organization has contractual commitments to make the space available to USGS by a time certain. The project would be significantly delayed putting these contractual commitments in jeopardy if the financing plan, at this point in time, were to be altered to the newly proposed debt management program.

Auxiliary Organization Financing

The bonds will be issued pursuant to an indenture entered into by the Foundation and BNY Western Trust Company serving as trustee for the bonds. The bonds will be secured by a general pledge of the Foundation's revenues and will be on parity with the Foundation's Series 1995

Bonds and Series 2001 Bonds. The following summarizes key information regarding the proposed financing:

| | |
|---|--|
| Taxable amount | \$14,900,000 |
| Tax-Exempt amount | \$9,200,000 |
| Combined amount not-to-exceed | \$24,300,000 |
| Amortization | 35 years with an escalating debt service |
| Taxable estimated rate (All-In TIC) | 7.30%* |
| Tax-Exempt estimated rate (All-In TIC) | 5.31%* |
| Combined estimated rate (All-In TIC) | 6.56%* |
| Projected debt service coverage | 1.80 |
| Bond insurance commitment | Commitment anticipated |
| Bond intrinsic rating before bond insurance | Anticipated at not less than BBB |
| Financing Team | |
| Underwriter | A.G. Edwards & Sons, Inc. |
| Underwriter's Counsel | Kutak Rock |
| Bond & Disclosure Counsel | Kronick, Moskovitz, Tiedemann & Girard |
| Trustee | BNY Western Trust Company |

* Assumes no contingency for market conditions.

Other Information

Kronick, Moskovitz, 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.

COMMITTEE ON FINANCE

Conceptual Approval of Private Sector Participation in the Development of a 49.5-acre Avocado Orchard at California Polytechnic State University, San Luis Obispo

Presentation By:

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Warren J. Baker, President
California Polytechnic State University, San Luis Obispo

Summary

California Polytechnic State University is seeking conceptual approval to enter into an educational partnership with a private partner to develop 49.5 acres of campus-owned agricultural land into an avocado orchard to provide educational facilities that would replicate industry standards and size. Conceptual approval is being requested at this time pursuant to the steps contained in the Board of Trustee's policy on Real Property Development Projects adopted in May 2000. The campus will be working with the chancellor's office to complete the steps which call for further review and input of the Executive Vice Chancellor and Chief Financial Officer prior to final approval by the Trustees.

Background

California Polytechnic State University, San Luis Obispo (University) is seeking approval of the concept to enter into an educational program agreement with the private sector to develop 49.5 acres of existing university agricultural land into 4 avocado orchard sites. The orchard would provide educational facilities of industry standard and size and would enable the University to establish a more comprehensive and inter-disciplinary hands-on instructional program related to commercial-scale avocado orchard development and management. The orchard facility would also support research of interest to students, faculty and the State and County's avocado industry, particularly research relating to orchard management, avocado production, pest and disease management, and irrigation management.

Proposed Agreement

The campus has selected Mission Produce (Mission) to develop, manage, maintain, and operate a commercial scale orchard on 49.5 acres of university agricultural land at Cheda Ranch. Mission would operate the orchard project as part of their local operations while serving as an educational laboratory for instruction and applied research.

The campus selection of Mission as the developer and manager of the facility was made after a series of meetings to assess mutual interests and common goals for a campus based orchard. The University reports that other avocado producers approached have not been interested in exploring this concept and the University believes it has fulfilled the requirement for providing fair access for business opportunities in accord with E.O. 669.

California Polytechnic State University has approximately 6,051 acres available to support its academic mission. The College of Agriculture currently utilizes approximately 5,900 acres for its programs. The project will develop 49.5 acres of land located at Cheda Ranch.

To facilitate the project the University would lease to the California Polytechnic State University Foundation (Foundation) those sites identified at Cheda Ranch for orchard development for a term of thirty years. The Foundation, in turn, would authorize Mission to develop, operate, manage, and maintain the orchard laboratory sites for a period of thirty years. The Foundation would also authorize the University to use the sites for instruction and research purposes. Mission would provide the resources to improve the existing agricultural land into a joint-use facility.

The improvements would become the property of the University at the end of the term. The thirty-year term of this proposed agreement recognizes that the initial non-crop producing period is 3 years and that full production will not be realized until the 9th year after planting. This would provide Mission with an opportunity to recover their investment and would provide the University with continued opportunities offered by Mission experts. The University would provide a water allocation for irrigation of the orchard sites for the term of the agreement.

Key Elements of the Proposed Development Plan

A three-party Educational Program Agreement would be negotiated between the University, Mission, and the Foundation that would outline the resources each party would bring and the benefits each would derive from the project. There are some key elements to the development plan contained in the proposed agreement that demonstrate the support of private industry in providing educational opportunities for students and in the development of programs and curriculum that are needed by industry. The following lists the key business points proposed by the campus to be contained in a finalized Educational Program Agreement.

Mission Produce

- Mission would provide the resources necessary (including a significant capital investment) to develop 4 sites consisting of 49.5 acres of existing agricultural land on the California Polytechnic State University campus into a commercial scale avocado orchard.
- Mission would operate, maintain, and manage the orchard sites using their expertise in managing commercial scale orchards.
- Mission would provide internships to California Polytechnic State University students both on and off campus.
- Mission would provide industry experts for adjunct support for the University's instructional and research programs.
- Mission would retain the avocado crop, which will have an estimated gross market value of approximately \$250,000 a year (in current year dollars) after the orchard has reached full maturity. (Peak production is reached nine years after planting.) This value may vary from year to year depending on the market price and crop yield.

University

- The University would lease each site to the Foundation for a period of 30 years. The Foundation would in turn authorize Mission, through site agreements to develop, operate, manage, and maintain the orchard for a period of 30 years.
- The University would provide 3.5 acre-feet of water per developed acre per year for irrigation of the sites.
- Either party for economic or educational reasons, could terminate the site agreement by mutual agreement, by termination of the ground lease, by urgent necessity for state or national emergency, and/or by a material breach of the agreement. However, if the University initiated the termination, Mission would be compensated for the non-depreciated value of its initial capital investment plus any non-capitalized expenses incurred.
- The collaboration of Mission with the University would create reasonable opportunities for the development of programs and research beneficial to the avocado industry.
- The University would have access to state-of-the-art orchard sites for instruction and applied research.

- Mission will retain the avocado crop and related income.
- Mission would annually donate an amount based on 20% of the modified gross revenues (revenues after picking, packing, hauling and marketing charges) of the orchard crops to further support the University's effort to strengthen and expand its programs and to support research beneficial to the avocado industry. The value of this donation, to be administered by the Foundation, will be approximately \$50,000 per year.
- The orchard and all of its improvements would become the property of the University at the end of the lease.

Foundation

- The Foundation would facilitate the development and uses of the property and would be reimbursed for its costs from the funds accruing to the University from the project.

Recommended Action

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of The California State University, that the board supports the concept of an Educational Program Agreement with Mission Produce at California Polytechnic State University, and authorizes the campus with participation and counsel from the chancellor's office as required in the Trustees policy on Real Property Development Projects (RFIN 05-08-00) and Executive Order No. 747, to negotiate and develop the necessary agreements to complete the development plan for the program, with the understanding that the development plan supported, by the finalized agreements, will be presented to the Trustees for approval prior to the execution of any commitments for use of the property.