

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:45 p.m., Tuesday, May 15, 2001
Glenn S. Dumke Conference Center

William Hauck, Chair
Murray L. Galinson, Vice Chair
Neel I. Murarka
Dee Dee Myers
Frederick W. Pierce, IV
Stanley T. Wang

Consent Items

Approval of Minutes of Meeting of March 20, 2001
Approval of Revised Minutes of Meeting of January 23, 2001

Discussion Items

1. Status Report on the 2001/02 Support Budget, *Information*
2. Approval for the Issuance of Debt Instruments Supported by the Sonoma State University Parking System Revenue Bonds, Series A, and Related Matters, *Action*
3. Proposed Dissolution of Auxiliary Organization at California State University, Stanislaus-Stockton, *Action*
4. Approval for the Issuance of the Debt Instruments supported by bonds of the California State University Housing Revenue Bond System for an Apartment Complex at California Polytechnic State University, San Luis Obispo and Related Matters, *Action*
5. Financing Transaction for CSU San Bernardino Auxiliary Organization to Provide Construction Funds for Coachella Valley Off-Campus Center (CVC), *Information*

**MINUTES OF MEETING OF
COMMITTEE ON FINANCE**

**Trustees of The California State University
California State University, Long Beach
University Student Union
1212 Bellflower Boulevard
Long Beach, California**

March 20, 2001

Members Present

Laurence K. Gould, Jr., Chair of the Board
Murray L. Galinson, Vice Chair
William Hauck, Chair
Neel I. Murarka
Dee Dee Myers
Frederick W. Pierce, IV
Ali C. Razi
Charles B. Reed, Chancellor
Stanley T. Wang

Other Trustees Present

William D. Campbell
Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
Harold Goldwhite
Shailesh J. Mehta
Anthony M. Vitti

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor, Chief Academic Officer
Richard P. West, Executive Vice Chancellor, Chief Financial Officer
Christine Helwick, General Counsel
Jackie R. McClain, Vice Chancellor, Human Resources
Freda Otto, Acting Interim President of the Foundation and Administrative Officer in Charge

Mr. William Hauck, chair, called the meeting to order at 2:03 p.m.

Approval of Minutes

The minutes of January 23, 2001 were approved.

Status Report on the 2001/02 Support Budget

Chair Hauck asked Mr. Richard P. West, executive vice chancellor and chief financial officer, to present the item.

Mr. West explained this is the time of year when he reports on the Legislative Analyst's (LAO) comments on the Governor's budget as it relates to the CSU budget.

Areas identified as needing attention included:

Funding for conversion of matriculated FTE students (approximately 3,138) currently enrolled in summer session. Mr. West explained this was part of CSU's move to year-round operations and was the amount the Governor added for the four campuses involved in the conversion.

K-12 Academic Preparation – Eight million dollars are allocated for the expansion of outreach programs to high schools to tutor and prepare high school students for collegiate level work. Mr. West indicated this was actually a performance measurement concern rather than the amount recommended for funding in the budget.

Another issue is the recommended amount of \$18.5 million for K-12 technology training. The program is designed to assist K-12 teachers to become more proficient in technology. The LAO recommends shifting the funding from CSU to the Department of Education. CSU is objecting based on our initiation of the program and its importance to the overall mission that the university has in preparing teachers.

The final area identified was the diagnostic writing service program. The program is designed to help students at the pre-collegiate level receive feedback on their writing skills. Mr. West said this was approved, but additional performance measurement information has been requested.

Mr. West said he thought the LAO's recommendations were reasonably benign and do not redirect the budget in any way. They primarily call for measures of performance of one type or another, which of course will be provided.

The energy crisis continues to be the area of primary focus and concern in Sacramento, and little activity is expected on the budget process during the next six weeks. Assessment of economic activity during this period will heavily influence the outcome of the May Revise.

CSU Investment Report

Chair Hauck announced Mr. Bradley W. Wells, assistant vice chancellor, financial services, would present the report. Prior to presentation of the report, Chair Hauck said on behalf of the board, he wished to congratulate Mr. Wells on his new position as vice president, finance for The J. Paul Getty Trust.

Mr. Wells thanked the board and proceeded with the report. He noted the report was the six-month update on the CSU investment pool for the period ending December 31, 2000. As of this date, CSU has invested \$285 million dollars in three centralized investment pools. Metropolitan West is the outside investment firm currently managing CSU's three investment pools.

Mr. Wells provided a brief review of the investment policy and process established by the board in 1997.

Market conditions have generally been favorable to our investment pools during this period particularly for the total return, and long-term accounts. The total return and short-term investment accounts outperformed the local agency investment fund (LAIF) but slightly lagged the benchmark index. Mr. Wells explained the LAIF is the pool managed by the State Treasurer and is the primary alternative investment vehicle for these funds, and the benchmark index is the Merrill Lynch three to five year treasury index.

The lag in the benchmark index was due to its being comprised entirely of treasury securities whereas the CSU accounts are a mix of corporate securities, U.S. Government Agency paper, cash, as well as, U.S. treasuries. Treasuries, as a sector, have outperformed other investments during this period.

The news is a bit better on the long-term investment account. The balance in that account as of December 31, 2001, was \$36 million with a portfolio return for the six-month period of 9.39 percent. The LAIF return was 3.21 percent and the benchmark index was 8.96 percent during the same time period.

Mr. Wells informed the committee the contract with the external investment manager, (Metropolitan West) which has been in place since 1997, is up for renewal. An internal investment task group, comprised of several campus vice presidents and chaired by Richard West, is in the process of preparing a request for proposal. Bids will be solicited over the next six weeks and the result of the final award will be presented to the board at a future meeting.

Chair Gould inquired if the returns shown in the report were gross or net after fees. Mr. Wells replied they were net after fees.

Trustee Cartwright asked where the \$285 million actually came from. Mr. Wells replied the money comes primarily from special projects and activities and the funds are held in what are called local trust accounts. He explained the majority of CSU's funds must be deposited and invested in the state treasury. However, other funds, such as those derived from workshops, conferences, special projects, etc., can be invested through these local trust accounts in the investment pool. It is all state money that is precluded from being invested in equities and may only be invested within certain fixed securities as described in the CSU investment policy. Mr. West added that while it is state money, it is not general fund appropriations.

Trustee Cartwright then inquired if this amount included auxiliaries. Mr. Wells said it does not include auxiliary invested funds.

Trustee Mehta asked for additional clarification on the benchmark relationship. A discussion took place regarding the early philosophy and structuring of the initial investment policy. Mr. Russ Gould and Mr. Scott Dubchansky of Metropolitan West provided a brief synopsis of their firm's involvement in the process since its inception in 1997 to the present.

The ideals and goals established during that time were geared more toward establishment of a sound infrastructure and cost maintenance, rather than maximization of returns. Over time, it was recognized the university needed to expand the connection of having more principal risk associated with the opportunity to increase returns.

Trustee Pierce shared his experience with using a blended benchmark method in his dealings with other entities and suggested the university may wish to explore such an approach. Mr. Gould said that was a good point and indicated his firm could work with CSU to develop an appropriate blend.

Trustee Pierce then asked if there was any policy on how asset allocations are determined. Mr. Wells explained there is no currently prescribed direction in the policy. Decisions are arrived at through collaboration among the investment tax group, the vice presidents, Richard West, and the recommendations of the fund manager.

Mr. Gould pointed out the university has actually been quite fortunate in capturing good returns in light of the present market volatility and high interest rate climate.

Auxiliary Organization Tax Exempt Financing at California State University, Los Angeles

Mr. Wells introduced the information item. The proposal calls for tax-exempt financing in an amount not to exceed \$27.2 million dollars, to finance a corporate building complex on the CSU, Los Angeles campus. The new structure would provide space for a campus bookstore, cafeteria,

restaurant, classrooms, and administrative services. The proposed debt would be amortized over a 30-year period at an estimated interest rate of 5.34 percent. Debt service coverage is projected in the multi-year financial plan to be 1.69 percent.

Mr. Wells referred to the Debt Capacity Study presented by Richard West at the January 2001 Board Meeting, noting this project falls within the anticipated debt projection discussed in that report. He called attention to a chart handed out prior to the meeting that displayed the consequences of this item and the two succeeding items with regard to the overall debt ratio.

Dr. James M. Rosser, president, California State University, Los Angeles commented on how important the project is to the campus, and commended his auxiliary and fiscal officers on an outstanding job in preparing the proposal. He concluded by noting the project represents a significant step forward into the twenty first century for the CSU, Los Angeles campus.

Auxiliary Organization Tax Exempt Financing at California State University, Monterey Bay

Mr. Wells presented the information item. The Foundation at California State University, Monterey Bay is proposing a tax-exempt financing in the amount not to exceed \$16 million dollars to finance the cost of renovating additional on-campus student housing, and provision of a food service and theater facility.

Bonds will be issued by the Foundation and will be secured by pledged foundation revenues. The bonds are expected to receive investment grade ratings and bond insurance is being sought.

Mr. Wells informed the committee of a lawsuit that has been filed against the project seeking to block work due to the selection of a contractor through separate negotiation rather than a public bid process. He explained the circumstances surrounding the situation and that the court has denied the request to stop work on the project. The suit is expected to be resolved prior to issuance of the bonds.

Trustee Wang raised some concern over the seemingly high cost per bed space associated with this project and questioned whether renovation was in fact the most effective solution for the project. Mr. Wells acknowledged the cost is relatively high for this project due to the inclusion of capitalized interest and cost of issuance that amounts to approximately \$2 million of the total.

Chair Hauck asked Mr. Wells if the possibility of new construction had been formally evaluated in addition to the renovation approach. Mr. Wells responded that option had been evaluated and was found to be less cost effective than renovation.

Auxiliary Organization Financing at California State University, Fullerton, Faculty Housing

Mr. Wells presented the information item. The California State University, Fullerton Housing Authority is proposing a commercial borrowing to finance the cost of building off-campus faculty-staff housing. The proposed project is an 86-unit home ownership development to be located in the City of Buena Park, which will be owned by the authority.

Dr. Milton A. Gordon, president, California State University, Fullerton presented background information on the tremendous growth of the Fullerton campus and the increasing need for affordable faculty and student housing in the surrounding campus community.

The proposed unit mix of the project includes 56 detached homes and 30 townhouses. Costs to develop the homes will be less than a for-market project thanks to the donation of the land to the authority from the City of Buena Park, and development of the project by a non-profit corporation. These savings can be passed on to make the homes more affordable for entry-level faculty to purchase. President Gordon said the project was extremely important as a first-step for the campus toward initiating other similar and much needed residential projects.

Trustee Wang said it was a good project and would be an exceptionally good deal for the prospective home buyer. He said his only concern was on how resales would be handled in the event of the employee's separation from the campus.

Mr. Bill Dickerson, executive director of the CSU, Fullerton Foundation, responded that if and when a faculty member sells one of the homes, they would be required to first seek to sell it to another faculty member. If that is not possible, they would sell it back to the California State University, Fullerton Housing Authority, and as a last resort, it would be opened to the public market.

Trustee Wang agreed that was an acceptable plan, but wanted to know how the resale amount would be determined. Mr. Dickerson said the value would be determined based upon the index chosen at the time the home is first sold. It would then be either multiplied by either the cost of faculty salary increases, or by the CPI, which is, another index commonly used. He cited the University of California, Irvine's successful model where 600 homes have sold on a ground-lease basis. CSU is patterning its project after that program.

Chair Hauck asked what happens to the equity, if any, upon sale of a housing unit. Mr. West clarified that equity would be determined through the equivalent of a CPI or whatever index is chosen as part of the arrangement, so the faculty member knows going-in, that the original purchase or expected level of appreciation, is split 50/50 between the institution and the faculty member. Capital improvements are also strictly controlled to avoid over-improvement of the

properties. The bottom line is to keep the housing affordable not only at the beginning, but down the line as well.

California State University, Channel Islands Housing Development, Financial Overview

Mr. Wells announced the item provided an overview of the financing structure for the development of 900 housing units to be constructed on the East side of the CSU, Channel Islands campus. He reviewed the background and history of the project noting it would be a phased development to be built out over a five-year period.

Mr. Wells provided a verbal review of the written item and additional information pertaining to the status of the project.

Financing for the Channel Islands development includes a Marks-Roos infrastructure bond, a series of rental housing tax-exempt revenue bonds, and traditional construction financing for the for-sale components of the project.

Net revenues from development of the housing program are designated to help construct academic facilities on the West campus which consists of the academic core of the campus.

CSU, Channel Islands faculty and staff will have priority in buying the homes. In addition, all or part of the for-sale housing will be initially sold at below market prices with the buyer being subject to resale price limitations. Price limitations are intended to maintain resale prices at an affordable level for future CSU, Channel Islands faculty and staff.

The project will consist of a mix of dwelling types including attached town homes, single-family traditional town homes, clustered town homes and apartments.

Phase one of the project will consist of the entire infrastructure backbone to serve all five-neighborhood phases and construction of approximately 208 housing unit.

A letter of credit will be issued during the period of absorption (the period of time between when the bonds are taken out and the houses were sold or rented). Bond insurance will be secured for the term remaining after the absorption period.

Trustee Pierce was concerned that the development proceeds as scheduled once the debt has been issued. He also asked if the university would act as the builder/developer. Mr. Wells acknowledged his concern and agreed that the build-out must occur within schedule. He indicated there was some flexibility with regard to the time frame of the build-out, and that a “break-even” point would occur at approximately the 450-unit mark.

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The developer for the project will be Brookfield Homes. A contract has been negotiated with them on a fee basis with no equity participation.

Mr. West noted that the project has developed according to plan with strong commitment from the community for development of the campus.

Chair Gould thanked Mr. Wells for his hard work and major contributions to the Channel Islands project.

Auxiliary Organization Tax Exempt Financing at California State University, Fresno for the Save Mart Center

Mr. West presented the action item that summarized a proposed real property development project and auxiliary organization financing at CSU, Fresno. The Board of Trustees provided conceptual approval for the project in 1997 and a final EIR was certified at the November 1999 meeting. The item calls for final approval of the financing for the project.

The Save Mart Center will be a multi-event center for CSU, Fresno recreation and sports activities, as well as community events. Mr. West said it was an ambitious and impressive project with a unique financing structure.

Mr. West introduced Dr. John D. Welty, president, California State University, Fresno. Dr. Welty presented a video on the project and said he would be happy to answer any related questions.

Dr. Welty reviewed the benefits the facility would provide for the campus and the surrounding community.

The project will be financed with \$60.5 million dollars in bonds issued by the California State University, Fresno Association, as well as revenues received to date, and during the construction period. Corporate sponsorships and private gifts will also play a large role in the financial structure of the project, with signage and advertising, and other related revenues making up the balance of requirements. Dr. Welty reported as of this date, \$96.8 million has already been pledged to the project.

The Bulldog Foundation, (the fundraising organization for the campus athletic program) has guaranteed through an MOU that they will provide the requisite debt service coverage. Plans to use junior lien bonds are also being factored into the process.

Trustee Wang said he thought the project revenue surplus of \$12 million over 30 years seemed a bit low. Mr. Wells attributed the low return to the campus's conservative approach to revenue estimates and shouldn't be construed as an indication of the actual return on investments for this project. Mr. West reiterated that the Bulldog Foundation has guaranteed the bottom-line.

Trustee Galinson complimented all those involved in the project. He said a good job was done in presenting the realities of the project and indicated his support in allowing the next steps to move forward.

The committee recommended approval of the proposed resolution (RFIN 03-01-09).

The meeting adjourned at 3:18 p.m.

REVISED
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 90802

January 23, 2001

Members Present

Laurence K. Gould, Jr., Chair of the Board
Murray L. Galinson, Vice Chair
William Hauck, Chair
Neel I. Murarka
Frederick W. Pierce, IV
Ali C. Razi
Charles B. Reed, Chancellor
Stanley T. Wang

Members Absent

Dee Dee Myers

Other Trustees Present

Roberta Achtenberg
William D. Campbell
Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
Harold Goldwhite
Shailesh J. Mehta
Ralph R. Pesquiera

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor, Chief Academic Officer
Richard P. West, Executive Vice Chancellor, Chief Financial Officer
Christine Helwick, General Counsel
Jackie R. McClain, Vice Chancellor, Human Resources
Mr. William Hauck, chair, called the meeting to order at 2:35 p.m.

Revised

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Approval of Minutes

The minutes of November 8, 2000 were approved.

Status Report on the 2001/2002 Support Budget

Mr. Richard P. West, executive vice chancellor and chief financial officer, presented an overview of the support budget. He referred to the handout distributed prior to the committee meeting, noting that it contained a detailed synopsis of the budget bill and a comparison between the original Trustees' request and the actual Governor's Budget.

Mr. West highlighted areas of key interest including the welcome addition of certain funds above the partnership. He observed this is a very good starting point at this time of year for the Governor's Budget. It contains a substantial increase over our current expenditure levels and it reflects the trustees' priorities.

The next steps over the ensuing three or four months will be to pursue trustee priorities that were not included in the present version of budget. Some of those areas include a two percent compensation pool for faculty and staff, a student services initiative, and improving our student services programs over-all for academic counseling. Mr. West said these and other issues would be some of the priorities considered as budget discussions move forward toward the May Revision.

The California State University Debt Capacity Study

Mr. West explained the item was intended to present a comprehensive review of CSU's current debt capacity and to apprise the board of the university's existing debt obligations. He recalled that a study was presented in 1995 to the board; however, there have been many significant changes since that time. The current study attempts to assess – from a capital markets perspective – the debt capacity of the CSU consistent with maintaining the university's current bond ratings. He announced Mr. John Augustine, Managing Director of Lehman Brothers, would be presenting the results of a formal analysis performed by Lehman Brothers.

With the assistance of a series of slides, Mr. West reviewed the university's debt history and growth process over the past several years. He indicated that there are several different types of debt and various sources of revenue that are pledged to pay for the debt.

The demand for debt has increased significantly due to economic growth over the past several years. The recent softening of economic conditions and the growing sophistication of our rating

agencies have prompted the university to take an in-depth assessment of debt issuance to assure the university is cognizant of its ratings status and overall obligations.

CSU's ratings are closely aligned with the state's overall rating due to our high dependence on state revenue. Whenever the state's rating changes, the university's rating will follow. As a result, CSU's ability to directly control its ratings is somewhat limited.

Debt related projects are usually brought to the board on a project- by- project basis and information on the individual rating of the project is presented at that time. Mr. West explained that rating agencies use the balance sheet as one factor in their determinations. Since CSU is primarily a state-supported institution, we do not accumulate the kind of fund balances that rating agencies look at to determine a rating.

Mr. West introduced Mr. John Augustine, Managing Director of Lehman Brothers, and asked him to present an overview of his report.

Mr. Augustine utilized a slide presentation to highlight key points of the report. The primary purpose of the report was an attempt to explore more efficient methods of issuing debt. He credited the university and trustees' clear articulation of strategic goals as an important factor in maintaining a consistently strong rating. He then explained the complex strategy of how ratings are determined, and how the market looks at the university as a whole institution rather than from a campus, or individual project basis. Other important components of consideration include the level of state support, and financial statement analysis.

Mr. West thanked Mr. Augustine for his report. A lengthy discussion took place addressing issues and questions surrounding CSU's future debt capacity strategy. Some of the topics included: ensuring alternative coverage for debt if problems occur, or in the event of a down turn; efficient management of revenue resources; and exploring methods of using our assets to provide additional revenue that allows us to pay for other facilities.

Trustee Pierce encouraged looking at the debt issue on a more frequent basis. Trustee Galinson said he thought this was an excellent exercise. He cautioned however, that the general fund situation could change radically and rapidly. Times are good right now, but may not be for very long. Education is currently a high priority, but that can also change very quickly. He said the plan was very aggressive and expressed concern about the projected five-year debt level.

Dr. Charles B. Reed, chancellor, acknowledged Trustee Galinson's concern. However, he felt it was important to have this discussion given the increasing number of recommendations being presented to the board, and rising project costs. The Chancellor said the intention of today's discussion was simply to inform the board of the university's current debt status. Points of the discussion will be utilized to further refine the debt strategy, and continued discussions will take place at a later date.

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Trustee Galinson said he hoped his comments weren't misconstrued as they were merely intended as an overall statement of concern that we not broadcast a commitment to any given amount of debt for the next five years.

Trustee Wang said he thought this was an appropriate and necessary discussion. He said it was important to have a clear grasp of what our capacity is and encouraged further exploration and discussion.

Approval of Implementation of a Commercial Paper Financing Program for the California State University

Mr. Bradley W. Wells, assistant vice chancellor for financial services introduced the item. The resolution called for approval to implement a commercial paper program to use short-term notes to finance CSU revenue bond projects. Mr. Wells noted the program was presented for information in September 2000 to the board

Mr. Wells introduced Richard Leffingwell, senior director of financing and treasurer. Mr. Leffingwell described how the program would work. He described it as an innovative use of the trustees existing authority that would lower the overall borrowing costs of the CSU. As explained in the September agenda item, the CSU does not have statutory authority to directly issue tax-exempt commercial paper. However, the CSU Institute can assist the university by issuing commercial paper under its corporate powers to finance the cost of projects approved by the Board of Trustees.

The most significant benefit to CSU would be derived from the interest rate differential between long-term bonds and short-term commercial paper notes. It is expected that the gross difference would be about two percent on the average. In addition to savings on revenue bond projects, the program has the potential to offer a similar rate of savings for specific equipment financings currently accomplished through commercial entities.

Mr. Leffingwell reviewed the program costs noting that the resolution would authorize issuance of commercial paper notes with a program limit of \$250 million. He assured the committee that financings would continue to be presented to the board on an individual basis. Meanwhile, the selection of key team members has been completed and staff members continue to refine the details of the program to ensure its successful implementation.

Trustee Razi inquired about the status of the Institute, indicating he thought it had been disbanded. He also asked if there were any significant risks involved in taking on such a program.

Chancellor Reed informed Trustee Razi that the projects and contracts associated with the Institute had been phased out. It was decided to keep the shell of the foundation intact in the event it might become of use at some point in time. However, the board of the foundation has been reconstituted and meets on a regular basis.

Mr. Wells explained the most significant risk for CSU would be if we encountered a situation where we could not effectively market the commercial paper notes. He pointed out we do not need to use the program in every circumstance. And it may prove more economical to use longer-term bonds in some instances. The program is simply an additional alternative we can use to more effectively manage the university's finances.

Mr. Leffingwell summarized that if managed effectively, CSU believes it can operate an effective, high quality commercial paper program that will lower the over all financing costs of many of the revenue bond projects and many of the equipment financings for the CSU.

Trustee Galinson voiced his support of the project and commended Mr. West and his staff on an excellent job.

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

Approval for Issuance of the Debt Instruments Supported by Bonds of the California State University Housing Revenue Bond System for an Apartment Complex at California State University, Fullerton

Mr. Wells explained the item called for approval to issue debt in an amount not to exceed \$25.5 million dollars to fund the construction of an on-campus student housing project at CSU, Fullerton. The project will add to the existing bed spaces on the campus and will be financed through the issuance of housing system revenue bonds amortized over a 30-year period at a projected interest rate of 5.36 percent. Rent revenues from the project, and from existing on-campus housing are pledged to repay the debt.

Mr. Wells noted that if approved, the project would be proposed for the commercial paper program recommended in Agenda Item 3 above. The financial plan for the project has been reviewed and approved by a peer group and by the Housing Proposal Review Committee. He added that the plan provides for a sufficient debt coverage ratio as well as for appropriate transfers to maintenance and capital reserves.

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

Approval for the Issuance of Debt Instruments Supported by Humboldt State University Student Union Revenue Bonds for an Expansion of the Student Union

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The item requests approval to issue debt in an amount not to exceed \$4,000,060 to fund the expansion and renovation of the multipurpose room that is part of the campus university center. Mr. Wells described the project noting that it will add approximately 3,000 square feet to the existing facility.

Financing for the project will be through issuance of student body center bonds. The pledge for these particular bonds are mandatory fees charged at the campus, and the existing fee levels are able to support the additional debt. Mr. Wells noted this project would also be included in the commercial paper program.

Trustee Pierce pointed out it was difficult to determine the cost for the project based on the information given in the agenda item. Mr. Wells acknowledged the project was somewhat complicated due to the fact that it entails renovation of existing space and the defeasibility of some of the existing debt at the campus. Trustee Pierce asked what the amount of additional debt would be. Mr. Wells replied it was approximately \$800,000.

The committee recommended approval of the proposed resolution (RFIN 01-03-01).

Auxiliary Organization Tax Exempt Financing for San Diego State University

Prior to discussion of this item, Trustee Pierce said he would recuse himself from any discussion or deliberation on the subject.

Mr. Wells presented the information item. He noted it was being presented in accordance with the policy requiring that the board be kept apprised of financings by recognized auxiliary organizations. The San Diego State University Foundation is proposing a tax exempt borrowing in an amount not to exceed \$11 million to finance a student housing project with tax exempt bonds and a taxable borrowing not to exceed \$3 million to finance the construction of eight fraternity chapter houses. The project will be located on land currently owned by the Foundation.

Dr. Stephen L. Weber, president, San Diego State University emphasized the fraternity project is part of a larger community redevelopment project. He indicated there are several other components of the project that will include plans for a sorority, additional student housing, an elder hostel facility, and a mixture of retail projects.

Chancellor Reed indicated he wanted to be sure it was understood that the project is the first of several projects included in a major community redevelopment effort. Trustee Campbell inquired if there would be any restrictions on the usage of alcohol and drugs in the proposed fraternity houses. President Weber assured him there were very tightly controlled restrictions that have been set forth regarding such usage.

Real Property Development Project for San Jose State University for a Classroom and Office Complex Project

Mr. West opened the discussion by saying the two San Jose projects being presented were sizeable, ambitious, and important; and if successful, would be highly beneficial from an educational and revenue generating standpoint. It is apparent there are outstanding issues associated with both projects, however, it is felt their individual potential warrants further exploration. He indicated that the projects were presented for conceptual approval only at this time.

The proposed project requests conceptual approval of a real property development project on the San Jose campus to permit construction of a classroom and office building project by Spartan Shops, Inc, (a recognized auxiliary organization) on leased land from the university.

Mr. West introduced Dr. Robert L. Caret, president, San Jose State University, who presented an overview of the history and details of the project. President Caret pointed out that San Jose is currently rated as one of the ten best cities in the country for businesses. Land near the campus is now valued at \$3.5 to \$4 million per acre. Concurrently, the City of San Jose, and the campus are undergoing tremendous change and growth.

President Caret reported the campus has begun the process of revising its Master Plan to address numerous challenges the campus will face in the future. Some of those challenges include planning for substantially increased enrollment growth, the need for new and improved facilities to serve this growth, and anticipated changes in teaching and research programs on the campus.

President Caret stated the purpose of today's presentation was simply to bring forth a concept whereby the campus may leverage the value of its land and space above it to the benefit of the campus. He noted the university is looking at working with an appropriate partner/s who would rent a majority of the space. Revenue generated from the project is expected to be more than sufficient to cover the amount needed to pay the debt service. President Caret assured the committee that a variety of options are being explored to minimize the amount of debt on this project.

Trustee Pesquiera asked what the campus was doing to maintain adequate energy supplies in light of the current energy crisis. President Caret responded the campus has its own co-generation plant and substation and is not impacted. However, the cost for generating its own electricity has increased substantially.

Trustee Campbell said he hoped that consideration would be given to increasing faculty office space within the project. Trustee Wang said he supported the program in concept at this time,

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however, he agreed that more specific information must be presented in order to evaluate the prospect of a final approval on this project.

The committee recommended approval of the proposed resolution (RFIN 01-04-01).

Real Property Development Project at San Jose State University for a Campus Housing and Retail Village Project

The resolution called for conceptual approval of a real property development project at San Jose State University to permit the development of a housing and retail village project by the Spartan Shops, Inc. (a recognized campus auxiliary organization). The proposed project calls for the addition of 5,000 beds in suite and apartment configurations as well as transitional apartments for faculty and staff housing. Additional facilities will include a dining facility, retail space, and 2,400 below grade parking spaces. The project cost is estimated to be between \$375 and \$425 million and will be completely self-supporting.

President Caret presented a comprehensive slide presentation on the project. His presentation clearly outlined the tremendous need for housing in the San Jose area and the subsequent exorbitant costs associated with that need. The new project would provide affordable and convenient living accommodations for students, faculty and staff.

Trustee Razi expressed his support for the conceptual plan but wanted assurance that the project would be in compliance with the campus' master plan. President Caret reiterated that a draft of a new campus master plan has been completed and will be presented for the trustee's approval in either March or June.

Trustee Murarka cautioned that the continued prosperity in the Bay Area may not continue forever and asked if the campus had any backup plans to safeguard itself in the remote event that industry trends change. President Caret agreed this was a valid concern. However, based on the current and projected demand for housing, there are no indications whatsoever that the project would encounter occupancy problems, even if the economy takes a downward track.

Trustee Campbell expressed his support in pursuing the San Jose projects. He indicated it would be to our advantage to personally oversee their development since it would greatly reduce the type of fees associated with using outside developers. Due to the size of the project, Trustee Pierce suggested that the committee consider doing the project in a series of phases rather than all at once.

Chair Hauck summarized that the resolution was simply calling for conceptual approval of the project at this time. He explained that the actual development plan, alternative financing mechanisms relating to debt capacity ratings, and additional information will be presented to the trustees for approval at key points in the process.

The committee recommended approval of the proposed resolution (RFIN 01-05-01).

Real Property Development Project at California State University, Northridge for the Los Angeles Unified School District Academy High School

Mr. Wells introduced the item noting it was being presented for conceptual approval only at this time. The proposed project will permit the Los Angeles Unified School District to build an academy high school on approximately 5.5 acres of land on the CSU, Northridge Campus. In exchange, the Los Angeles Unified School District will transfer title to the university of approximately eight acres of land located within the perimeters of the campus master plan. Transfer of the land will require legislative approval that will be sought through formal legislation. If trustee approval is obtained, and successful legislation is passed, the Los Angeles Unified School District will pay all costs associated with developing the academy high school.

Dr. Jolene Koester, president, CSU, Northridge addressed the committee and described the potential benefits of the project to the university. The academy high school will accommodate approximately 800 students from the surrounding area. Most importantly, it represents an opportunity for the campus' college of education faculty, teacher preparation students, and faculty in other areas of the university to work actively in the improved preparation of teachers for high school instruction.

Dr. Koester concluded by saying approval to move forward with this project would ultimately culminate in a true realization of the university's commitment to the preparation of qualified teachers.

The committee recommended approval of the proposed resolution (RFIN 01-06-01).

Real Property Development Project at California State Polytechnic University, Pomona for the International Polytechnic High School

Mr. Wells explained that the item was very similar to the previous proposal for CSU, Northridge. It requests approval to use 4.5 acres of land on the Pomona campus for the International Polytechnic High School. The school has been operating since 1993 in temporary facilities on the campus. The cost to construct a permanent high school will be paid by the Los Angeles County Office of Education (LACOE).

The school is considered very experimental but has been extremely successful with over 95 percent of its graduates continuing on to higher education. It has enjoyed an excellent relationship with the university and has been enthusiastically received by both the students and their parents. Due to the proven success of the high school, LACOE wishes to strengthen its partnership with the campus by building a permanent facility for it on the Pomona campus. The

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school is also strongly affiliated with the campus's school of education and is used as a site for training teachers.

The committee recommended approval of the proposed resolution (RFIN 01-07-01).

Real Property Development Project for the California State University, Hayward, Internet Switching Center

Mr. Wells noted the item had been presented to the board and conceptually approved at the November 2000 meeting.

The CSU Hayward Foundation will sub-lease a portion of undeveloped land on the Hayward campus to a limited liability company formed by Geographic Network Affiliates International (GEO). This company would be responsible for constructing and operating the proposed Internet switching center. The project would have no associated debt for either the trustees or the campus auxiliary. Chancellor Reed informed the committee that the agreement with GEO requires that all available space be subleased to tenants before any construction begins.

Since the November meeting, further negotiations have taken place with the proposed developer. Financial due diligence has been established and legal review and contract negotiation assistance have been obtained from a private sector attorney experienced with California public/private partnerships.

Dr. Norma S. Rees, president, California State University, Hayward, presented a brief update on the project. She highlighted the academic benefits of the project noting its enormous potential for creating a steady stream of new opportunities for academic programs, research, and business partnerships.

An item was also presented to the Campus Planning, Building, and Grounds Committee requesting approval of a master plan revision and schematics for the project.

The committee recommended approval of the proposed resolution (RFIN 01-08-01).

The meeting adjourned at 4:40 p.m.

COMMITTEE ON FINANCE

Status Report on the 2001/02 Support Budget

Presentation By

Richard P. West,
Executive Vice Chancellor
and Chief Financial Officer

Summary

Legislative budget hearings are currently under way in the state Assembly and Senate. A report will be presented on actions taken by the higher education budget subcommittees on Legislative Analyst Office recommendations and other issues concerning the Governor's Budget request. It is anticipated that the May revision of state revenue projections will be presented in mid-May. The trustees will be advised of any potential issues associated with the CSU supplemental funding requests for 2001/02 and the May Revise.

COMMITTEE ON FINANCE

**Approval for the Issuance of Debt Instruments Supported by the Sonoma State University
Parking System Revenue Bonds, Series A, and Related Matters**

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Summary

This agenda item requests the Board of Trustees to authorize issuance of debt instruments to finance the acquisition of approximately 31 acres of land and the construction of a 1,100 space surface parking lot and related improvements at Sonoma State University.

Background

The Board of Trustees is being requested to approve a financing for Sonoma State University to acquire approximately 31 acres of land immediately north of the campus and construct a 1,100 space surface parking lot and related improvements. This project will provide parking to support expected enrollment growth and is consistent with the approved campus Master Plan.

The short-term financing for this project will be provided through bond anticipation notes and commercial paper. Long-term financing for the project will be provided through revenue bonds. This financing method will provide the Trustees the opportunity for borrowing at a lower interest cost in the short-term under the commercial paper program. Long-term revenue bonds will be issued at a later time after expected savings from the interim financing have been realized. The following summarizes key information on the proposed long-term parking system revenue bonds:

Not-to-exceed amount:	\$10,785,000
Term:	Substantially equal payments over 30 years
True interest cost:	5.27% expected
Projected debt service coverage, First full year of operations:	1.50 times

Bond insurance commitment:	To be determined (qualified in the past)
Bond intrinsic rating before bond insurance:	To be determined prior to bond issuance

The proposed bond sale amount includes a small contingency to accommodate market changes. At the time of bond sale, the bonds sold will be adjusted to meet market conditions, capitalized interest and other issuance costs. It is anticipated that the construction project and the purchase of land will cost approximately \$11,400,000. The campus' parking program has provided a balanced financial plan that includes funding part of the project from parking reserves, with repayment of the debt funded from parking system revenue that includes increases from additional enrollment and parking fees. Since bond anticipation notes and commercial paper are planned for interim financing during the construction period, it is expected that some additional savings will be achieved and the long-term bond size will be reduced accordingly.

Proposed Facility

The proposed project includes the acquisition of approximately 31 acres of land from the Sonoma State University Academic Foundation, a recognized CSU auxiliary organization, and construction of a 1,100 space surface parking lot. The land was purchased by the Academic Foundation in 1998 and 1999 for an average price of \$85,035 per acre. In April 2001, the land was appraised at an average price of \$120,415 per acre. The campus plan includes payment of approximately \$108,284 per acre for the property in consideration of the investment that the foundation has made. The purchase of the property will be funded from the proceeds of the financing.

Additionally, the project will include parking lot access roads, a main entry road, a vehicular bridge and two pedestrian bridges over Copeland Creek, which separates the central campus core from the northern acquisition parcels. Signage, site lighting, and an extension of campus utility services to the proposed development are also included in the project. Wetland mitigation and a water retention/drainage plan, as required by the Army Corp of Engineers, is blended with landscape features surrounding the parking lots and roads. Applications for required permits regarding the wetlands and water quality have been submitted to agencies, including the State Department of Fish and Game, the State Regional Water Quality Control, and the Army Corps of Engineers. The financing is contingent upon receiving permits and approval by these agencies. In addition, the financing is contingent upon receiving good construction bids, which are expected in July 2001.

The Trustees certified the requisite CEQA analysis and mitigation plan and approved schematic designs, as well as amended the Non-State Capital Outlay Program for the parking and road project in May 2000, as part of the Sonoma State University Master Plan Revision Environmental Impact Report.

Trustee Resolutions

The Board of Trustees is being asked to approve interim financing via bond anticipation notes and commercial paper to finance the project during the construction period. Additionally, the Board is being asked to approve the long-term bonds issued pursuant to a new campus parking program bond indenture to replace the interim debt and permanently finance the project. Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of the Sonoma State University Bond Anticipation Notes and Sonoma State University Parking System Revenue Bonds in an amount not to exceed \$10,785,000 and certain actions relating thereto as presented to the Board at this meeting.
- (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.

The proposed resolutions, if approved, will be implemented subject to the receipt of all construction permits and good bids consistent with the project's financing budget.

Recommended Action

Approval of the resolutions presented at this meeting is recommended.

COMMITTEE ON FINANCE

Proposed Dissolution of Auxiliary Organization at California State University, Stanislaus-Stockton

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

Provisions of Title 5 of the California Code of Regulations require Trustee approval of the dissolution and designation of a successor organization of a recognized auxiliary organization. This item requests approval of designation of the Stanislaus Auxiliary and Business Services (ABS), a recognized auxiliary organization, as the successor to the California State University Stanislaus-Stockton Auxiliary Services Corporation (ASC), also a recognized auxiliary organization, which is being dissolved.

Governed by a 23 member Board of Directors, the main function of the ASC is to administer the lease operations at the Stockton site, however, that function is now more appropriately administered through a Joint Powers Authority formed between the Trustees of the California State University and the City of Stockton. The proposed dissolution will transfer net revenue of ASC to ABS with the understanding that these funds will be used to support university projects and activities at the Stockton site. The existing leases will revert to the California State University and the existing lease agreement between the ASC and CSU will be canceled. No employee layoffs are anticipated as a result of the ASC dissolution.

Planning

In April 2000, a feasibility study was completed to determine the best use of the Stockton site. At the completion of the study, it was recommended that a joint powers authority be established to administer the leasing program and redevelop the portions of the site not occupied by the University. In accordance with this recommendation, the Stockton Center Site Authority was approved by the CSU Board of Trustees and established with the understanding that it would ultimately assume the leasing responsibility for the site upon dissolution of the ASC. On October 13, 2000, the ASC Board of Directors approved the October election to wind up and dissolve the corporation, and on March 26, 2001, the ABS Board of Trustees approved the preliminary acceptance of the ASC's assets and liabilities upon dissolution of the corporation.

The governing boards and their management staff strongly believe that the proposed dissolution of the California State University, Stanislaus-Stockton Auxiliary Services Corporation is in the best interests of the California State University and the Stockton Center Site Authority. In addition, by transferring the remaining revenue to ABS, new programs (e.g., food services, etc.) will be established to enhance the services provided to faculty, students, and staff at the California State University, Stanislaus-Stockton Center.

Proposed Dissolution and Asset Allocation

The dissolution and asset allocation was agreed to by each of the auxiliary governing boards, and provides for the following:

1. All funds transferred through this dissolution from ASC to ABS will be used in the manner originally intended for the support of projects and activities at California State University, Stanislaus-Stockton.
2. The target date for the dissolution of the ASC and transfer of assets to ABS is June 30, 2001.
3. The corporate identity, existence, purposes, powers, rights, and immunities of ASC will be dissolved. ABS will continue to provide existing (with the exception of facility leasing) and new auxiliary services and programs at the CSU Stanislaus-Stockton Center.
4. With the exception of facility leasing at the Stockton site, ABS will be subject to all of ASC's debts, liabilities, and trust obligations in the same manner as if ABS had incurred them.
5. The ASC Board of Directors will cease to exist upon final dissolution of the corporation.

Approvals

The campus president has endorsed the dissolution of the auxiliary organization and approved ABS as the successor to the net revenue of ASC upon its scheduled dissolution.

The campus is now requesting that the Board of Trustees also approve ABS as the successor to the net revenue of ASC as part of the implementation of the dissolution.

Proposed Resolution

The following resolution is recommended for adoption:

RESOLVED, By the Board of Trustees of The California State University, that the board approves, pursuant to Section 42600 of Title 5 of the California Code of Regulations, the dissolution of the California State University, Stanislaus-Stockton Auxiliary Services Corporation and authorizes California State University, Stanislaus Auxiliary and Business Services as the successor to the net assets, other than trust funds, upon the scheduled dissolution.

COMMITTEE ON FINANCE

Approval for the Issuance of the Debt Instruments supported by bonds of the California State University Housing Revenue Bond System for an Apartment Complex at California Polytechnic State University, San Luis Obispo and Related Matters

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item requests authorization to issue debt instruments to finance the construction of on-campus apartments for students at California Polytechnic State University, San Luis Obispo.

Background

California Polytechnic State University, San Luis Obispo is planning to construct a 201-unit apartment complex on campus to house approximately 800 students. The comprehensive multi-year financial plan that supports the project utilizes revenues generated from the new and existing university student housing facilities. Housing revenues from the system-wide dormitory revenue bond program will secure the new debt. The Housing Proposal Review Committee reviewed the housing plan in March 2000 and provided a positive recommendation for the project to the chancellor and the president of the university.

The \$47.8 million project will be financed using a combination of short and long-term financing. This method will allow the Trustees to borrow at a lower interest cost in the short-term using the commercial paper program. Long-term revenue bonds will be issued later following completion of construction of the facilities and after expected savings from the commercial paper have been realized. The following summarizes key information on the proposed long-term housing system revenue bonds.

Not-to-exceed amount:	\$56,425,000
Term:	Substantially equal payments over 30 years
True interest cost:	5.24% (current market)

Projected debt services coverage at the time of financing with the new debt:	1.51 times for the system
First full year of the project's operation:	1.73 times for the system 1.51 times for the campus .77 times for the project
Bond insurance commitment:	To be determined (qualified in the past)
Bond intrinsic rating before bond issuance:	Under review

The proposed bond sale amount includes a small contingency to meet market interest rate changes. At the time of sale, the bonds will be adjusted to account for market conditions, capitalized interest and cost of issuance. The proposed not-to-exceed bond sale amount is consistent with the campus budget for repayment of debt service. Since bond anticipation notes and commercial paper are planned for financing during the construction period, it is expected that some additional savings will be achieved and the long-term debt will be reduced accordingly.

Campus Housing Program

California Polytechnic State University, San Luis Obispo currently provides housing for 2,783 students in dormitory style units financed through the Dormitory Revenue Fund. This project will add approximately 800 bed spaces to the campus inventory to help meet the demand for on campus housing. In 1997, the Sedway Group performed a market analysis that determined there was unmet demand for on campus housing. This determination was based on the occupancy levels of the existing facilities, impacted conditions within the community, and planned enrollment growth. The University has further committed to housing all new enrollment growth in on-campus facilities to minimize the impact additional students may have on the community. This project is the first phase of planned student housing as supported by the market study.

The financial plan supporting the project assumes an average rental rate increase of three percent per year. Revenue projections are based on academic year occupancy of approximately 97% for the existing facilities during the academic year and 20% during the summer term. Revenue projections for the new facilities are based on academic year and summer term occupancy of approximately 99% and 18%, respectively. These are conservative estimates given that current academic year occupancy is approximately 100%.

Proposed Facility

The student housing project consists of 201-apartment style units with four single occupancy rooms and two bathrooms in a living space of approximately 1,000 sq. ft. The facility will provide 800 bed spaces arranged in seven buildings over a 15.7-acre hillside, adjacent to existing student housing. The self-contained furnished units will provide students with cooking facilities and access to state of the art technology and will be ADA compliant. The project also includes a 5,000 sq. ft. commons building that will house administrative personnel and provide students with a location for social gatherings and meetings.

Trustee Resolutions

The Board of Trustees is being asked to approve the use of short-term financing via bond anticipation notes and commercial paper to finance the project during the construction period. Additionally, the Trustees are being asked to approve the long-term bonds issued to replace the short-term debt and permanently finance the project. Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale of the California State University Bond Anticipation Notes and California State University Housing System Revenue Bonds in an amount not to exceed \$56,425,000 and certain actions relating thereto as presented to the board at this meeting.
- (2) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Recommended Action

Approval of the resolutions presented at this meeting is recommended.

COMMITTEE ON FINANCE

Financing Transaction for CSU San Bernardino Auxiliary Organization to Provide Construction Funds for Coachella Valley Off-Campus Center (CVC)

Presentation by:

Mr. Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item provides information to the Board of Trustees regarding a construction loan to be entered into by the CSUSB Foundation. The purpose of the loan is to provide a portion of the construction funds needed to complete Phase I of the Permanent Coachella Valley Off-Campus Center.

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

Background

The CSU Board of Trustees approved at the May 9-10, 2000, meeting, the Initial Master Plan, Amendment to the Non-State Funded Capital Outlay Program, Schematic Plans for Phase I, and the Final Environmental Impact Report for the initial development at the Coachella Valley Off-Campus Center in the City of Palm Desert. Since that time, the City of Palm Desert has transferred title of 55 acres of land to the CSU on which the Center is being constructed. The campus has completed the working drawings and has issued a contract to construct site infrastructure and building number 1. The scope of the contract was limited to the amount of cash currently available from a capital fundraising campaign.

In order to complete all of the scope of work identified in the Phase I Project Cost Estimate, additional cash in the amount of \$1,185,230 is needed. A financial plan has been devised to produce this cash that consists of a low interest loan from the City of Palm Desert, and a method to repay the loan if fundraising and existing instruments fail to provide sufficient resources.

Proposed Financing

The staff at the City of Palm Desert has indicated that it is willing to provide a loan for \$1.2 million to be used as construction funds for the project. The terms of the loan include a variable interest rate equivalent to the monthly Local Agency Investment Fund (LAIF) rate, (5 to 6% recently) for a period of up to 3 years, no payments during the 3-year period, no pre-payment penalty, and principal and interest due at the end of the 3 years. Approval for this loan will be required from the Palm Desert City Council.

Several sources of funds have been identified to service the loan. The capital fundraising campaign has produced three irrevocable unitrusts currently valued in March 2001 at \$1.5 million. These funds will be available to the University once the trusts have matured. The fundraising campaign, in order to secure additional funds, includes other funding proposals to private individuals, the Federal government, and foundations.

The campus recognizes that all of the unitrusts are unlikely to mature within 3 years and that none of the proposals may come to fruition. Therefore, the CSUSB Foundation Board of Directors has passed a resolution committing revenues from the Foundation's cash operations to service debt for a new loan to repay the City of Palm Desert in 3 years in the event that none of the sources of funds listed above become available. A local bank has provided a loan quotation that contains terms and conditions that appear acceptable to the Foundation. Implementation of this loan would require approval of the CSUSB Foundation Board of Directors.