

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:15 p.m., Tuesday, May 14, 2002
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes

Discussion Items

1. 2002/03 Budget Status, *Information*
2. Non-Resident Tuition Fee Rate Increase, *Action*
3. California State University Systemwide Revenue Bond Sale, *Information*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
5. 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**

**California State University, Sacramento
University Union Ballroom
6000 J Street
Sacramento, CA 95819**

March 13, 2002

Members Present

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

Members Absent

Dee Dee Myers

Other Trustees Present

Roberta Achtenberg
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
Jackie R. McClain, Vice Chancellor, Human Resources
Christine Helwick, General Counsel
Freda Hinsche Otto, Assistant Vice Chancellor, University Advancement

Chair Hauck called the meeting to order at 8:10 a.m.

Approval of Minutes

Chair Hauck announced there was a small correction to the minutes of January 29, 2002, and that copies of the corrected minutes had been distributed.

The corrected minutes of January 29, 2002 were approved.

Status Report on 2002/03 Support Budget

Mr. Richard P. West, executive vice chancellor and chief financial officer, presented the report, noting this is the season in which we begin the budget process with the legislative hearings. He noted Chancellor Reed would be making CSU's opening presentation to the senate and assembly later that afternoon.

Mr. West indicated the report from the legislative analyst had been received and there were no specific comments on the CSU's budget. He explained there were several comments made on the capital budget, and that those issues were discussed in the session of the Committee on Campus Planning, Buildings and Grounds.

The main focus of attention during the legislative hearings is expected to center around the legislative analyst's observation of an expected \$5 billion deficit in the Governor's budget. Much of the discussion this spring will focus on that reality and how to deal with it as well as anticipation of release of the May Revision.

Mr. West acknowledged the university did receive an overall increase but added there were some real reductions too. The reductions consist of both one-time, and permanent funds. There was a general permanent reduction of \$29.5 million in the current year, and targeted reductions in the education technology, financial aid, and Cal-Teach recruitment programs. In all, CSU received a total reduction of \$55 million.

Mr. West announced that the May Revision will be presented at the May board meeting. It is widely anticipated that overall revenues will be significantly less than originally estimated. He also informed the board that they will be asked to vote on a 15% increase in non-resident student tuition. The proposed increase would contribute approximately \$11.8 million in much needed revenue for CSU.

Trustee Goldwhite inquired about the possibility of indexing the non-resident student fee over a period of time, rather than the initiating it all at once. Mr. West indicated that was a possibility, and agreed that the concept of predictable incremental increases was an idea that should be explored.

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

Chair Hauck indicated the item related to a subject that has been under discussion for some time concerning a new debt-financing program for the university. He then asked Mr. West to present details on the program.

With the aid of a visual presentation, Mr. West presented a comprehensive overview of the concept and details of the proposed program..

Mr. West then explained there were four action items regarding additional debt, and one information item concerning auxiliary financing to be presented.

The committee recommended approval of the proposed resolution (RFIN 03-02-02)

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

Mr. West noted the item concerned projects already approved by the trustees and currently in the commercial paper program that would be placed in the new program in order to obtain the more advantageous rates.

Trustee Pierce commented that since the new covenant will not yet be in place for these projects, he wondered if the revenue generated from them would be freed up from the reserve account once it is actually in place. Mr. West replied that once the 2/3 conversion requirement is achieved, all projects would come under the new program's purview, thus freeing up those funds for general education purposes.

The committee recommended approval of the proposed resolution (RFIN 03-02-03).

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Sonoma Housing Project Not-to-Exceed \$42,700.00 and Approval of Related Matters

Chair Hauck indicated this was a new issuance specific to a housing project at the Sonoma campus. The Sonoma campus is a strong residential campus with consistent enrollment growth and an increasing need for student housing. The campus has added several housing projects during the past years, however the need for additional units continues to grow.

Dr. Ruben Arminana, president, of Sonoma State University, explained details of the project and stressed its importance as an integral part of the academic approach of Sonoma State as a residential campus. He noted the schematics for the project had already been approved and urged the committee to approve the project.

Mr. West concurred this was a solid and much needed project. He indicated the project would be included in the new debt-financing program.

The committee recommended approval of the proposed resolution (RFIN 03-02-04).

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

Mr. West explained that the item specifically related to a parking structure at the Northridge campus. Increasing enrollment and continuing earthquake recovery efforts have culminated in a tremendous need for additional parking at this campus. This project is the first of two planned parking structures at the campus in an effort to catch-up with parking demand.

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.

The committee recommended approval of the proposed resolution (RFIN 03-02-05).

Auxiliary Organization Financing at California State University, Sacramento

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented the information item. The CSU, Sacramento Foundation is proposing the borrowing of an amount not to exceed \$24.3 million to finance the planning and construction of Modoc Hall, a four-story building of approximately 85,402 square ft. The building will be used for office and administrative support, the university's office of water programs, the university's office of research and graduate programs, and the foundation itself.

The auxiliary also has an agreement to provide space in the facility to the U.S. Geological Service (USGS) commencing in July 2003. Therefore, due to the established contractual obligations and time commitment to the USGS, this project was omitted from inclusion in the new debt management program.

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

The San Luis Obispo campus is seeking conceptual approval to enter into a public/private partnership to develop 49.5 acres of campus owned land into an avocado orchard. The campus has selected Mission Produce to develop this project. They would manage, maintain and operate a commercial scale orchard serving as an educational library for instruction and applied research. The campus currently has approximately 6,000 acres of land, and the college of agriculture uses about 5,900 of those acres. This project would involve 49.5 acres and is presented for conceptual approval only, at this time. The committee's conceptual approval will allow negotiations to continue on an agreement with Mission Produce with the intention of returning to the board in May for final approval.

Trustee Goldwhite wanted assurance of a sufficient water supply for the orchard since avocados are so water sensitive. Chancellor Reed assured him that provisions had been noted on the water issue within the written agenda item.

Trustee Achtenberg asked if any action had been taken on exploring the use of reclaimed water for the project. Mr. Dave Weiner, interim dean of the college of agriculture replied that no such action had been explored due to the prohibitive cost of piping and moving water to the site.

The committee recommended approval of the proposed resolution (RFIN 03-02-06).

Chancellor Reed concluded the session by commending Mr. West and his staff, in cooperation with John Augustine and his colleagues at Lehman Bros., for their innovation and hard work in developing the new debt management program.

The meeting adjourned at 8:55 a.m.

COMMITTEE ON FINANCE

2002/2003 Budget Status

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

At the March Board meeting, information was provided on several recommendations proposed by the Legislative Analyst that would have a significant impact on the CSU budget. The university opposes each of the Legislative Analyst's recommendations regarding the redirection of CSU financial aid resources to the Cal Grant program, implementation strategies for year round operations and summer term conversions at CSU, redirection of funds provided for the Governor's Teaching Fellowship to the Student Aid Commission APLE loan forgiveness program, and for Education Technology and CalStateTEACH programs to a new teacher development block grant. These recommendations remain as open items in the legislative budget discussions now underway and will be resolved as the Assembly and Senate committees make final budget decisions.

The budget plan for 2002/03 has been modified to reflect the revenue that will be available from the proposed 15% increase in the nonresident tuition fee. The \$11.7 million revenue increase will enable CSU to fund a 1.5 percent compensation increase, effective July 1, for all CSU employees. The table that follows shows the revised budget plan with the additional nonresident tuition revenue included.

There remains substantial uncertainty as to the State's budget and fiscal picture. Additional information on the status of State revenue collections and their impact on the 2002/03 budget will be available after the May Revision of the Governor's Budget, which is scheduled for release by the Governor on May 14.

2002/2003 Budget Plan – with Nonresident Tuition Revenue Increase

Source of Funds	BOT October Budget	Governor's Budget Plus Nonresident Tuition Fee Increase	Change
2002/03 Budget Plan Revenue Increase			
2002/03 General Fund Budget Increases			
<i>Partnership Funding</i>	\$129,925,000	\$37,709,000	(\$92,216,000)
<i>4 Percent Enrollment Increase (12,030 FTES) and CSU Chico YRO</i>	87,304,000	79,208,000	(8,096,000)
<i>Student Fee Increase Buyout</i>	27,854,000	0	(27,854,000)
<i>Revenue Above the Partnership Agreement</i>	300,000	7,000	(293,000)
2002/03 State University Fee Revenue Increase			
<i>4% Enrollment Growth</i>	20,541,000	20,541,000	0
<i>YRO Enrollment</i>	3,202,000	370,000	(2,832,000)
<i>15% Nonresident Tuition Fee Increase</i>		11,771,000	11,771,000
Total Budget Plan Revenue Increase	\$269,126,000	\$149,606,000	(\$119,520,000)
Use of Funds			
Mandatory Costs			
<i>Health Benefit Premium Increases</i>	10,893,000	10,482,000	(\$411,000)
<i>New Space</i>	9,720,000	9,720,000	0
<i>Property Insurance</i>	1,000,000	1,580,000	580,000
Enrollment			
<i>YRO Summer Enrollment Conversions</i>	10,838,000	1,353,000	(9,485,000)
<i>4% Enrollment Growth</i>	87,879,000	87,891,000	12,000
<i>State University Grants/Mandatory Fee Waivers</i>	7,900,000	0	(7,900,000)
Compensation (4% Increase-BOT; 1.5% Increase-Gov. Bgt.)	89,496,000	33,573,000	(55,923,000)
Long-Term Budget Need			
<i>ITS Network Equipment</i>	10,000,000	5,000,000	(5,000,000)
<i>ITS Network Operations</i>	4,000,000	0	(4,000,000)
<i>Libraries</i>	6,000,000	0	(6,000,000)
<i>Deferred Maintenance</i>	6,000,000	0	(6,000,000)
Workforce Preparation and Economic Development	10,000,000	0	(10,000,000)
Student Services	10,100,000	0	(10,100,000)
Applied Research	5,000,000	0	(5,000,000)
Off-Campus Center Program Expansion	300,000	0	(300,000)
CPEC Eligibility Study Cost Increase	0	7,000	7,000
Total Budget Plan Expenditures	\$269,126,000	\$149,606,000	(\$119,520,000)

COMMITTEE ON FINANCE

Nonresident Tuition Fee Rate Increase

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Summary

This item was presented to the Board of Trustees as an information item at the March meeting. Nonresident students pay fees on a per unit basis, currently \$246 per semester term or \$164 per quarter term. The academic year rate for a full-time equivalent student (FTES) is \$7,380 per academic year. This fee rate has not been increased since fall 1991. Based on 2001/02 Final Budget appropriations, the average cost per FTES for CSU programs used to determine the marginal cost of instruction (Instruction, Academic Support, Student Services and Institutional Support) is \$8,851. The proposed resolution would increase the current academic year rate for nonresident students to \$8,460 per academic year, which represents a 15 percent increase.

CSU's current nonresident tuition rate of \$7,380 per academic year is the third lowest among the 15 public comparison institutions used by the California Postsecondary Education Commission for the CSU faculty salary methodology. Increasing the rate to \$8,460 per academic term will not change CSU's position relative to its CPEC public comparison institutions. The new rate results in per unit charges equal to \$282 per semester term and \$188 per quarter term. These rates are considered fair and reasonable given the increased cost of instructional services, the buyout of State University Fee rate increases and the fee reductions approved for the 1998/99 and 1999/2000 fiscal years (nonresident students also pay the State University Fee), and the freeze on nonresident tuition fee rates for the past 10 years. Although the impact of the rate increase on CSU nonresident student enrollment is unknown, it is believed that the per unit charge and installment payment plan available to nonresident students will provide sufficient options from which currently enrolled students can structure their progress to degree.

The proposed nonresident tuition fee rate increase is critical to CSU's funding strategies. CSU projects the nonresident student fee increase will provide \$11.7 million in additional revenue that will assist in funding increased expenses for 2002/03, which includes approved compensation agreements.

The following resolution is recommended for adoption.

RESOLVED, By the Board of Trustees of the California State University, that the nonresident tuition fee for the 2002/03 academic year, effective for all campuses with the Fall 2002 term and until further amended, shall be as follows:

Non-Resident Tuition	<u>Quarter Term</u>	<u>Semester Term</u>
Per Unit Charge:	\$188	\$282

The academic year fee rate is \$8,460. The total fees paid per term shall be determined by multiplying the number of units taken by the charge per unit in accordance with this schedule; and be it further

RESOLVED, that the chancellor is delegated authority to further adopt, amend, or repeal the rate of nonresident tuition fee if such action is required by the budget act approved for 2002/03 and that any changes made by the chancellor in the rate of the fee be communicated promptly to the trustees.

COMMITTEE ON FINANCE

California State University Systemwide Revenue Bond Sale

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

In March 2002, the Board of Trustees approved a new Systemwide Revenue Bond Program (SWRBP) and the first issuance of long-term bonds of the program. The SWRBP was designed to consolidate and eventually replace the older less cost effective CSU revenue bond financing programs.

On April 11, 2002 the CSU priced SWRBP bonds totaling \$174,750,000. The transaction is scheduled to close on April 30, 2002. The attached Financing Highlight illustrates some aspects of the sale.

Improved rating agencies reports were a key aspect of the sale. The rating agencies were pleased with the new structure and provided appropriate ratings with excellent comments in their reports that further decoupled the CSU's bond ratings from events and effects that have been occurring with the state's financial situation. The rating agencies embraced the more relaxed legal covenants of the new bond structure, within the context of the newly approved CSU Policy on Financing Activities and an understanding that the CSU's management was undertaking the development of additional standards that would ensure a managed approach to the CSU's financing programs, and retention of a high credit quality debt program for the CSU.

The True Interest Cost (TIC) of 5.05% reflects the effect of the good credit ratings and rating reports. The small spread from the TIC to the All-In Total Interest Cost (All-In TIC) of 5.12% reflects the economies of scale of spreading the reduced costs for bond insurance, a surety reserve, and issuance costs over all of the uses of the proceeds which include seven projects currently financed by commercial paper, two new-money projects, and six refinancings of previous bond issues.

FINANCING HIGHLIGHT



\$174,750,000
Systemwide Revenue Bonds
Series 2002A
Trustees of the
California State University

Pricing Date: April 11, 2002

Closing Date: April 30, 2002

Ratings: Aaa – Moody's; AAA – S&P AMBAC Insured (Intrinsic ratings Aa3 stable and A+ negative)

Maturities: 2002-2033

Interest Cost: 5.05% TIC and 5.12% All-In TIC

Plan of Finance: The proceeds of the bonds will be used to (1) fund construction of new campus facilities and related site development, (2) to refund debt incurred in a commercial paper program the proceeds of which have been used for construction of new campus facilities, and (3) to refinance long-term bonds for previous debt incurred the proceeds of which have been used to construct facilities at campuses in the California State University.

Pledged Revenues: The bonds, are secured by a pledge of gross revenues from housing, student union, health center, parking and continuing education fee revenues collected at campuses in the California State University system.

Distribution: The bonds were underwritten by Lehman Brothers and a syndicate of other investment banking institutions.

COMMITTEE ON FINANCE

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

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$38,000,000 for the construction of several projects previously approved through the Board's Non-State Funded Capital Improvement Programs. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds, when sold for the projects are expected to bear the Aa3 and A+ ratings of the existing Systemwide Revenue Bonds from Moody's Investor Services and Standard and Poor's Corporation. In addition, when approaching the time to issue the Systemwide Revenue Bonds, the Board's approval may be sought to approve a credit facility that would enable up to 20% of the principal amount of the Systemwide Revenue Bonds to be issued in variable rate bonds. This would further lower borrowing costs.

In March 2002 the Board approved the new Systemwide Revenue Bond Program intending to use it as the means for issuing the most cost effective debt for the CSU. The new program involves the conversion of the Housing System Revenue Bond Program. These new bonds will be issued pursuant to that older resolution with integrated provisions for the conversion. The covenants of the new Systemwide Revenue Bond Program will take effect upon approval of 2/3 of the bondholders. The financing approval of these projects will assist in implementing the conversion. Until that time, for the entire program the legally required minimum net revenue coverage requirement is 1.25 times the amount of the debt service. Historically, each campus has been required to meet this test, and .25 of the 1.25 coverage requirement that is not used for debt service has been reserved and used for major maintenance and repair.

The projects are as follows:

1. California State Polytechnic University, Pomona, Student Housing

Previously the Board approved a Phase I housing facility in the campus master plan, the Non-State Funded Capital Improvement Program, and in a specific project schematic design presentation. In addition, the internal review by the Housing Proposal Review Committee provided a positive recommendation for the project, and the campus has proceeded to complete the planning and has received construction bids. The project consists of two buildings having a total of 416 bed spaces, a small central plant that will house the mechanical and electrical equipment, dining facilities, and other amenities. The campus has issued a contract for site preparation work which is currently being funded from campus housing system reserves. A winning bidder has been determined and the campus wishes to proceed with financing to provide funds for the vertical construction of the project. The total project costs are estimated at \$26,000,000, of which up to \$4,212,000 will be paid from campus housing reserves. The balance of the costs will be paid from financing proceeds.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$25,860,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$ 1,794,341
Projected debt service coverage including the new project:	
Gross revenue – all Pomona pledged revenue programs:	5.44
Net revenue – all Pomona pledged revenue programs:	1.75
Net revenue – projected for the campus housing program:	1.55

1. Projected information – Combines the 2000/01 information for the campus-operated pledged revenue programs and the first year of operation of the new project with full debt service

The not-to-exceed amount and the maximum annual financing debt service is based on a current market rate of interest plus 50 basis points, capitalized interest and a bond reserve, which provides a safeguard for changing market conditions until the permanent financing bonds are sold. However, the use of the commercial paper program during construction and with a continuation of relatively stable markets for bond activity, substantial savings to the not-to-exceed and the maximum annual debt service amounts shown above, as well as an enhancement of the above ratios, could be expected. At a project level the campus financial plan shows that the project will pay for itself in the first full year of the new project's operation.

2. CSU Sacramento, Capital Public Radio Station Facility

Previously the Board approved a public radio facility in the campus master plan, the Non-State Funded Capital Improvement Program, and in a specific project schematic design presentation. Subsequent to the schematic presentation, the campus reduced the scope of the project. The campus is now expected to complete working drawings in July to be followed by development of a bid package, bidding for the construction contract in September and a start of construction in approximately November.

The estimated total project costs of \$3,500,000 are to be paid from financing proceeds. The campus wishes to move forward with a financing approval to provide funds for the construction of the project which when completed will be operated by the KXPR/KXJZ, Inc.(KXPR), an auxiliary organization in good standing.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$4,200,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual debt service	\$308,160
Debt service coverage	
Gross revenue - all CSUS pledged revenue programs: ¹	11.51
Net revenue - all CSUS pledged revenue programs: ¹	2.92
Net revenue – projected KXPR/KXJZ, Inc:	2.47

1. Combines the 2000/01 information for the campus-operated pledged revenue programs and KXPR including projections for the first year of operation of the new project

The not-to-exceed amount and the maximum annual financing debt service are based on a current day market rate of interest plus 50 basis points, capitalized interest and a reserve fund, which provides a safeguard for changing market conditions through the remainder of the planning process, and through the initial commercial paper financing up to the time that permanent financing bonds are sold. However, with the use of the commercial paper program during construction and with a continuation of relatively stable markets for bond activity, substantial savings and an enhancement of the above ratios could be expected.

The campus has developed a financial plan that shows the ability to repay the expected annual debt service from projected or anticipated annual donations as of the first year of the new project's operation. A historical review confirms that KXPR has been able to achieve levels of annual donations that would provide for the payment of a lease obligation. KXPR would lease the new facility from the Board under the terms of a "financing lease", thereby providing the Board with the funds for repayment of the debt. The lease would include (1) a first lien on all

revenues of KXPR except donor restricted or legally unavailable revenues for the life of the lease, (2) an annual debt service net revenue coverage test, (9) and an additional borrowing test. Details of these requirements and the lease have not been developed at this time.

KXPR's board has authorized the management of the corporation to go forward with planning the project. The corporation's board has not approved the terms of this financing transaction. They will review the financing transaction including the terms and conditions of the lease that will be developed at a subsequent time after this meeting of the Board of Trustees and prior to the university awarding the contract for construction next fall. The financing transaction will not go forward unless market assumptions of the financial plan remain valid at the time of the financing, not until there are acceptable construction bids that are consistent with the financial plan, and not until KXPR's board has approved a financing lease acceptable to the Executive Vice Chancellor and Chief Financial Officer.

3. CSU Northridge, Sierra Center Food Service Facility

Previously the Board approved a new food service facility located next to Sierra Hall in the campus master plan, the Non-State Funded Capital Improvement Program, and in a specific project schematic design presentation. The campus has completed planning the project, received construction bids, and a winning bidder has been determined. The total project costs of \$9,200,000 is to be paid from a \$2,600,000 cash contribution of FEMA and auxiliary organization funds, with the remainder provided from financing proceeds. The campus wishes to move forward with a financing to provide funds for the construction of the project which when completed will be operated by the CSUN University Corporation (Corporation), an auxiliary organization in good standing.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$7,940,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual debt service	\$562,650
Projected debt service coverage including the new project	
Gross revenue - all CSUN pledged fee revenue programs: ¹	6.42
Net revenue - all CSUN pledged fee revenue programs: ¹	2.00
Net revenue - projected CSUN University Corporation:	1.41

1. Projected Information: Combines the 2000/01 information for the campus-operated pledged revenue programs and the CSUN University Corporation including projections for the first year of operation of the new project with full debt service

The not-to-exceed amount and the maximum annual debt service in the above table is based on a current market rate of interest plus 50 basis points, capitalized interest and a bond reserve, which provides a safeguard for changing market conditions before the permanent financing bonds are sold. However, with the use of the commercial paper program during construction and with a continuation of relatively stable markets for bond activity, substantial savings to the not-to-exceed and the maximum annual debt service amounts shown above, as well as the above ratios, could be expected.

The campus has developed a financial plan that shows the ability to repay the expected annual debt service from project revenues as of the first year of the project's operation. The Corporation would lease the facility from the Board under the terms of a "financing lease", thereby providing the Board with the funds for repayment of the debt. The financing lease between the Board and the Corporation would include a pledge and parity lien with owners of the Corporation's existing bonds on the corporation's revenue that will be defined as generally all revenues and fund balances of the Corporation exclusive of funds restricted by a donor or by law to a particular purpose that is inconsistent with the payment of funds for the purposes created by the financing lease. Thus the lease would contain covenants that require that lease payments have first call with other debt service payments on the Corporation's revenues before annual discretionary distributions are made to the campus. The lease would require the Corporation to meet a net revenue debt service coverage test each year on all debt including the lease payment of a minimum of 1.20 before distributions to the campus and non-cash items. The lease would also contain an additional borrowing test of 1.30 times debt service including the lease payments, which is consistent with the requirement of the Corporation's existing bonds.

The Corporation's board has authorized its management to go forward with planning for the project. Due to the limited time available to convert this project to a Board financing under the Systemwide Revenue Bond Program, the Corporation's board has not approved the terms of this financing, however they are scheduled to review the transaction and the project after this meeting of the Board of Trustees. The auxiliary management and university administration have indicated they will aggressively support the financing plan.

The CSU Northridge Sierra Center building will be the first CSU auxiliary organization capital project financing under the new Systemwide Revenue Bond Program. This is a positive milestone for the system in its efforts to better incorporate auxiliary capital financing into a comprehensive systemwide program.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for each project described in this agenda item that authorize interim and

permanent financing for these projects. The proposed sets of resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of the Systemwide Revenue 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 the amounts shown for the projects above, and certain actions relating thereto.
- (2) Provide for a delegation to authorize the chancellor, the executive vice chancellor and chief financial officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

It is recommended that the Board approve individually or in total of the three separate sets of financing resolutions for the following projects as described in this agenda item:

California State Polytechnic University, Pomona, Student Housing

CSU Sacramento, Capital Public Radio Station Facility

CSU Northridge, Sierra Center Food Service Facility

COMMITTEE ON FINANCE

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

The Board of Trustees approved an item at the March 12-13, 2002, meeting supporting the concept of establishing an educational partnership between California Polytechnic State University, San Luis Obispo and Mission Produce, Inc. for the development of approximately 49.5 acres of campus-owned agricultural land into an avocado orchard. The orchard would provide educational facilities of industry standard and size that would enable the university to establish an inter-disciplinary hands-on instructional program related to commercial-scale avocado orchard. The orchard facility would also support research of orchard management, avocado production, pest and disease management, and irrigation management to the state's avocado industry.

Educational Program Agreement

Through an educational program agreement, Mission Produce (Mission) would develop, manage, maintain, and operate a commercial scale orchard on university agricultural land at Cheda Ranch for a period of 30 years. Cheda Ranch is located approximately 1.8 miles northwest of the main campus. 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. This selection was facilitated by the close working relationship that Mission has developed with the College of Agriculture and the attraction of both parties to jointly develop an educational program. Other avocado producers approached by the University were not interested in

exploring this concept therefore 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 would develop approximately 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 agreement recognizes that the initial non-crop producing period is 3 years and that full production would 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 Development Plan

A three-party Educational Program Agreement has been negotiated between the University, Mission, and the Foundation that outlines 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 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 key business points contained in the Educational Program Agreement.

Mission Produce

- Mission would provide the resources necessary (including a significant capital investment) to develop the agricultural land on the University into an avocado orchard of industry standard.
- Mission would operate, maintain, and manage the orchard sites using their expertise in managing commercial scale orchards.

- Mission would provide internships to 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 would 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 initiates termination, Mission shall 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, particularly on the central coast. The orchard would allow for research in areas such as nutrition, rootstock performance, pollination, pest and disease control, pruning, and irrigation management. Information gained from these research projects would benefit Cal Poly students, Mission Produce, and the larger avocado industry. All rights to research results and inventions stemming from University research activities would be the property of the University.
- The University would have access to state-of-the-art orchard sites for instruction and applied research. The orchard laboratory would support a comprehensive, interdisciplinary "learn by doing" instructional program in avocado orchard development and management and help the University address the growing need for skilled industry personnel with baccalaureate and masters-level education.
- Mission would 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 crop 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, is estimated to be \$50,000 per year.
- The orchard and all of its improvements shall be vested to 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.

Approval of the following resolution is recommended:

RESOLVED, By the Board of Trustees of The California State University, that the board:

1. Approves the development plan contained in Agenda Item 5 of the May 14-15, 2002 meeting of the Trustees' Committee on Finance for California Polytechnic State University, San Luis Obispo to utilize the private sector to develop, manage, operate, and maintain approximately 49.5 acres of campus owned agricultural land for avocado orchard sites to provide educational facilities that would replicate industry standards as described in this agenda item.
2. Confirms the chancellor's authority to enter into an Educational Program Agreement and related agreements as necessary to implement the development plan as approved by the Board of Trustees.