

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:45 p.m., Tuesday, November 13, 2001
Glenn S. Dumke Conference Center

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

Consent Items

Approval of Minutes of Meeting of July 10, 2001

Discussion Items

1. California State University 2002/2003 Support Budget, *Information*
2. Auxiliary Organization Tax-Exempt Financing at California State University, Sacramento, *Information*
3. Auxiliary Organization Tax-Exempt Financing at San Francisco State University, *Information*
4. Financing Transaction for California State University, Fullerton Auxiliary Organization to Provide for Tenant Improvements at the El Toro Off-Campus Center, *Information*
5. Campus/Third Party Housing Development and Auxiliary Organization Tax Exempt Financing at California State University, San Marcos, *Information*
6. California State University Annual Investment Report, *Information*
7. Development of an Enhanced Capital management Plan for the Trustees Revenue Bond Program, *Information*
8. Annual Student Fee Report, *Information*
9. Proposed Revision of Title 5 Regulations—DVBE Participation Goals for Professional Bond Services, *Action*

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

July 10, 2001

Members Present

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

Members Absent

Bob Foster

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor and Chief Academic Officer
Richard P. West, Executive Vice Chancellor and Chief Financial Officer
Louis Caldera, Vice Chancellor, University Advancement
Jackie R. McClain, Vice Chancellor, Human Resources
Christine Helwick, General Counsel

Approval of Minutes

The minutes of May 15, 2001 were approved.

Chair Hauck called the meeting to order at 2:27 p.m.

Status Report on the 2001-2002 Support Budget Update

Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer presented the report. He confirmed that no budget had yet been approved, but it was hoped a final budget would be passed shortly.

Mr. West then referred to the handout distributed at the meeting containing new information on actions of the legislature since the previous board meeting in May. He indicated there were no significant changes, aside from a small increase over the May Revise budget, primarily in the area of workforce preparation.

Mr. West concluded by saying there was general optimism the final budget would be acted upon soon with little, if any, change to the figures contained in the May Revise.

Selection of Investment Manager and Advisor

Mr. West briefly reviewed the history of the California State University's investment management function.

In 1997, the Board of Trustees approved the creation of a centralized investment management function. Mr. West explained the monies involved in the investment management program are held by the CSU and are obtained from various fee revenue producing functions of one type or another. These funds can fluctuate between \$200 to \$225 million worth of cash investments at any given time.

The contract with Metropolitan West, our current Investment Manager, is due to expire. A request for proposal was prepared and three bids were received, one of which was from Metropolitan West. Upon review by the selection committee, Metropolitan West was again determined to be the most competitive from both a service and price point of view. Mr. West reinforced that service has been good over the life of the current contract term, and performance of our funds managed by Metropolitan West has been steady and reliable. He added this has been a welcome partnership for the CSU as we learn to manage our cash more efficiently, and said he was pleased to recommend that the university continue the partnership with another multi-year agreement.

Trustee Mehta supported Mr. West's recommendation saying he was impressed with Metropolitan West's qualifications and with his own interaction with members of their staff.

The committee recommended approval of the proposed resolution (RFIN 07-01-13).

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

Subsequent to its initial review at the March, 2001 meeting, the campus received several construction bids on the project; with the lowest bid slightly higher than anticipated. After consultation with the campus president and the campus' auxiliary organization, the marginal difference in financing (slightly over \$ 3 million) was approved and the project will continue to proceed as planned.

The meeting adjourned at 2:32 p.m.

COMMITTEE ON FINANCE

California State University 2002/03 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

The 2002/03 CSU Support Budget was approved at the October 25, 2001 Board of Trustees' meeting. The support budget includes \$245.3 million increase over the adjusted current year appropriation and \$23.7 million increase in State University Fee revenue for a total budget plan revenue increase of \$269.1 million.

Planned expenditure increases include mandatory costs for health care benefits, new space, and property insurance (\$21.6 million), 4 percent and YRO enrollment growth (\$106.6 million), 4 percent compensation increase (\$89.4 million), and long-term budget need for technology, libraries and deferred maintenance (\$26 million).

The funding provided for enrollment growth will allow increases of 12,030 full-time equivalent students (FTES) systemwide and 1,923 FTES to complete campus conversions to year-round state-supported instruction for total enrollment growth of 13,953 FTES.

CSU continues discussion with the Department of Finance on current conditions of the state's economy and how that affects the CSU budget. The Governor's Budget due for release in January, as well as the Governor's May revision, may introduce changes to the CSU 2002/03 budget plan. The board will be informed of budget developments throughout the budget cycle.

COMMITTEE ON FINANCE

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

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Agenda Update

This item was postponed from the cancelled September Board of Trustees meeting. The Executive Vice Chancellor, by the authority delegated to him, permitted the Auxiliary Organization to proceed with the financing. The pricing of the bonds was completed on October 11, 2001.

Summary

The California State University, Sacramento Foundation, a recognized auxiliary organization in good standing at CSU Sacramento, issued a tax-exempt borrowing in an amount of \$6,135,000 to finance the planning and construction of the Regional and Continuing Education Facility consisting of a two-story building with approximately 33,932 square feet.

The financing transaction will not create any legal obligation of the State of California or the trustees. The auxiliary organization issued the bonds pursuant to an indenture entered by the auxiliary organization and a bank serving as trustee for the bonds. The bonds are general corporate obligations of the Foundation and are secured by the agreements and revenues as set forth and defined in the indenture.

Project Description

The new building will be located on the southeast side of the University campus. The two-story building is expected to provide 33,932 square feet of administrative support, office, laboratory, lecture, and conference space. Primarily, Regional and Continuing Education (RCE) will use the laboratory and lecture space for support staff and course offerings. The new programs under construction include the statewide Conference and Training Services; American Languages Program; International Training Program; professional certificate program; academic degree completion program and an online education program.

Auxiliary Organization Tax-Exempt Financing

The bonds were issued pursuant to an indenture entered into by the auxiliary organization and BNY Western Trust Company serving as trustee for the bonds. The following summarizes key information regarding the proposed financing:

Financed amount:	\$6,135,000
Term:	30 years
All-in True Interest Cost (TIC):	5.04%
Projected debt service coverage (Foundation revenue):	2.49
Projected debt service coverage (RCE revenue only):	1.68
Bond insurance commitment:	Ambac Assurance Corporation
Bond intrinsic rating before bond insurance:	Standard & Poor's (BBB)
Financing Team:	
Underwriter:	A.G. Edwards & Sons, Inc.
Underwriter's Counsel:	Kutak Rock
Bond & Disclosure Counsel:	Kronick, Moskowitz, Tiedemann & Girard
Trustee:	BNY Western Trust Company

Other Information

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

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at San Francisco State University

Presentation

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

San Francisco State University Foundation Inc., a recognized auxiliary organization in good standing, is proposing a tax-exempt borrowing in an amount not to exceed \$40,000,000 to finance the purchase of 153 residential apartments, in a cluster of buildings, and to refinance a \$5.6 million obligation owed to First Bank and Trust, incurred last year with the purchase of 27 apartment units known as the Tapia Triangle.

The financing transaction will not create any legal obligation of the State of California or the Trustees. The auxiliary organization will issue the bonds pursuant to an indenture entered by the auxiliary organization and a bank serving as trustee for the bonds. The housing revenues and other assets will secure the bonds.

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

Project Description

Park Merced is a large, master planned apartment community containing a total of 3,483 units. The 153 apartments, which are a part of the Park Merced complex, are a mix of one, two, and three bedroom units with multiple floor plans. Park Merced is bounded on the north by San Francisco State University, which will expand the campus' southern border by more than six acres with these apartments.

The housing market in San Francisco has long been one of the most expensive markets in the country (nearly two times the national average). The campus expects to recruit 60 faculty members, each year, for the next five years to replace retiring members. Acquisition of this apartment facility will be used to help address the housing needs primarily of the faculty and staff, and would also be available for use as student housing if the primary needs are met.

Auxiliary Organization Tax-Exempt Financing

The bonds will be issued pursuant to an indenture entered into by the auxiliary organization and a bank serving as trustee for the bonds. Project revenues and other assets will secure the bonds. The following summarizes key information regarding the proposed financing:

Financed amount not-to-exceed:	\$40,000,000
Term:	30 years with an escalating debt service
Estimated rate (All-In True Interest Cost TIC)	5.20%
Projected debt service coverage:	1.26
Bond insurance:	commitment anticipated
Bond intrinsic credit rating before bond insurance:	anticipated at not less than BBB
Financing Team:	Underwriters: Salomon Smith Barney
	Underwriter's Counsel: Stradling, Yocca, Carlson & Rauth
	Bond Counsel: Orrick, Herrington & Sutcliffe, LLP

Other information

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

COMMITTEE ON FINANCE

Financing Transaction for California State University, Fullerton Auxiliary Organization to Provide for Tenant Improvements at the El Toro Off-Campus Center

Presentation by:

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item provides information to the Board of Trustees regarding a conventional loan to be entered into by the CSU Fullerton Foundation (Foundation). The purpose of the loan is to provide funding for tenant improvements of the building being leased from the County of Orange to the Foundation for an off-campus center. This building will replace the current location at Saddleback College in Mission Viejo.

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 a resolution at the January 23-24, 2001, meeting, endorsing continued discussions with the Orange County Board of Supervisors, who act as the Local Reuse Authority (LRA) under the Federal Base Closure Act. Since that time, potential sites for an off-campus center were reviewed.

After the review, the campus selected a building in El Toro, on the former military base, that would best fit the needs of an off-campus center. The building (approximately 46,000 gsf) will be redesigned to accommodate 1250 FTE, more than doubling the current capacity at our Saddleback College location. Discussions with the County have led to an agreement to lease the facility to the Foundation for the benefit of CSU Fullerton. The term will be for ten years with the potential for extension. Lease payments are at a favorable rate and will include credits to reimburse the Foundation for required code improvements and tenant improvements. The lease agreement also provides for options on other adjacent buildings at favorable rates. A provision of the lease requires the County to repay any credits remaining should the lease be terminated by

the County prior to the lease's expiration or in the unlikely event that the Navy would seek return of the base fully to its jurisdiction.

Proposed Financing

The Foundation will lease the facility from LRA and in turn, sublease it to the University. In addition, the Foundation will enter into a loan transaction to provide funds for code and tenant improvements necessary to prepare the building for classes by the fall 2002 term. Through its sublease payments to the Foundation, the University will pay the net cost of the Foundation's lease plus the cost of the loan repayments.

The Foundation's governing board approved the financing plan on September 14, 2001. The following summarizes key information regarding the proposed financing:

Financed amount not to exceed:	\$2,000,000
Term:	10 years
Estimated Rate:	7.25% for the first 5 years and a refinanced rate for the remainder of the term at the Wall Street Journal prime rate minus 0.25%
Lender:	Fullerton Community Bank (FDIC)

The construction of the improvements will be supervised by the Foundation and sufficient parking will be made available as a part of the lease.

COMMITTEE ON FINANCE

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

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

The California State University, San Marcos proposes to build its first on-campus student housing project through an auxiliary organization, San Marcos University Corporation, a recognized auxiliary organization in good standing.

Background

Founded in 1989, the university opened its doors in rented facilities to 448 students in the fall of 1990, and moved to the permanent campus site in 1992. CSUSM remains the only new CSU campus being built from the ground up. This is an important campus development factor since the additional roadway and utility access needed to support new facilities add substantially to project costs. The campus has grown significantly in its first decade to now serve over 6,000 students, and continues to grow by about 500 students each year.

The university initially offered only upper division and graduate courses, but in the fall of 1995, the first freshman class was admitted. To meet student housing demand, CSUSM Foundation entered into a master lease agreement for apartments in a nearby complex (The Islands). The master lease quickly grew from 42 beds in 1995/1996 to 80 beds in 1997/1998, when the manager of the complex capped the number of apartments offered to the university. A change in management at the complex in 1997, coupled with increasing rental and utility rates and decreasing vacancy rates in San Diego County limited the continued growth of the program. The program became increasingly expensive and the quality of service delivered to the students by the management company decreased steadily. The number of student housing applications (319 in 2000/01) continued to far out number the space available. In June 2001, the university ended the master lease agreement to focus on the development of both off-campus housing referral services and the on-campus housing project that was already underway.

In 1999, the university retained consultants to conduct a market and financial feasibility study of the demand for on-campus student housing. Based on the recommendations contained in the results of that study, the university determined that there was unmet demand for at least a 400-

bed facility. In the spring of 2001, the market study results were updated, demonstrating a continued demand for campus housing in light of steadily increasing rents throughout the region in general and in the San Marcos area in particular.

The university carefully explored options to build suitable and affordable housing for CSUSM students and chose to pursue a variation of the public/private partnership model to further determine the financial feasibility of the project. Through an RFQ/RFP process, the university selected Allen & O'Hara Educational Services, LLC, to develop a project proposal for consideration by the trustees.

Project Description

The Board of Trustees will lease approximately 18.9 acres of real property to the San Marcos University Corporation pursuant to a 35-year ground lease permitting the construction and operation of a 475-bed student housing facility and the student residential life program. San Marcos University Corporation will be the project owner and will enter into a Development Agreement, and a Management Agreement, which includes a Student and Residential Life agreement with Allen & O'Hara Education Services, LLC, a private sector entity. Under contractual terms, Allen & O'Hara will design and construct the facility, and then staff and manage the facility and residential life program for a minimum of 10 years.

The project is being designed to meet CSU construction standards. The project has been designed with on-going input from and review by campus staff responsible for design and construction, facilities management, telecommunications, student life and finance. The Chancellor's Office Capital Planning, Design and Construction staff have reviewed it in depth. Additionally, the University Corporation will contract with the University to provide a construction project manager. The improvements will become the university's property upon retirement of the debt and expiration of the ground lease.

Auxiliary Organization Tax-Exempt Financing

The San Marcos University Corporation proposes the issuance of tax-exempt limited-recourse revenue bonds not to exceed \$31,000,000 to finance the design and construction of the student housing complex. The bonds will be limited-recourse obligations of the Corporation, secured principally by the leasehold interest in the project site, the project and project revenues. The pledged corporation revenues consist of all the unrestricted revenues earned or received by the student housing project, as well as an amount, to the extent needed to pay debt service on the bonds in the event of an occupancy shortfall, not to exceed \$106,000 per year for three years. Additionally, Allen & O'Hara Education Services, LLC will subordinate their management fees, if needed. The terms of the bonds and their security will be provided in an indenture between the auxiliary organization and a bank serving as trustee for the bonds.

The University Corporation, based upon advice of its underwriter, Morgan Keegan & Company, Inc., expects to receive an investment grade rating for its bonds, and will utilize either insurance or a letter of credit to further enhance the credit worthiness of the issue. The financing transaction will not create any obligation of the State of California or the Board of Trustees. Subsequent to the review of this item by the Board of Trustees, the Chancellor will take the necessary action on behalf of the board to assist the auxiliary pursuant to the Chancellor's delegation in the Board of Trustees' CSU Policy for Financing Activities.

A request for determination of 501(c)(3) status for the University Corporation is currently pending before the Internal Revenue Service. Should a favorable determination not be received from the IRS prior to the scheduled closing date for the bonds, the California State University San Marcos Foundation, a qualified auxiliary organization of the University, would issue the bonds and, after receipt of the favorable IRS determination, would assign its rights and obligations for the bonds to the University Corporation. The boards of the CSU San Marcos Foundation and the San Marcos University Corporation met on October 18, 2001, to adopt resolutions to endorse the financing proposal and to utilize the CSUSM Foundation as the financing conduit if needed.

Summary of Anticipated Financing Terms

Financed amount not to exceed:	\$ 31 million
Term:	approximately 30 years with an escalating debt service
Interest Rate:	fixed or variable, with a projected all inclusive interest rate of approximately 5.70%
Rate not to exceed:	6.00% (Fixed); 12% (Variable)
Interest Rate Swap:	if Variable Rate is used, interest rate swap may be entered into to limit maximum interest rate (under current market conditions) to less than 6% for either the life or the bonds or a shorter period (such as five years)
Debt service coverage:	1.20
Bond insurance commitment:	[commitment being sought]

Credit rating on the bonds:

Fixed or Variable rate, with insurance	AAA
Variable rate, with letter of credit	AA

Intrinsic credit rating on the bonds: anticipated at not less than BBB- (before bond insurance or letter of credit)

Financing Team:

Underwriters:	Morgan Keegan & Company, Inc.
Underwriter's Counsel:	Kutak Rock LLP
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Trustee:	To be determined

The campus and the auxiliary organizations expect to make a final decision on the specific financing structure in late November in order to move forward with development of bond documents and complete the sale in February.

Other Information

On January 9, 1998, the IRS issued a private letter ruling permitting the categorization of certain auxiliary organizations as "instrumentalities of the state" for tax exempt financing purposes. Orrick, Herrington, and Sutcliffe, LLP has reviewed the circumstances for the proposed tax exempt financing and determined that they are substantially similar to the circumstances in the private letter ruling. Therefore, the auxiliary organization may take advantage of less restrictive provisions of the tax law and streamline some procedures that result in financing cost savings. The ruling also permits the subject organization to cause tax exempt governmental obligations to be issued in its own name, without taking the additional steps and incurring the additional costs that are associated with the issuance of tax exempt obligations through a third party governmental unit, which would be more complicated and costly.

Recommended Action

Subsequent to the review of this item by the Board of Trustees, the Chancellor will take the necessary action on behalf of the Board to assist the auxiliary pursuant to the Chancellor's delegation in the Board of Trustees' CSU Policy for Financing Activities. Further approval will be sought as necessary to accommodate master plan changes and schematic design review and approval.

The following resolution is recommended for approval:

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

1. Support the design, construction and management of a 475-bed on-campus student housing facility at California State University, San Marcos, engaging Allen & O'Hara Education Services LLC for this purpose, and authorize the project to proceed.
2. Confirm the Chancellor's authority to enter into and approve such agreements as are necessary to support the design, construction and management of the San Marcos student housing project and the student residential life program on behalf of the campus and the Board of Trustees, including:
 - a. The ground lease between California State University, San Marcos and the San Marcos University Corporation for the purpose of developing a 475-bed on-campus student housing facility and student residential life program;
 - b. Specific agreements negotiated by the San Marcos University Corporation and Allen & O'Hara Education Services LLC for the design, construction and management of the student housing project, and the student residential life program.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Richard K. Leffingwell
Senior Director
Financing and Treasury

Summary

In 1997 the Board of Trustees established an investment policy for the investment of funds held in California State University trust accounts. This item provides the annual investment report (Attachment A) of the activities for the funds managed under this policy.

The California State University
Office of the Chancellor



Annual Investment Report

July 1, 2000 – June 30, 2001
Prepared by
Office of Financing and Treasury

Attachment A

Finance - Item 6

November 13-14, 2001

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Summary

At the January 1997 meeting, the Board of Trustees approved the creation of a centralized investment program to manage the investments of funds held in California State University trust accounts. In addition, the Board approved an investment policy consistent with the authority provided in existing statutes to guide the university in administering the investment program. A copy of the investment policy is provided in Attachment A.1. The Board also agreed that an external fund manager should be hired to invest the funds consistent with the investment policy of the Board of Trustees. The firm of Metropolitan West Securities, Inc. was hired through a competitive process to manage an investment program for the California State University.

This agenda item reports the results of the CSU investment program administered by Metropolitan West for the twelve months ending June 30, 2001. In addition, results are provided for the Surplus Money Investment Fund (SMIF) and Local Agency Investment Fund (LAIF). The State Treasurer administers SMIF and LAIF, which are available to the campuses as investment options.

Market Recap

The overall slowdown of the domestic and global economies during the past year has kept the Federal Reserve Board focused on strengthening economic growth. Complicating the economic outlook was the terrorist attack, which occurred on September 11, 2001. Over the past nine months, the Fed has cut its target rate eight times, bringing it down to 3.00%. A ninth cut occurred on October 2, 2001, further reducing the target rate to 2.50%. The Fed has consistently cited declines in corporate profits, capital spending, and personal consumption in providing the basis for its rate changes. Most recently cited were disruption of the financial markets and added economic uncertainties from the recent terrorist attack.

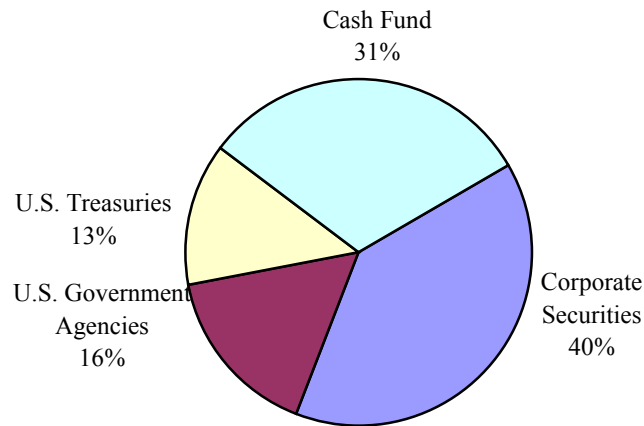
The observed decline of corporate profitability also had an adverse affect on the equity market. During the first three quarters of the fiscal year, all major stock indices experienced significant declines. In the month of April 2001, the market experienced a general turnaround that continued through the remainder of the last quarter. From July thru September, the market began to show signs of a subtle slowdown, declining further after the September 11th events.

This mix of market conditions has been generally favorable for the three CSU fixed income accounts, and most notably on the Total Return and Long-term Accounts. Falling yields in U.S. debt market have benefited the portfolio returns by supplying price appreciation in addition to interest income.

CSU Short-Term Investment Account Performance

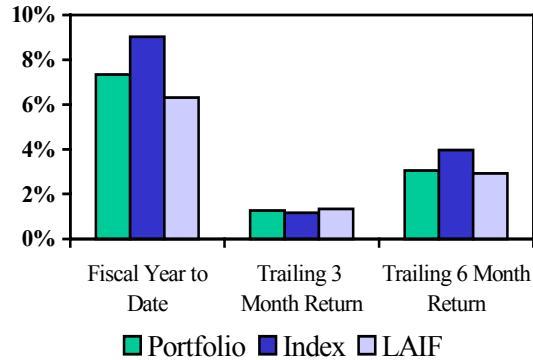
As of June 30, 2001, the asset balance in the Short-Term Account totaled \$152 million. The objective of the Short-Term Account is to maximize current income along with preservation of capital. Consistent with the CSU investment policy, the portfolio is restricted to U.S. Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Short-Term Account are as follows:

**California State University Short-Term Account
Sector Breakdown as of
06/30/2001**



The Short-Term Account has provided a return of 7.34 percent during the 12 months ended June 30, 2001. This return exceeded the 12-month return for the Local Agency Investment Fund. Because of the relative out performance of US Treasuries over corporate bonds, the portfolio under performed relative to its benchmark index, the Merrill Lynch 1-3 Year Treasury Index.

**California State University System
CSU Short-Term Account
06/30/2001**

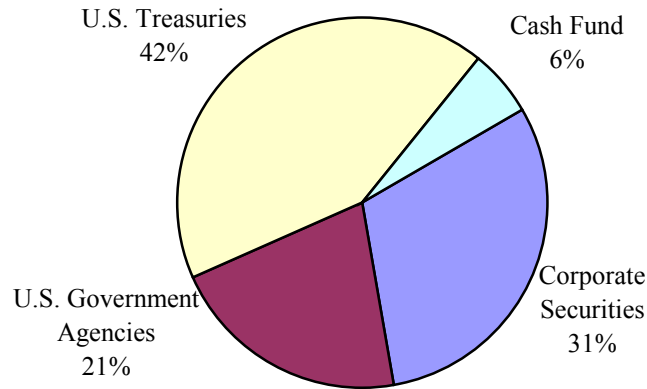


CSU Total Return Investment Account Performance

The objective of the Total Return Account is to maximize medium term total return. The account is invested in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 3.75 to 5.75 years. The account is structured to perform consistently with the Merrill Lynch 5-7 year Treasury Index, and to outperform both the Short - Term Account and LAIF over a 5-7 year investment horizon. As of June 31, 2001, the net asset value of the account was \$113 million.

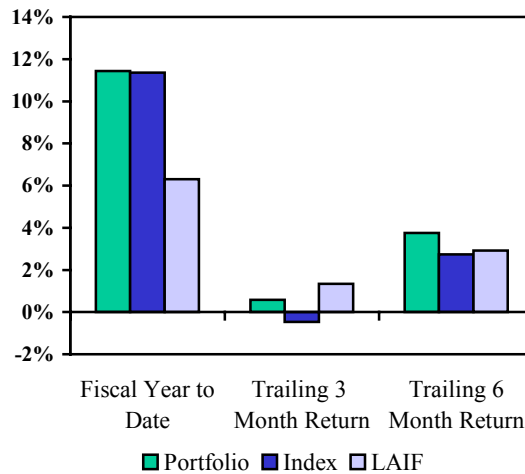
Consistent with the CSU investment policy, the Total Return Account portfolio is restricted to US Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Total Return account are as follows:

**California State University Total Return Account
 Sector Breakdown as of
 06/30/2001**



The Total Return Account has provided a return of 11.44 percent during the 12 months ended June 30, 2001. This return exceeded the 12-month return for the Local Agency Investment Fund. Because of the relative out performance of US Treasuries over corporate bonds, the portfolio under performed relative to its benchmark index, the Merrill Lynch 5-7 Year Treasury Index.

**California State University System
 CSU Total Return Account
 06/30/2001**



Attachment A

Finance - Item 6

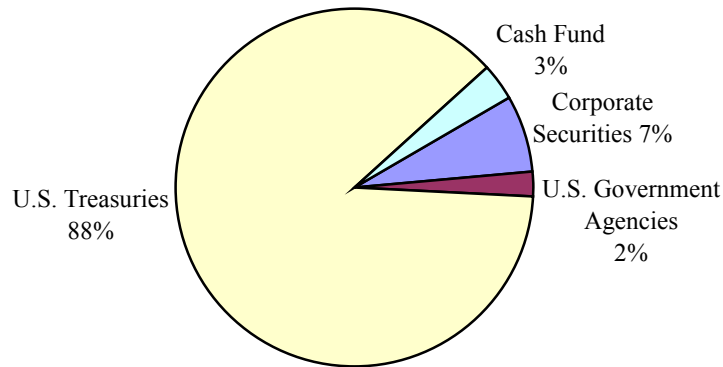
November 13-14, 2001

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CSU Long-Term Account Investment Performance

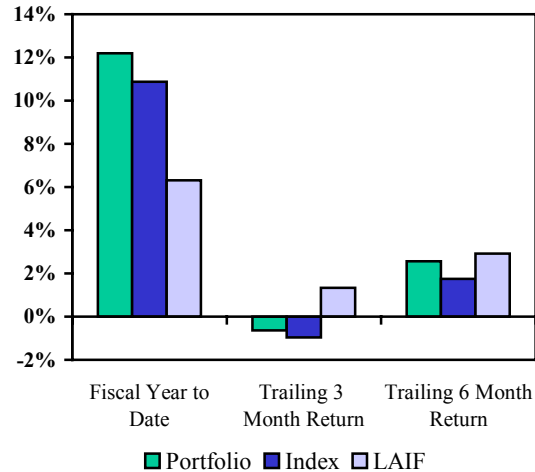
The investment objective of the Long-Term Account is to maximize returns for funds that can be invested for a longer term. This account invests in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 5 to 7 years. As of June 30, 2001, the net asset value of the account was \$45 million. Consistent with the CSU investment policy, the portfolio is restricted to US Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Long-Term Account are as follows:

**California State University Long-Term Account
Sector Breakdown as of
06/30/2001**



The Long-Term Account has provided a return of 12.20 percent during the 12 months ended June 30, 2001. This return exceeded the 12-month return for the established benchmarks, which are the Merrill Lynch 7-10 Year Index and the Local Agency Investment Fund.

**California State University System
 CSU Long Term Return Account
 06/30/2001**



Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. Cash on this account is available on a daily basis. SMIF is managed by the State Treasurer’s Office. The portfolio’s composition includes CD’s and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2001, the balance was \$20,577,000.

**SMIF Performance Report
 Apportionment Yield Rate**

06/30/2001: 5.731%
 12/31/2000: 6.493%

**SMIF Past Performance
 1996-2001**

Average: 5.666%
 High: 6.493%
 Low: 5.134%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used by State Treasurer to invest local agency funds. LAIF is administered by the State Treasurer’s Office. All investments are purchased at market, and market valuation is conducted quarterly.

**LAIF Performance Report
 Quarter ending 06/31/2001**

Apportionment Rate: 5.329%

Attachment A

Finance - Item 6

November 13-14, 2001

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The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, listed in Section A subject to limitations described in Section B.

- A. State Treasury investment options include:
- Surplus Money Investment Fund (SMIF)
 - Local Agency Investment Fund (LAIF)
- B. Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:
- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
 - Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
 - Bonds or warrants of any county, city, water district, utility district or school district;

- California State bonds or bonds with principal and interest guaranteed by the full faith and credit of the State of California;
 - Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
 - Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
 - Bankers’ acceptances eligible for purchase by the Federal Reserve System;
 - Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
 - Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
 - Student loan notes insured by the Guaranteed Student Loan Program;
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;
- C. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio. Furthermore, the CSU:
- Prohibits securities purchased with the proceeds of a reverse repurchase from being;
 - used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;

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- Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

- A. Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor's Office, including market values.
- B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus's investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:
 - to be submitted to the Chancellor within 30 days of the quarter's end
 - to contain a statement with respect to compliance with the written statement of investment policy; and
 - to be made available to taxpayers upon request for a nominal charge.

COMMITTEE ON FINANCE

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

Presentation By

Richard K. Leffingwell
Senior Director
Financing and Treasury

Introduction

This item provides information to the Board of Trustees on the planning and development of an Enhanced Capital Management (ECM) program consisting of a new long term debt management plan utilizing the existing Trustee's authority available under the State University Revenue Bond Act of 1947. The new program being explored would pledge all legally available fee revenue as a pool rather than the current process of pledging only specific program or project revenue.

Background

In January 2001 the board reviewed the debt capacity of the CSU and the various programs utilizing a portion of that total debt capacity. That discussion included a commitment to review CSU long-term debt programs to explore ways to reduce financing costs. Staff has undertaken a review and has developed a conceptual plan for a new debt issuance program with the assistance of a task force consisting of investment bankers and consultants with higher education expertise and CSU bond counsel and the CSU's financial advisory firm.

Concepts for a New Revenue Bond Program

To finance non-State projects such as housing, student unions and parking facilities, the board over the years has issued long-term debt pursuant to the State University Revenue Bond Act of 1947. These bonds are administered in separate programs governed by a variety of terms and conditions outlined in several indentures or bond resolutions, some of which date back to the beginning of the CSU system.* The primary source of payment of principal and interest on these bonds is revenue from the financed projects, however the Education Code enables the board to levy five different kinds of fees that may be pledged as a backstop for the repayment of revenue bonds. The following table shows the status of debt programs and revenue pledges related to the fees that can be pledged for revenue bonds.

* Bonds issued for the student housing and related projects are governed by the terms of the 1968 Housing Bond Master Indenture, each student union bond issue is governed by individual bond indentures for each project and parking facilities bonds are issued on a project by project basis.

Program and Related Education Code Fees	Bonds Outstanding (as of Nov. 2001, in Millions) ¹	Annual Program Gross 2001 Revenue (Millions)	Form of Pledge	Number of Master Indentures or Bond Resolutions
Student housing	\$ 258	\$ 90	Systemwide net revenue	1
Student union	\$190	55	Campus by campus gross revenue	18
Parking	26	60	Campus by campus net revenue	1
Systemwide health center facility	0	15	Not currently pledged	0
Continuing education	0	136	Not currently pledged	0
Total	\$ 474	\$ 356		

¹ Does not include approximately \$104 million in the commercial paper program for projects in construction.

The current debt programs pledge only \$94 million of net (housing and parking) or gross (student union) revenue for the repayment of all existing debt. The task force concluded that if the bond programs were consolidated and all legally available fee revenue were pledged on a gross revenue basis, the resulting pledge of \$356 million would significantly improve the credit quality bonds issued by the board would provide several cost advantages. These cost factors and advantages are summarized as follows:

- By converting the various current debt programs to a single large system and creating a gross revenue pledge consisting of a larger pool of funds for debt repayment, bondholders likely will be willing to purchase bonds yielding a lower interest rate since the repayment risk becomes remote with the larger pool of pledged funds.
- In large gross revenue pledge debt programs, variable rate financing, if used modestly, conservatively and with some budgetary controls, can be used to reduce the total cost of financing without significant risk.
- In large gross revenue pledge debt programs, the cost of bond insurance, if needed, is lower than in smaller stand-alone bond programs. This would provide a cost savings over existing programs.

- In large gross revenue pledge debt programs, the need for bond reserves can be reduced or eliminated. Bond reserves (or the cost of surety reserve contracts) are normally funded from bond proceeds. Therefore, the amount of bonds required for a project could be reduced thereby reducing the overall cost of the project.
- A large gross revenue pledge debt program could be implemented with a lower debt coverage requirement and more favorable additional bonds tests. Current coverage requirements range from 1.25 to 1.35 times debt service. A new program could be implemented with a much lower debt service coverage test which will provide more flexibility in the management of bond financing of future projects.

For these reasons, a single large debt program with a gross revenue pledge from multiple revenue sources makes sense from a conceptual perspective. The secret to the success of the new consolidated program, however, will be the adoption of a carefully executed transition plan that recognizes the rights of existing bondholders.

A Planned Approach to Transition

Given the presence of currently outstanding “old” bonds, the new program will be implemented as new “ECM” bonds are issued and as the old bonds are retired or refunded (i.e., refinanced with new bonds). Nevertheless, the new consolidated revenue pledge and the new ECM bond covenants will not be fully implemented until a sufficient number of new bonds are issued to “vote in” the new pledge and covenants. With the majority of the old bonds issued under the 1968 housing bond resolution (the ’68 resolution), the transition plan will focus on these existing bond provisions.

Under the ’68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Therefore, the new ECM bonds will be issued under the provisions of the ’68 resolution with the condition that the new pledge and covenants will automatically take effect when the amount of new ECM bonds reaches 2/3 of all ’68 resolution bonds. For the majority (over 60%) of the board’s outstanding bonds, this will complete a transition to the new ECM program and allow the CSU to obtain the advantages of the large single gross revenue pledge debt program for all future bond issues. Other old bonds issued for student unions and parking represent a minority of the CSU’s bond portfolio and will continue to be governed by old bond covenants until retired or refunded without deterring the CSU from using the advantages of the ECM program for all future borrowings.

As old ’68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued under ECM program will also move the new ECM bonds closer to the 2/3 goal. However, because the CSU has actively managed its bond portfolio and has taken advantage of refunding

opportunities in the past, a majority of the existing bonds are not available for refinancing at this time due to limitations imposed by federal tax law. Nevertheless, our financial advisors are continually evaluating refunding opportunities and have identified a segment of bonds that should remain refunding opportunities into the coming months of the next year. If refunded in the Spring of 2002 as the ECM program is finalized, they would assist in reaching our conversion goal.

To reach the 2/3 goal, staff estimates the board would have to issue approximately \$517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could have a need for project funds equal to this amount that could be put into long term bonds as early as September, 2002.

The commercial paper program implemented by the board in January 2001 provides flexibility to achieve cost saving and amass projects for more efficient financings. The program currently is funding 6 projects with potential long-term bond aggregating \$123 million. The commercial paper program will continue to be used to assist with achieving the lowest cost of capital and would be used on a strategic basis to help facilitate the implementation of the ECM program. The size of the commercial paper program may have to be increased to help with this implementation plan.

Additional ECM Program Financing Capability

The ECM program is being developed to provide additional financing flexibility that would benefit the CSU. The following program areas could be serviced by the ECM program, provided adequate independent revenue sources were identified and pledged, and any legal and programmatic restrictions were resolved:

- *Continuing Education Facilities:* Projects for this program could go forward with relatively little additional complexity other than the development of administrative systems to account for and control the debt for the additional projects. Prior to recent changes in the Education Code initiated by the chancellor, the board could not pledge these fees for debt payments. With the ECM program, the entire gross revenue from campus continuing education programs along with other program revenues will now be pledged for the repayment of all debt of the board. However, no continuing education revenue would be used for debt payments unless the board approved specific continuing education program projects, or unless other revenue bond campus programs could not generate the revenue needed to pay their debt service. The approval of continuing education revenue bond projects would represent a new use of the Trustee's debt authority.

- *Auxiliary Organization Type Financings:* Currently auxiliary organizations finance many campus projects that are outside the scope of authority of existing bond programs. Typical projects would include bookstore, food service facilities, or childcare centers. These individual stand-alone financings are more expensive than debt issued under the ECM program. A full analysis of requirements and options is underway to establish and make recommendations to the board and the chancellor to establish a policy for projects that might qualify for the ECM program. Since the types of projects that might be proposed under this aspect of the program would not produce revenue from the specific fee categories that are pledgeable according to the Education Code, careful analysis and implementation of guidelines is necessary. It is contemplated that legal analysis of options and proposed policy guidelines would be completed after the ECM program has converted the existing 1968 bonds to parity bonds through the transition process described above.

- *Deferred Maintenance:* If an additional revenue source of CSU funds could be identified, it may be possible to finance deferred maintenance in the system. Were the CSU to obtain authority to deposit student enrollment fees into a CSU trust fund instead of the General Fund of the State of California for example, interest income on the deposits could provide a revenue source for deferred maintenance or other CSU projects. Currently, the CSU does not have the authority to deposit student enrollment fees into a CSU trust fund. Staff at the chancellor's office is continuing to investigate the possibility of obtaining the necessary fee deposit authority.

Future Actions to Implement the Program

With the Board's concurrence, staff will continue to develop and plan for the implementation of the transition to the ECM program. The following specific actions are being proposed:

- Through November and December 2001, initiate and/or continue external discussions with rating agencies, bond insurers; the State Treasurer's Office, the State Controller's Office, and liquidity providers for the commercial paper program; further develop the indenture; refine important program features such as additional bonds test and rate covenant projections; and analyze the internal bond program administrative procedures for need changes.

- Through December 2001 and January 2002, finalize the bond indenture, and draft an initial disclosure document and other bond documents; begin to implement any new administrative procedures needed for the first financing under the ECM program; continue to evaluate refunding opportunities, changes in project schedules as they might impact the program, and the need for an expansion of the commercial paper program; and in January 2002 update the board on the status of implementation plans.

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- Through February and March 2002, have final discussions and receive the go-ahead from external agencies; complete new internal administrative bond program procedures and other final plans for the ECM program; update refunding opportunities; finalize bond documents; and in March seek approval from the board to execute appropriate refinancing opportunities as the first ECM transaction.

COMMITTEE ON FINANCE

Annual Student Fee Report

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

CSU student fee policy requires that an annual campus student fee report be presented to the Board of Trustees to allow the board to consider the level and range of fees charged to students.

Further, CSU student fee policy requires that total annual Category I (mandatory) student fees not exceed one-third of the systemwide cost of education. The systemwide cost of education is defined as total support expenditures (State University Fee revenue and General Fund support appropriations) divided by the number of full-time equivalent students.

In addition, each year the CSU reviews academic year resident, undergraduate student fee levels charged at 15 CSU comparison institutions.

Following is a summary of 2001/02 annual campus student fee levels reported and a comparison between 2001/02 with 2000/01 campus fee levels. Also, the 2001/02-systemwide cost of education is tabulated below. Lastly, the 2001/02-comparison institution survey is presented.

Background

CSU 2001/02 academic year resident, undergraduate student fees include the systemwide State University Fee (SUF) and campus fees. The 2001/02 total systemwide and campus fees average is \$1,876. The undergraduate SUF (6.1 units or more) represents \$1,428 of that total. The SUF did not increase in 2001/02. As part of the higher education partnership, the state provided sufficient General Fund dollars in lieu of a SUF increase. A SUF increase has not occurred since 1994/95. Further, SUF reductions of 5 percent occurred in both 1998/99 and 1999/00. The board retains authority to establish, adjust, and abolish systemwide fees.

The 2001/02 average campus based fees that must be paid to apply to, enroll in, or attend the university is \$448. This represents a \$37 or 2 percent average increase in campus-based fees from the previous year. As outlined in the CSU student fee policy, prior to adjusting or establishing a campus fee, appropriate and meaningful consultation must occur, which includes consultation with the campus fee advisory committee. Campus presidents have the authority to adjust campus fees after appropriate consultation. To establish campus fees, campus presidents must forward a request to the chancellor after appropriate consultation. After an additional review process, campus fees are established by chancellor's executive order. The following table presents CSU 2001/02 fee levels by campus:

CSU 2001/02 Academic Year Resident, Undergraduate Student Fees									
Campus	Systemwide Fees		Campus Fees						Total
	State University Fee		(Annual fees that must be paid to apply to enroll in, or attend the university)						(6.1 units or more)
	Up to 6 units	6.1 units or more	Health Facilities Fee	Health Services Fee	Instruct. Related Activities Fee	Materials, Services, and Facilities Fee	Student Body Association Fee	Student Body Center Fee	Systemwide and Campus Fees
Bakersfield	\$828	\$1,428	\$6	\$150	\$64	\$6	\$77	\$70	\$1,801
Chico	828	1,428	6	194	148	4	80	210	2,070
Dominguez Hills	828	1,428	6	80	10	0	135	166	1,825
Fresno	828	1,428	6	130	20	46	52	80	1,762
Fullerton	828	1,428	6	50	20	29	108	208	1,849
Hayward	828	1,428	6	105	48	3	45	132	1,767
Humboldt	828	1,428	6	161	96	10	71	89	1,861
Long Beach	828	1,428	6	70	50	2	88	100	1,744
Los Angeles	828	1,428	6	120	19	0	54	155	1,782
Maritime Academy	828	1,428	6	450	100	0	210	0	2,194
Monterey Bay	828	1,428	0	0	0	291	96	40	1,855
Northridge	828	1,428	6	60	30	0	120	170	1,814
Pomona	828	1,428	6	135	40	0	60	126	1,795
Sacramento	828	1,428	6	76	21	0	214	142	1,887
San Bernardino	828	1,428	6	104	74	15	66	184	1,877
San Diego	828	1,428	6	140	30	0	30	142	1,776
San Francisco	828	1,428	6	130	70	4	84	104	1,826
San Jose	828	1,428	6	122	40	4	147	162	1,909
San Luis Obispo	828	1,428	6	87	168	146	74	260	2,169
San Marcos	828	1,428	6	70	80	12	100	100	1,796
Sonoma	828	1,428	6	126	210	20	110	132	2,032
Stanislaus	828	1,428	6	165	112	0	64	100	1,875
System Average	\$828	\$1,428	\$6	\$124	\$66	\$27	\$95	\$131	\$1,876

State University Fee (SUF) levels for graduate and post-baccalaureate students vary from that for undergraduate students. The graduate/post-baccalaureate SUF is \$876 for 6 units

or less and \$1,506 for 6.1 units or more. Further, nonresident students pay an additional fee. Nonresident tuition fees are \$246 per semester unit and \$164 per quarter system unit. Other campus fees may be charged that are not required of all enrolled students, which include fee policy Category III (user) and Category IV (penalty/deposit) types of fees.

The following table provides a comparison between 2001/02 with 2000/01 campus fee levels:

CSU 2001/02 versus 2000/01 Academic Year Resident, Undergraduate Student Fees			
Systemwide and Campus Fees			
(6.1 units or more)			
Campus	2001/02	2000/01	2001/02 Increase
Bakersfield	\$1,801	\$1,795	\$6
Chico	2,070	2,026	44
Dominguez Hills	1,825	1,735	90
Fresno	1,762	1,746	16
Fullerton	1,849	1,798	51
Hayward	1,767	1,725	42
Humboldt	1,861	1,861	0
Long Beach	1,744	1,742	2
Los Angeles	1,782	1,724	58
Maritime Academy	2,194	2,138	56
Monterey Bay	1,855	1,855	0
Northridge	1,814	1,814	0
Pomona	1,795	1,795	0
Sacramento	1,887	1,874	13
San Bernardino	1,877	1,733	144
San Diego	1,776	1,776	0
San Francisco	1,826	1,822	4
San Jose	1,909	1,857	52
San Luis Obispo	2,169	2,129	40
San Marcos	1,796	1,706	90
Sonoma	2,032	2,002	30
Stanislaus	1,875	1,803	72
System Average	\$1,876	\$1,839	\$37
Systemwide State University Fee:	\$1,428	\$1,428	\$0
Average Campus Based Fees:	\$448	\$411	\$37

The next table presents the 2001/02-systemwide cost of education. The systemwide cost of education per full-time equivalent student is \$10,191. Further, the 2001/02 total

systemwide and campus fees average of \$1,876 is well below the maximum one-third of systemwide cost of education of \$3,397 as shown in the following calculation.

Systemwide Cost of Education	
2001/02 Final Budget	
General Fund Appropriation	\$ 2,607,425,000
State University Fee Revenue (campus submittal)	509,417,000
Total Budgeted Support Expenditure	<u>\$ 3,116,842,000</u>
Full-Time Equivalent Students (FTES)	305,854
Systemwide Cost of Education per FTES	\$ 10,191
One-Third of Systemwide Cost of Education	\$ 3,397

Lastly, the 2001/02-comparison institution survey is presented. Once again CSU fees are the lowest in the nation among comparison institutions. The 2001/02-comparison institutions average of \$4,168 represents an increase of 5.6 percent, whereas the CSU comparable fees average of \$1,876 represents an increase of 2 percent.

2001/02 Comparison Institution				
Academic Year Resident, Undergraduate, Student Fee Levels				
University	2001/02	2000/01	2001/02 Increase	Percentage Increase
Rutgers University (Newark, NJ)	\$6,422	\$6,333	\$89	1.4%
University of Maryland, at Baltimore	5,910	5,490	420	7.7%
University of Connecticut (Storrs, CT)	5,824	5,596	228	4.1%
Illinois State University	4,721	4,339	382	8.8%
Wayne State University (Detroit, MI)	4,679	4,291	388	9.0%
State University of New York, at Albany	4,625	4,625	0	0.0%
Cleveland State University	4,464	4,110	354	8.6%
University of Wisconsin, at Milwaukee	4,057	3,763	294	7.8%
COMPARISON AVERAGE*	4,168	3,946	223	5.6%
George Mason University (Fairfax, VA)	3,792	3,768	24	0.6%
University of Texas, at Arlington	3,470	3,470	0	0.0%
North Carolina State University	3,302	2,814	488	17.3%
Georgia State University, at Atlanta	3,292	3,132	160	5.1%
University of Colorado, at Denver	2,934	2,769	165	5.9%
University of Nevada, at Reno	2,547	2,340	207	8.8%
Arizona State University, at Tempe	2,488	2,346	142	6.1%
CALIFORNIA STATE UNIVERSITY	\$1,876	\$1,839	\$37	2.0%

**Average does not include CSU*

COMMITTEE ON FINANCE

Proposed Revisions of Title 5 Regulations—DVBE Participation Goals for Professional Bond Services

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

This item recommends amendment of Title 5, *California Code of Regulations*. Sections 43880 – 43884, comprising Article 2 of Subchapter 9, which currently provides for minority, women, and disabled veteran business enterprise participation goals and procedures in the procurement of professional bond services for the CSU. Article 2 will be amended to delete minority and women -owned business enterprises, leaving disabled veterans business participation goals. Removal of race and gender classifications in the procurement of bond services is responsive to the recent decision of the California Court of Appeal in the case of Ward Connerly v. State Personnel Board, in which the race and gender classifications of the professional bond services laws were held to be invalid as violative of the federal and state constitutions.

Background

On September 9, 2001, the California Court of Appeal, Third Appellate District, in the case of Ward Connerly v. State Personnel Board, et al. held that the statutory scheme in Government Code Sections 16850 – 16857 applicable to the sale of bonds was invalid. Following an earlier decision by the California Supreme Court, Hi-Voltage Wire Works, Inc. v. City of San Jose, 24 Cal. 4th 537 (Nov. 2000), the Court of Appeal concluded that the minority and women -owned business classifications and procedures violated both the Equal Protection clause of the Fourteenth Amendment of the United States Constitution and Article I, Section 31 (added by Proposition 209 at the Nov. 1996 General Election) of the California Constitution. This declaration of invalidity is the reason for the proposed change. Accordingly, references to race and gender are deleted from the Trustees rules governing acquisition of bond services. References to disabled veterans business enterprises are retained since those references are not affected by the decision of the Court.

Recommended Action

The following resolution is recommended for adoption:

RESOLVED, by the Board of Trustees of the California State University, acting under the authority prescribed herein and pursuant to Section 89030.1 of the Education Code, that the board hereby amends its regulations in Article 2 of Subchapter 9 of Chapter 1, Division 5 of Title 5 of the *California Code of Regulations* as follows:

§ 43880. Purpose.

These regulations implement ~~sections 16850-16857 of the Government Code, which establish minority, women and disabled veteran business enterprise participation goals, and~~ Sections 999.1-999.9 of the Military and Veterans Code which establish a disabled veteran enterprise participation goal for professional bond services contracts for issuance of bonds by or on behalf of the State of California.

Note: Authority cited: Section 89030, Education Code; ~~Section 16853(b), Government Code;~~ and Section 999.5(b) Military and Veterans Code. Reference: Section 89036, Education Code; ~~Section 16850 et seq., Government Code;~~ and Section 999 et seq., Military and Veterans Code.

§ 43881. Definitions.

The terms used in this article shall have the meanings described in ~~California Government Code, section 16851 and~~ Military and Veterans Code, section 999.

Note: Authority cited: Section 89030, Education Code; ~~Section 16853(b), Government Code;~~ and Section 999.5(b) Military and Veterans Code. Reference: Section 89036, Education Code; ~~Section 16850 et seq., Government Code and~~ Section 999 et seq., Military and Veterans Code.

§ 43882. TBE List.

The Treasurer maintains a list of target business ~~enterprise-enterprises~~ (TBE) which ~~collectively include minority-owned business enterprises (MBE's), women-owned business enterprises (WBE's) and~~ disabled veteran business enterprises (DVBE's). The list is organized by the types of professional bond services (e.g., underwriters, bond counsels, financial advisors). The list shall be known as the "TBE List." The Trustees shall use this list as evidence that TBE's meet the requirements of law. Applications for inclusion on this list, and appeals from determinations of the Treasurer, may be made in accordance with California Code of Regulations, title 2, sections 1899.510 et seq.

Note: Authority cited: Section 89030, Education Code; ~~and Section 16853(b), Government Code;~~ and Section 999.5(b) Military and Veterans Code. Reference: Section 89036, Education Code; ~~Section 16850 et. seq., Government Code;~~ and Section 999 et seq., Military and Veterans Code.

§ 43883. Competitive Sales.

(a) Notices. If bonds are to be sold by competitive bid, the notice of sale shall:

(1) Be delivered to all underwriters on the TBE List;

(2) Contain, in substance, the following statement:

"Firms owned by ~~minorities, women and~~ disabled veterans are encouraged to respond to this invitation for bid. The Trustees have adopted regulations and a participation ~~goals goal~~ for professional bond services firms owned by ~~minorities, women and~~ disabled veterans. All bidders must certify awareness of these regulations and ~~goals goal~~. Successful bidders will be required to submit reports to the Trustees concerning TBE outreach efforts and professional bond service participation in transactions related to the offer and sale of the bonds that are the subject of this notice of sale."

(b) Bids.

(1) The form for submitting bids shall contain, in substance, the following certification which shall be executed by the bidder:

"Bidder certifies that bidder is aware of the Trustees' regulations and participation ~~goals goal~~ for TBE's offering professional bond services."

(2) The Senior Managing Underwriter may make the certification required by subdivision (a) on behalf of the syndicate or selling group.

(c) Goals for Competitive Contract. The Trustees' annual ~~goals goal~~ for TBE participation in competitive contracts for professional bond services shall be ~~15 percent for minority business enterprises, 5 percent for women business enterprises, and 3 percent for disabled veteran business enterprises for each of the professional bond services. These goals~~ This goal need not be met in every competitive bond transaction but will be pursued on an aggregate annual basis considering all competitive bond transactions during a year. ~~These goals~~ This goal will also be described in each notice of sale for bonds to be sold by competitive bid.

(d) Reports. The Senior Managing Underwriter in a competitive sale of bonds shall submit a written report regarding distribution of the underwriter's discount to the Trustees within 10 days of closing a transaction where the Senior Managing Underwriter's services were used.

Note: Authority cited: Section 89030, Education Code; ~~Section 16853(b), Government Code~~; and Section 999.5(b) Military and Veterans Code. Reference: Section 89036, Education Code; ~~Section 16850 et seq., Government Code~~; and Section 999 et seq., Military and Veterans Code.

§ 43884. Negotiated Sales.

(a) ~~Goals~~Goal. The statutory ~~goals~~goal for professional bond services in connection with bonds sold in negotiated transactions need not be met in every individual contract for services but will be pursued on an aggregate annual basis considering all contracts for professional bond services during a year. Thus, during the course of a year, there may be contracts without TBE participation and contracts with TBEs as prime contractor or TBE participation substantially higher than the statutory goal.

(b) TBE Qualifications. TBEs shall be considered for only those contracts or participation in contracts commensurate with their experience, capital, and compliance with applicable licensing requirements.

(c) Reports. The Senior Managing Underwriter in a negotiated sale of bonds shall submit a written report regarding distribution of the underwriter's discount to the Trustees within 10 days of closing a transaction where the Senior Managing Underwriter's services were used.

Note: Authority cited: Section 89030, Education Code; ~~Section 16853(b), Government Code~~; and Section 999.5(b) Military and Veterans Code. Reference: Section 89036, Education Code; ~~Section 16850 et seq., Government Code~~; and Section 999 et seq., Military and Veterans Code.

And, be it further

RESOLVED, that the Board of Trustees has determined that the adoption of the proposed revisions will not impose a cost or savings on any state agency; will not impose a cost or savings on any local agency or school district that is required to be reimbursed under Section 17561 of the Government Code; will not result in any nondiscretionary cost or savings to local agencies; will not result in any cost

or savings in federal funding to the state; and will not impose a mandate on local agencies or school districts; and be it further

RESOLVED, that the Board of Trustees delegates to the chancellor of the California State University authority to further adopt, amend, or repeal this revision if the further adoption, amendment, or repeal is required and is nonsubstantial or solely grammatical in nature, or sufficiently related to the original text that the public was adequately placed on notice that the change could result from the originally proposed regulatory action.