

## AGENDA

### COMMITTEE ON FINANCE

**Meeting: 1:30 p.m., Tuesday, September 14, 1999**  
**Glenn S. Dumke Conference Center**

Anthony M. Vitti, Chair  
Laurence K. Gould, Jr., Vice Chair  
Bob Foster  
Harold Goldwhite  
Frederick W. Pierce, IV  
Ali C. Razi  
Stanley T. Wang

#### **Consent Items**

Approval of Minutes of Meeting of July 7, 1999.

1. Auxiliary Organization Financing at San Diego State University, *Information*

#### **Discussion Items**

2. Softball/Baseball Facilities Improvement Project at CSU Sacramento, *Information*
3. Development of the 2000/01 Support Budget, *Information*

**MINUTES OF MEETING OF  
COMMITTEE ON FINANCE**

**Trustees of The California State University  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**July 7, 1999**

**Members Present**

Anthony M. Vitti, Chair  
Laurence K. Gould, Jr., Vice Chair  
Bob Foster  
Harold Goldwhite  
William Hauck, Chairman of the Board, ex officio  
Frederick W. Pierce IV  
Ali C. Razi  
Charles B. Reed, Chancellor, ex officio  
Stanley T. Wang

**Other Trustees Present**

William D. Campbell  
Martha C. Fallgatter  
Dee Dee Myers  
Joan Otomo-Corgel  
Ralph R. Pesqueira  
Michael D. Stennis

**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  
Douglas X. Patiño, Vice Chancellor, University Advancement  
Christine Helwick, General Counsel

Chair Vitti called the meeting to order at 2:47 p.m.

**Approval of Minutes**

The minutes of May 11, 1999, were approved.

**Proposed Merger of Two Auxiliary Organizations at Humboldt State University**

Chair Vitti explained that the item calls for the Board of Trustees' approval for the transfer of assets from one recognized auxiliary organization at Humboldt State University to another recognized auxiliary organization at that campus. Approval of the transfer of assets will allow the campus to

merge the two organizations' operations and functions. The merger would provide better and more efficient services to students through realizing economies of scale and other organizational efficiencies.

The committee recommended approval of the proposed resolution (RFIN 07-99-07).

### **Status Report on the 1999/2000 Support Budget**

Chair Vitti announced that the governor signed the budget on June 29, 1999. He then asked Mr. Richard P. West, executive vice chancellor and chief financial officer, to present the budget report.

Mr. West referred to the handout that was distributed prior to the meeting. He briefly reviewed the contents of the handout which included updates of the governor's actions on his budget in comparison to the original trustees' request made in October 1998. Mr. West said he felt that, overall, this was a very good budget for the CSU. Highlights included enrollment growth funding at the 3 percent level; technology funding of \$10 million; and a substantial increase in physical plant maintenance funds. Other significant areas of funding were in Outreach, the California Academic Partnership Program, and \$3.4 million for EOP and financial aid grants for EOP participants.

There were some notable disappointments as well. In particular, the governor chose not to fund the \$3.6 million in the compensation area which would have allowed for a full 4 percent compensation pool. Mr. West explained that carry forward funds would be used this year to cover the compensation deficit and that a request for permanent augmentation would be included in the budget request for 2000/2001.

Additionally, the request for support of high-cost programs was vetoed. Mr. West noted that we intend to revisit this issue with the Department of Finance in the future. On a more positive note, an additional 2 percent increase for the faculty was approved in support of the ongoing attempt to close the faculty salary gap.

Mr. West reported that discussions are expected to continue on a new compact and it is hoped that an agreement can be reached on an expected level of funding.

Trustee Pesqueira asked if there was any sort of plan for utilization of the plant maintenance money. Mr. West explained that there was no set plan since the money is not capital in nature. He said the funds would be used for ongoing general structure support such as painting of classrooms, landscaping, general clean up, utilities, and minor maintenance costs.

Trustee Wang asked if there was a plan to deal with the shortfall of technology funding and for coping with the non-funding of the high cost programs request. Mr. West replied that, with respect to technology, it is hoped that with the possibility of a new compact, technology funding issues will be stabilized. He said he fully expects to see a \$15 million component for technology included in the trustees' recommendation for the 2000/2001 budget and that the issue of high-cost programs will be revisited.

Trustee Wang asked about the current average cost per student, for undergraduate students. Mr. West replied that the estimated average cost per student, based on an average of 5.5 years to degree, is \$9,500 per year, or a total of approximately \$45,000 for an undergraduate degree. Chair Vitti inquired if that figure included amortization of capital and deferred maintenance. Mr. West replied that it does include all maintenance activities; however, it does not include amortization of the capital component.

Trustee Razi inquired about the status of the compact negotiations. Mr. West reported that meetings have been held with the Department of Finance and with the Secretary of Education, and that they have come to closure on accountability issues subject to the Department of Finance's discussion with the governor. Discussions are continuing on the financial side with respect to determining the yearly general fund and enrollment recommendation.

Chancellor Charles B. Reed said he wanted to ensure that the board fully understood the commitment that they are making to fund faculty salaries and compensation for all employees. He explained that funding for increases will be drawn from year-end savings from the Chancellor's Office operating budget and that the campus presidents have been asked to invest their carry forward money into faculty compensation on an ongoing basis. He cautioned that there was some risk in taking this action since we do not yet have an established compact.

Chancellor Reed took a moment to focus on the importance of our outreach programs and to emphasize that one of CSU's highest priorities is to assist in improving the public schools of California. Money received for these programs will be used to build faculty and public school teacher alliances, and to assist the school districts and their students in understanding CSU enrollment standards and preparing for entrance to the CSU.

Trustee Pesqueira said he was pleased to see that the request for the Spanish book collection at San Marcos was kept in the budget. He noted the tremendous benefit this would be to the surrounding community and applauded the campus for its efforts in building up one of the largest Spanish book collections in the world.

Trustee Goldwhite inquired about the status of the CalStateTEACH program in light of the current budget situation. Mr. West replied that there is some funding for CalStateTEACH in the 1999/2000 enrollment funding. He said permanent funding will depend on the volume of students who actually enroll and attend the program. Based on that experience, a decision can then be made on future funding.

Trustee Otomo-Corgel asked for an update on the Coachella Valley plan. Mr. West said the Department of Finance has indicated that we should redirect our existing funds to cover costs for this activity. He indicated that a discussion with CSUSB President Karnig should take place to determine the next steps in this area, and that there is a possibility that this cost may ultimately need to be recognized internally.

### **1999/2000 State University Fee Schedule**

Mr. West reviewed the item which provides a revised fee schedule based on an anticipated 5 percent reduction in CSU's State University Fee for undergraduate and graduate students. Trustee Campbell

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Fin.

expressed concern about when CSU would be able to resume following the Master Plan which allows for a small and reasonable amount of increase each year. He pointed out that past fee reductions were intended as a temporary measure to offset various economic and social situations at a particular point in time. However, fee reductions have continued despite the very different and more positive current economic climate.

Chair Vitti agreed that it is time to revisit this issue and determine how we might develop some sense of an in-place and consistent amount that covers a fair, just, and reasonable percentage of overall costs.

Chairman of the Board Hauck cautioned that this is a discussion over which we have little, if any, control at this time. He said the current mindset in Sacramento is not to increase fees.

Chancellor Reed concurred with the chair's remarks and suggested that the discussion should be continued at a future board meeting. He urged that the focus of the discussion should be on development of a fee policy, rather than on how to raise them.

Mr. West suggested that the best forum for this discussion would probably be to include a fee component in the new compact negotiations. He said that we hope to have a clearer picture in September on where we are with respect to a compact. Once that is determined, we can then decide if that is the correct forum in which to have that discussion.

The committee recommended approval of the proposed resolution (RFIN 07-99-08).

The meeting adjourned at 2:23 p.m.

## **BRIEF**

**Information Item**

Agenda Item 1  
September 14-15, 1999

### **COMMITTEE ON FINANCE**

#### **Auxiliary Organization Financings at San Diego State University**

##### **Presentation By**

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

##### **Summary**

This agenda item is to inform the Board of Trustees of proposed borrowings by a recognized auxiliary organization of the California State University. The financing transactions will not create any obligation of the State of California or the Trustees. The financings of the auxiliary organization will proceed pursuant to the chancellor's delegation in the Board of Trustees' CSU Policy for Financing Activities.

The San Diego State University Foundation is preparing to borrow funds for the purpose of purchasing and renovating a facility for campus research using one of its existing properties as security for the transaction. In addition, the foundation is preparing to refinance previously issued tax-exempt debt in order to modify certain financial covenants in the existing bond documents.

## ITEM

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Agenda Item 1  
September 14-15, 1999

### COMMITTEE ON FINANCE

#### **Auxiliary Organization Financings At San Diego State University**

The San Diego State University Foundation is preparing to borrow funds to purchase and renovate a facility for campus research using an existing property as security for the transaction. This will be a 30-year privately placed loan with a local charitable foundation currently active in an educational partnership with the university. In addition, the foundation is preparing to refinance previously issued tax-exempt debt to modify certain financial covenants in its existing bond documents. This change is required to allow the foundation to pursue a reorganization that includes the transfer of some financial assets to a new auxiliary organization at the campus.

#### **San Diego State University (SDSU) Foundation Purchase of Research Facility**

The San Diego State University Foundation, a recognized auxiliary organization of the California State University, is preparing to borrow an amount not to exceed \$2,650,000 to purchase and renovate two adjacent buildings that will be used for campus research. The foundation's governing board determined that the most cost effective and efficient method of obtaining funding was to secure taxable financing through a trust deed on one of its existing unencumbered properties located adjacent to the campus at 6386 Alvarado Road. The security property consists of 47,200 square feet with a market value of approximately \$5.5 million, and currently houses commercial tenants. The buildings to be acquired, known as the Lloyd's Facility, are located at 4275 and 4283 El Cajon Boulevard in San Diego, California. They consist of approximately 26,000 square feet and 58,000 square feet respectively, and will cost approximately \$1.7 million.

The foundation was able to secure financing from Price Charities at more favorable rates than bank financing. Price Charities is a San Diego charitable foundation active in various educational initiatives, including a joint project with the university aimed at economically challenged communities.

The following summarizes key information on the proposed financing:

Financed amount:	\$2,635,000 not to exceed \$2,650,000
Term:	Due in 5-years/30 year amortization
Estimated rate (all-inclusive cost):	7%, not to exceed 8%
Projected debt-service coverage (all unrestricted revenues):	3.46
Bond insurance commitment:	Taxable privately placed loan, therefore, no bond insurance or bond rating will be obtained.
Bond intrinsic rating before bond insurance:	Not applicable

#### **San Diego State University (SDSU) Foundation Refinancing of Tax-Exempt Debt**

The San Diego State University Foundation, a recognized auxiliary organization, is preparing to borrow an amount not to exceed \$10 million for the purpose of refinancing previously issued tax-exempt debt. This refinancing is required to modify certain financial covenants in the existing bond documents.

In July 1993 the foundation arranged for tax-exempt financing of \$9,875,000 to pay for a portion of the \$17.2 million cost of constructing the Gateway Center, a project comprised of a building of approximately 160,000 square feet, and related improvements adjacent to the San Diego State University campus. The financing was insured by Connie Lee Insurance Company and received a "AAA" bond rating. The bond insurance provisions required that the foundation enter into certain financial covenants that prevent it from pursuing a reorganization now that includes the transfer of some of its financial assets.

San Diego State University is forming a new auxiliary organization at the campus. On behalf of San Diego State University, The Campanile Foundation will be responsible for the management of endowments and the acceptance of university gifts. Concurrently, the campus has requested the San Diego State University Foundation to transfer approximately \$35,000,000 in endowments to the newly created Campanile Foundation. In order to accomplish this reorganization, the foundation must refund all of the outstanding 1993 financing through the issuance of new 1999 refunding bonds. This refunding will defease the 1993 financial covenants and will permit the university to implement the reorganization.

The bonds are limited obligations of the foundation secured by pledged revenues. The bonds will

be issued by San Diego State University Foundation on a parity basis with other outstanding revenue-secured obligations of the foundation. The following summarizes key information on the proposed financing.

Financed amount not to exceed:	\$10,000,000
Term:	25 years
Estimated rate (all-inclusive cost):	5.53%
Not to Exceed	7.00%
Projected debt-service coverage (all unrestricted revenues):	3.46
Bond insurance commitment:	A bond insurance commitment has been obtained from MBIA.
Bond intrinsic rating before bond insurance:	None, however the bond insurance will result in an investment grade bond credit rating.

Proceeds of the new debt, along with the funds in the existing debt reserve account, will be used to refund existing outstanding debt of \$9,025,000, establish a new bond reserve account, and pay for the cost of issuance. At the time this agenda item was prepared the net present value cost for the financing would be \$146,246. Actual savings or possible net present value costs will be determined on the day the bonds are sold and will be influenced by the market conditions at the time of the sale.

Orrick, Herrington and Sutcliffe LLP has reviewed the circumstances for the proposed financing and determined that the foundation qualifies as an “instrumentality of the state” based on an IRS private letter ruling, and as such it may take advantage of less restrictive provisions of the tax law and streamline some procedures that result in financing cost savings.

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 auxiliaries pursuant to the Chancellor’s delegation in the Board of Trustees’ CSU Policy for Financing Activities.

**BRIEF**

**Information Item**

Agenda Item 2  
September 14-15, 1999

**COMMITTEE ON FINANCE**

**Softball/Baseball Facilities Improvement Project at CSU Sacramento**

**Presentation By**

Donald Gerth, President  
California State University, Sacramento

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

**Summary**

This item outlines financial and operational information on arrangements with a private firm known as River City Baseball and a campus auxiliary organization to improve softball/baseball stadiums on the California State University, Sacramento campus.

## ITEM

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Agenda Item 2  
September 14-15, 1999

### COMMITTEE ON FINANCE

#### **Softball/Baseball Facilities Improvement Project at CSU Sacramento**

This item outlines information on the financial and operational arrangements to improve the softball/baseball facilities at California State University, Sacramento. The California State University, Sacramento Foundation (CSUS Foundation) will be entering into an agreement with River City Baseball, to upgrade the existing softball/baseball facilities. The CSUS Foundation is a CSU recognized auxiliary organization in good standing, and River City Baseball is an organization dedicated to bringing Triple A baseball to Sacramento. The upgrade will involve increasing seating to approximately 2,000 for baseball and 500 for softball, creating dugouts, locker rooms, public restrooms, concession stands and various site improvements. The concept for this project was previously approved by the Board of Trustees in the 1996/97 Capital Outlay Program, Non State (RCPBG 07-96-11). In addition, a proposed partnership plan with a previous developer was presented for information to the trustees in July 1997. That plan did not go forward due to problems that could not be resolved.

The university has since continued with the effort to develop a suitable plan that now includes the River City Baseball organization. The value of the planned upgraded facilities is now estimated at \$3.5 million. However, River City Baseball, with the support and in-kind assistance of several local contractors, intends to build the facility for \$2.5 million. The University will provide a ground lease to the CSUS Foundation and the CSUS Foundation will enter into an agreement with River City Baseball to construct the facilities and to service a portion of the debt on the \$2.5 million cost. The CSUS Foundation intends to make commitments to repay the debt that would entail payments only from proceeds from athletic events, e.g., gate receipts, concessions, sponsorships, etc., through the CSUS Foundation. The university will have no obligation to repay the debt to River City Baseball or for payments to the CSUS Foundation.

The details of the financial arrangements have not been finalized at the time this agenda item was prepared. However, the campus would like to apprise the Board of Trustees of the status of the project now, so that once final details have been negotiated, construction can commence immediately.

This public/private partnership will have benefits for both the University and River City Baseball. Utilizing this arrangement, the campus will be able to significantly enhance its softball/baseball facilities at substantial savings, while financing its share of construction costs without the need to engage in bond financing. Also, the enhanced facilities will permit the University's intercollegiate softball and baseball programs to play in facilities appropriate to Division I programs. River City Baseball will benefit by utilizing the improved baseball facility for one season during times that do not conflict with the campus needs, while a permanent facility is being constructed.

## **BRIEF**

**Information**

Agenda Item 3  
September 14-15, 1999

### **COMMITTEE ON FINANCE**

#### **Development of the 2000/01 Support Budget**

#### **Presentation by**

Mr. Richard P. West  
Executive Vice Chancellor  
Business and Finance

#### **Summary**

The committee will be given current information on developments related to the development of the 2000/01 CSU Support Budget. A planning estimate based on a new funding partnership for higher education will be presented. Consultation with the Executive Council, System Budget Advisory Committee, and other CSU constituency groups on the planning estimate has occurred and is ongoing. Modifications to the planning estimate will be made based on information contained in the detailed campus budget submissions for the 1999/2000 fiscal year and prior year reported expenditures for 1998/99. The Board is scheduled to take action on the 2000/01 Support Budget in October.