AGENDA

COMMITTEE ON FINANCE

Meeting: 9:00 a.m., Wednesday, January 24, 2007
Glenn S. Dumke Auditorium

William Hauck, Chair
Moctesuma Esparza, Vice Chair
Herbert L. Carter
Carol R. Chandler
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
Ricardo F. Icaza
Andrew LaFlamme
A. Robert Linscheid
Craig R. Smith
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of November 14, 2006

Discussion Items

2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Refinancings, Action
3. Public/Private Partnership Residential Condominiums and Hotel and Conference Center Project at California State University, Bakersfield, Action
4. Approval of Loan for Construction of California State University San Bernardino Palm Desert Health Sciences Center, Action
MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

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

November 14, 2006

Members Present

William Hauck, Chair
Roberta Achtenberg, Chair of the Board
Herbert L. Carter
Carol R. Chandler
Kenneth Fong
Raymond W. Holdsworth
Andrew LaFlamme
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig R. Smith

 Approval of Minutes

The minutes of September 19, 2006 were approved.

Trustee Hauck announced there would be a slight change in the order of presentation of the agenda items from the printed agenda. The lottery item was presented after the support budget report, followed by the remaining items.

Report on the 2007-2008 Support Budget

Mr. Patrick Lenz, assistant vice chancellor for the budget, presented the 2007-2008 support budget for the board’s review and approval.

Utilizing a PowerPoint slide presentation, Mr. Lenz provided detail of the budget components for the coming fiscal year. The Trustees budget proposal is a $4.5 billion budget request to the state for fiscal year 2007-2008, which is an increase of $266.8 million over the current year’s allocation. The budget consists of $3.1 billion from the state General Fund, $1.2 billion from State University Fee revenue, and $183.3 million from reimbursements.

Mr. Lenz’ presentation included information on the 2007-2008 budget assumptions, mandatory costs, compensation, enrollment, student fees and financial aid. Additional areas of importance and discussion included budget updates in the categories of long-term need (which includes technology), libraries and deferred maintenance. The item also addressed other budget issues and long-standing unfunded CSU budget challenges.
Mr. Lenz noted we anticipate full funding for our Capital Outlay budget as a result of the passage of Proposition 1D. The university is also proposing an additional $71.1 million for high priority ongoing programs and $50 million in one-time program augmentations.

Mr. Lenz stated the CSU’s funding priorities were formed keeping an eye toward the long-range goals and needs of the university, and in consultation with the members of the Board of Trustees, campus presidents, representatives of the CSU Academic Senate and members of the System Budget Advisory Committee. He reiterated this year’s budget anticipates that the CSU will receive full funding under the Compact but makes no assumptions on student fee revenue at this time. He added since the CSU believes the Compact represents a floor, not a ceiling, he will be asking the board for additional approval for ongoing, one-time budget requests above the Compact.

Mr. Lenz concluded saying that the state still faces a multi-billion dollar structural deficit, and that CSU’s budget is always vulnerable to limited general fund resources and other General Fund budget priorities.

Chancellor Reed concurred with Mr. Lenz’s statements about the budget proposal and described the various priorities of the Board and how those attempt to be responsive to the needs of the state. He expressed that the preliminary discussions with the Department of Finance and the Governor’s office indicate they understand the CSU’s needs and seem supportive.

Chair Achtenberg said she believes the proposed budget is an accurate reflection of the board’s priorities and expressed appreciation to all involved in shaping a budget that focuses on seeking additional funding consistent with the priorities of the board of trustees for this institution.

Trustee Hauck introduced two students from the Humboldt campus, Rachel Rodriguez and Jill Luckner, who addressed the committee to express their concerns regarding the impact of the budget reductions on their campus due to enrollment shortfalls.

Chancellor Reed responded to the students by informing them of the process required by the legislature that determines how CSU receives its enrollment funding. Trustee Hauck further explained it is the state’s policy to require the CSU to meet or exceed its enrollment target each year. There is no flexibility given to the CSU by the state regarding the system enrollment target. If the system is short of target by only one FTE there is a related reduction in the CSU budget. The Trustees support a more tolerant policy, but the legislature has not agreed. Campuses, such as Humboldt, have had their budget reduced when the campus misses its target by more than 2%. This threshold of 2% is a much more tolerant amount than the legislature allows the CSU system. Trustee LaFlamme thanked the students for their input and encouraged them and their fellow students to instead approach the legislature in Sacramento to express their concerns.
Trustee Smith referred to his experience as a department chair on a CSU campus, and how important it is to have full-time, tenured faculty. He then called attention to the ACR 73 item listed under the Budgetary Challenges/Unmet Needs category. He proposed an amendment to the budget resolution to move the $40 million estimated as the costs associated with year-one implementation of ACR 73 from Unmet Needs category into the Ongoing Programs category, elevating its priority within the Trustee budget request. Trustee Smith’s amendment was seconded and a discussion took place regarding the proposed amendment. The amendment was defeated by a majority vote of the committee.

The committee turned to the main resolution and recommended approval (RFIN 11-06-08).

**2007-2008 Lottery Revenue Budget**

Mr. Lenz reviewed the item as written in the agenda book. The 2007-2008 proposed CSU lottery revenue budget is projected at $44.4 million with $39.4 million available for allocation and a $5 million systemwide reserve. The projection reflects a modest growth in receipts of approximately $1 million over the previous year.

Mr. Lenz addressed the inquiry from Trustee Carter at the September meeting regarding additional use of lottery funds at the campuses for direct support of students. Mr. Lenz highlighted three programs: the Scholarship Program for Future Scholars; Access and Academic Development; and Teacher Recruitment (Diversity), as examples of campus based/lottery funded programs that are instrumental in aiding students to enroll at CSU, support courses associated with retaining students, assist in community college transfer rates, and improving CSU graduation rates.

Trustee Carter thanked Mr. Lenz for the examples and suggested it would be helpful for trustees to receive an annual report on the details of how lottery funds are being used on the campuses. Mr. Lenz agreed that was an excellent suggestion and said it would be incorporated in future annual lottery fund reports.

The committee recommended approval of the proposed resolution (RFIN 11-06-10).

**California State University Education Doctorate State University Fee – Independent Educational Doctoral Degree Program**

Mr. West reminded the committee the item was presented as an information item at the May 2006 board meeting and was being brought back for approval at this time.

CSU expects in the fall of 2007 to admit the first students and implement the first programs of the applied doctorate of education consistent with the legislation that was passed last year. The law authorizes CSU to charge fees for its independent educational doctorate program consistent with the University of California’s educational fee for doctoral programs in order to satisfy program costs.
Mr. West reviewed the details of the written agenda item. For the 2007-2008 academic year, the fee level will be $6,897, or an annual amount equivalent to the total of the graduate mandatory fee and miscellaneous fees approved by the University of California Regents for the 2007-2008 academic year.

The committee recommended approval of the proposed resolution (RFIN 11-06-09).

2006-2007 – Student Fee Report

Mr. Lenz presented the annual campus student fee report.

The written agenda report contained tables providing the current information on state university and campus based fees, by campus, for 2006-2007; a year-to-year comparison by campus, of state university fees and campus based fees; and three tables to indicate where CSU stands with undergraduate, graduate, and non-resident fees in relation to our comparison institutions.

With the use of a PowerPoint presentation, Mr. Lenz reviewed the past years’ fee history and patterns and examined the current status of fees as presented in the written agenda item.

The report concludes that in almost all categories across the board, CSU continues to maintain the lowest fees among the 15 comparison institutions used by CPEC for faculty compensation and student fee comparisons.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Parking Project at California State University, San Bernardino

Mr. Dennis Hordyk, assistant vice chancellor, financial services presented the item.

The item requested the trustees to authorize issuance of Systemwide Revenue Bonds and interim financing under the CSU’s commercial paper program in an aggregate amount not-to-exceed $29,035,000 to provide funds for a parking project at the California State University, San Bernardino campus. The project is comprised of two parking structures and an access road. The two parking structures will provide a total of 1,488 new parking spaces and the access roadway system will provide access to the proposed parking structures (I and II) and the College of Education.

Mr. Hordyk reviewed the financial details of the project and noted the project delivery method is Design-Bid-Build. The campus received good construction bids in September 2006 for the project and if approved, is scheduled to begin construction next month and be completed in March 2008.

The committee recommended approval of the proposed resolution (RFIN 11-06-11)
Public/Private Partnership Office Building Project at California State University, Bakersfield

Mr. Hordyk presented the action item.

CSU, Bakersfield is in the process of finalizing an update of its Master Plan that describes the proposed general physical layout of the 376-acre campus in anticipation of an increase in its master plan enrollment from 12,000 to 18,000 students.

Mr. Hordyk explained the campus is seeking conceptual approval of a public/private partnership with Greg Bynum and Associates, Inc. (Bynum) to construct a four to six-story office building on the CSU, Bakersfield campus. The campus would enter into a long-term market rate ground lease with Bynum, and the constructed building would provide market rate office space for various commercial, public, or non-profit tenants, each of which must have plans for significant collaborations with one or more university schools or departments. In addition, it would provide below market office space to campus tenants.

Mr. Hordyk provided detailed background and financing information on the project, and explained the proposed changes for the master plan have undergone extensive review and consultation with the campus community. In addition, the plan has been reviewed by the university’s primary landowner’s bordering the campus, CSUB Foundation Board members, and City of Bakersfield Council members. The university is currently undergoing the CEQA review process and the estimated date for submission of a completed Master Plan to the Board of Trustees is May 2007.

Total cost for the design and construction of the project is estimated to be between $25 and $32 million and will be born entirely by the developer. No financial resources will be required of the campus for construction, operation, and maintenance, or offsite mitigation. Mr. Hordyk noted once negotiations are completed and agreements reached, the development plan, a master plan amendment, schematic plans and any applicable CEQA documents will be presented to the board for further approval.

Dr. Horace Mitchell, president, CSU, Bakersfield addressed the committee and outlined the criteria used for reviewing and selection of the project developer. He also answered various questions on the project and emphasized that the ultimate purpose of the project is to support and enhance the university’s academic programs.

The committee recommended approval of the proposed resolution (RFIN 11-06-12).

Revenue Management Program

Utilizing a PowerPoint slide presentation, Mr. Hordyk outlined the history and background leading to development of the Revenue Management Program.
The legislature approved the program proposal and it became effective July 1, 2006. AB 1802 modified Education Code 89721 giving CSU the authority to deposit specific fees in local trust accounts.

Mr. Hordyk explained last year, as part of the budget process, CSU submitted a proposal to the Department of Finance requesting that the university be allowed to move our student fee revenue out of the general fund and into our local trust funds. The slide presentation reviewed in detail, the structure, modification process and ultimate advantages to CSU of such a program. The initiative evolved from a proposal dealing only with student fees to a complete overhaul of the entire university’s financial management systems and procedures, and for all university revenue and financial operations. The program will affect every aspect of the financial operations of the CSU and will significantly streamline the financial, accounting, and reporting processes of the university.

Mr. Hordyk said we are in the process of revising a significant number of business processes with the primary goal of improving efficiency and developing common business practices among the campuses. CSU will now have fiscal control over the majority of its revenue and cash, with the exception of the general fund state capital outlay appropriations and the proceeds of the revenue bond sales for construction projects.

Trustee Hauck acknowledged the program as a tremendous piece of work and thanked Mr. Hordyk, Mr. West and the Chancellor’s Office and campus staff who worked so successfully as a team to develop this innovative program.

Mr. West clarified that the state legislature and the governor still approve the budget for the student fee income as well as the general fund revenue CSU receives. The primary change resulting from the program will be the method by which the university will account for its fee revenue, and how our financial processes will work. He added his compliments to Mr. Hordyk and his staff on an outstanding achievement for the long-term benefit of the CSU system.

Trustee Hauck adjourned the meeting.
COMMITTEE ON FINANCE

Report on the 2007-2008 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The Board of Trustees will be presented with an overview of the Governor’s January 10, 2007-08 state budget including overall assumptions on the fiscal condition of the state, statewide funding priorities, and an update of the specific budget allocations for the California State University in the 2007-08 fiscal year.

2007-08 Support Budget

At the November meeting of the Board of Trustees, the Board approved the 2007-08 CSU budget to be submitted to the Department of Finance and the Governor’s Office. The overall CSU budget assumed $4.5 billion in total revenue that includes $3.1 billion from the state General Fund, $1.2 billion in student fee revenue assuming a “buy-out” of any increase in student fees as part of the 2007-08 budget, and roughly $200 million in revenues received to reimburse the university for self-supported services. The year-to-year CSU budget augmentation included $266.8 million to fund the Compact Agreement, and the Board identified $71.7 million to support various CSU budget priorities above the Compact; $50 million in “one-time” funding requests; and a recognition of $832 million in additional “Unmet Needs” for the University.

The CSU has met with representatives from the Governor’s Office, Department of Finance, and Secretary of Education Office to review the funding priorities approved by the Board of Trustees. In each meeting, there was recognition of the merit of the CSU budget recommendations and support for CSU’s progress in K-12 Teacher Preparation, Nursing Programs, and Early Academic Preparation of K-12 students. However, the CSU was told that funding above the Compact would be difficult to include in the Governor’s budget as a result of the state’s fiscal condition and competing budget priorities. These competing budget priorities include addressing the state’s funding deficit, providing the funding necessary to meet court
ordered changes in health care for the state’s prison population, and the Governor’s initiative to provide health care coverage to the state’s uninsured population. The CSU also was left with uncertainty as to any “buy-out” of student fees such as the one that occurred in the 2006-07 CSU budget.

The Governor’s budget will be submitted to the legislature on January 10 and at that time the CSU will have a complete understanding of the funding proposed by the Administration for the 2007-08 fiscal-year. If the state fully funds the Compact including a “buy-out” of student fees, the CSU General Fund will grow by $241.6 million plus an additional $25.2 million in student fee revenue as a result of 2.5 percent enrollment growth. However, if the Compact is fully funded without a “buy-out” of student fees, the state General Fund allocation would be approximately $176.4 million, and a 10 percent student fee increase would be necessary to generate $97.6 million, of which $32.5 million would be set-aside for State University Grants. In either case, the state General Fund or student fee revenue would allow the University to fund mandatory costs, enrollment growth, financial aid, compensation, the second year of the plan to reduce the salary lag, and long-term need as approved by the Board of Trustees in November 2006.

Conclusion

This is an information item for discussion on the Governor’s 2007-08 State Budget, the state’s fiscal condition and budget priorities, and the 2007-08 CSU budget.
COMMITTEE ON FINANCE

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

Presentation by

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests that the Board of Trustees authorize the issuance of Systemwide Revenue Bonds (SRB) and the issuance of interim financing under the CSU’s commercial paper program in an aggregate amount not-to-exceed of $280,785,000 to provide funds for refundings of five senior debt Student Unions, refundings of the California State University, Channel Islands (CSUCI) Financing Authority debt, and refundings of two auxiliary organizations’ bonds. To facilitate flexibility, the Board is being asked to approve a single, separate resolution for the five senior debt Student Unions, a single, separate resolution for the CSUCI Financing Authority debt, and separate resolutions for both of the auxiliary organizations’ bonds. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody’s Investors Service and Standard and Poor’s Corporation as the existing systemwide program bonds.

The refundings are as follows:

1. **Senior Debt Student Unions – Chico, Fullerton, Northridge, San Diego, and San Francisco**

The Board of Trustees has indebtedness outstanding that is secured by a senior lien on revenues otherwise pledged to the Systemwide Revenue Bonds related to certain student unions (Chico, Fullerton, Northridge, San Diego, and San Francisco). The bond resolutions that govern these student unions contain provisions that require the Trustees to deposit all revenues received into accounts maintained by the State Treasurer as the bond trustee by the end of the month following the month of receipt. The provisions of the SRB indenture do not have the same requirement, but instead allow the Trustees to deposit revenues to accounts controlled by the CSU that are then designated as part of the Gross Revenue Fund, as defined in that indenture, and do not need to be transferred to the bond trustee to hold for extended periods.

With the significant changes that have occurred in the accounting and banking operations of the...
CSU campuses as a result of the 2006 state budget trailer language that allowed the University to establish its Revenue Management Program (AB 1802, Chapter 79, 2006 - amending Ed Code 89721), it is highly desirable that these five campuses be able to manage funds associated with their student unions from their own main campus depository and disbursement bank accounts, rather than having to remit funds to the State Treasurer as revenue deposits and claim funds from the State Treasurer to pay related expenses. Campus accounting and cashiering operating units will see efficiencies as a result of handling mandatory student union fees and student union operating revenues in the same manner as they handle all other student fees and operating revenues.

Because these five student unions were financed at various times (Chico – 1998, Fullerton – 1996, Northridge – 1992 and 1998, San Diego – 1998, and San Francisco – 1998), their bonds were issued at various interest rates over a variety of maturities. At this time, the Board is being asked to approve current refundings of these five campuses’ student union debt into the Systemwide Revenue Bonds, thereby eliminating this senior lien and placing these student centers under the same requirements as all other projects financed through Systemwide Revenue Bonds. Additionally, there is one campus (San Luis Obispo) that has a student center bond resolution with similar restrictions to the five campuses listed above. The Board is not being asked to approve a refinancing of these bonds at this time, as the indebtedness will be completely repaid before the end of the current calendar year.

A current refunding for these five student centers in the current interest rate environment (true interest rate – 4.21%; January 4, 2007) would result in an overall net present value savings of $1,924,000 or 2.81%, based on refunding bonds issued of $69.6 million. Although the Trustees and financial markets generally expect to achieve at least a 3% net present value savings when refinancing existing debt, the operating efficiencies to be gained from this refinancing significantly enhance the otherwise relatively small economic advantage gained. Interest rates may fluctuate between the date of this approval and that of the bond sale, however, financial market rates would have to rise by more than 25 basis points before a net present value loss would result from the refinancing of these bonds. It is anticipated that this refinancing will occur in a Systemwide Revenue Bond sale that is currently scheduled for the first quarter of calendar 2007.

2. California State University, Channel Islands Financing Authority - Faculty/Staff Housing Refinancing

Existing Debt and Status

In 1998, the California State University, Channel Islands Site Authority (“Site Authority”) was created by an act of the State Legislature with the mandate to, among other things, assist in the development of the California State University, Channel Islands campus on the site of the former

...
Camarillo State Hospital. The legislation granted the Site Authority certain powers to meet this mandate, including the power to issue debt and provide financing for Site Authority purposes, to which end, the CSUCI Financing Authority (“Financing Authority”), a joint powers authority, was created by the Site Authority and the Trustees of the California State University (“Trustees”).

The Site Authority development plan called for the construction of five phases of affordable faculty and staff housing on the eastern portion of the campus site (“East Campus”) and the creation of a source of revenue to help fund academic facility development on the main campus. The first three phases of housing included both for-sale housing and rental housing units. These phases were completed in March 2003, January 2004, and April 2006. In addition, the third phase included 31,000 square feet of retail and commercial space, which is expected to be completed in March 2007. The final two phases of housing will consist of for-sale units only and are expected to be completed in September 2008 and July 2009. The following table summarizes the number of housing units per phase.

<table>
<thead>
<tr>
<th>Phase</th>
<th>For-Sale Units</th>
<th>Rental Units</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>59</td>
<td>148</td>
<td>207</td>
</tr>
<tr>
<td>Two</td>
<td>39</td>
<td>110</td>
<td>149</td>
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<tr>
<td>Three</td>
<td>86</td>
<td>216</td>
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<td>124</td>
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<td>124</td>
</tr>
<tr>
<td>Five</td>
<td>118</td>
<td>0</td>
<td>118</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>426</strong></td>
<td><strong>474</strong></td>
<td><strong>900</strong></td>
</tr>
</tbody>
</table>

In order to finance the construction of the five phases of housing, the Financing Authority issued four series of bonds totaling $195,525,000. The first series was issued in June 2001 in the amount of $49,460,000, to finance the infrastructure for the five phases of housing, with repayment on the bonds coming from three sources of revenue: 1) ad valorem property taxes, authority for which was granted under the legislation that created the Site Authority; 2) “special taxes” to be collected by a community facilities district created by the Financing Authority pursuant to the Mello-Roos Community Facilities District Act of 1982; and 3) a 20% share of the gross rental revenues from the rental units on the East Campus.

The second series of bonds was issued in December 2001 in the amount $46,815,000. The purpose of these bonds was to finance the rental housing in the first two phases. Repayment on these bonds comes from the net operating revenues of the rental units. (The for-sale housing in the first two phases were financed with bank construction loans, which were paid off in full upon completion and sale of the housing units.)

The third and fourth series of bonds were issued in August 2004. One series totaled $54,750,000, consisting of a tax-exempt series ($50,735,000) and a taxable series ($4,015,000).
The purpose of these bonds was to construct the third phase of rental housing along with the retail and commercial space. Repayment on these bonds comes from the net operating revenues of the rental units as well as the retail/commercial operations. The other series of bonds issued in August 2004 totaled $44,500,000 and was to provide financing for the last three phases of for-sale housing. Net proceeds from the sale of for-sale units in each phase would be combined with remaining bond proceeds to construct the following phase of for-sale housing. At the completion and sale of the third phase of for-sale housing, proceeds would be used to retire the $44,500,000 in outstanding bonds.

In all cases, the Financing Authority for the purpose of constructing and completing the housing units lent proceeds of the bonds to the Site Authority. Furthermore, the various sources of repayment noted for each series of bonds were pledged to the repayment of those bonds.

**Proposed Refinancing**

At this time, it is recommended that the Board approve a refinancing for the existing Financing Authority bonds with bonds of not-to-exceed $202,975,000 issued under the Systemwide Revenue Bond program. Debt service on the refinancing bonds will be met with payments under a ground and facility lease with the Site Authority. The Site Authority will make lease payments to the Trustees, who will use the payments to make debt service payments on the bonds. A modest lengthening of average maturities of the outstanding bonds will result from this refinancing.

Refinancing the existing Financing Authority bonds will provide both direct and administrative cost benefits to the Site Authority, to the Channel Islands campus, and to the Trustees. Each series of bonds is currently supported by bank letters of credit. The elimination of the need for these letters of credit, along with other financing costs, such as periodic remarketing fees and rating agency fees separate from the Trustees’ SRB program, will be the main source of savings to the Site Authority, and is calculated at over $10 million in present value savings over the life of the project. Furthermore, the elimination of bank covenants, oversight, and reporting requirements will significantly reduce the Site Authority’s administrative costs and increase its management flexibility. Refinancing will also provide an opportunity to reset the overall amortization of the outstanding debt and improve cash flow coverage.

The not-to-exceed amount and the net present value savings are based a current interest rate of 4.51% as of January 4, 2007, which may fluctuate before permanent financing bonds are sold. Interest rates may fluctuate between the date of this approval and that of the bond sale, however, financial market rates would have to rise by more than 50 basis points before a net present value loss would result from the refinancing of these bonds. This refunding will have minimal impact on the systemwide debt capacity since this debt is already included in overall CSU financial statements and debt capacity calculations. It is anticipated that this refinancing will occur in a
Systemwide Revenue Bond sale that is currently scheduled for the first quarter of calendar 2007. Because the source of repayment for $44,500,000 in bonds issued in August 2004 is based on the completion and sale of for-sale housing, it is expected that, to the extent permitted by federal income tax laws, these bonds will be refinanced with commercial paper rather than permanent financing bonds, to allow the debt to be easily retired in following the completion of the final phase.

3. The University Corporation (CSU, Northridge) – Bookstore Refinancing

A refinancing of certain bonds of The University Corporation (Corporation), a recognized auxiliary organization in good standing, is being recommended for Trustees approval. The Corporation board is expected to adopt a refinancing resolution sometime between the writing of this Trustees’ item and February 20, 2007, and this Trustees’ approval is contingent upon the Corporation board’s resolution.

The Corporation bonds were originally issued in 1996 on a parity basis to its existing debt at a par amount of $9,000,000 to fund the acquisition and renovation of faculty and staff housing and refund prior auxiliary bonds to construct a campus bookstore. This particular refinancing represents a current refunding of only the portion of the series 1996 bonds (57%) related to the bookstore project.

The refinancing will carry a general obligation pledge of the Corporation’s unrestricted revenues and will be on parity with existing Corporation debt. The refinancing is at a not-to-exceed par amount of $4,250,000 and is estimated to generate a net present value savings of $608,000 or 14.6% of the refunded bonds.

<table>
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<tr>
<th>Not-to-exceed amount:</th>
<th>$4,250,000</th>
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<tbody>
<tr>
<td>Net Present Value Savings (% of refunded principal amount)</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

The not-to-exceed amount and the net present value savings are based on the existing bonds at a current interest rate of 4.19% (as of January 4, 2007), which may fluctuate before permanent financing bonds are sold. This refunding will have minimal impact on the systemwide debt capacity since auxiliary debt is already included in overall CSU financial statements and debt capacity calculations.

4. Cal Poly Pomona Foundation – Center for Training, Technology and Incubation Refinancing

A refinancing of certain bonds of the Cal Poly Pomona Foundation (Foundation), a recognized auxiliary organization in good standing, is being recommended for Trustees approval. The Foundation board adopted a resolution approving the refunding of the series 2000 bonds on
January 17, 2007. The Trustees had originally approved the issuance of this auxiliary organization debt at its meeting of July 18, 2000.

The bonds were originally issued by the Foundation in 2000 on a parity basis to its existing debt at a par amount of $5,070,000 to fund the construction of the Center for Training, Technology and Incubation. This refinancing will carry a general obligation pledge of the Foundation’s unrestricted revenues and will be on parity with existing Foundation debt. The refinancing is at a not-to-exceed par amount of $3,960,000 and is estimated to generate a net present value savings of $202,500 or 5.57% of the refunded bonds.

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<tr>
<th>Not-to-exceed amount:</th>
<th>$3,960,000</th>
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</thead>
<tbody>
<tr>
<td>Net Present Value Savings (% of refunded principal amount)</td>
<td>5.57%</td>
</tr>
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</table>

The not-to-exceed amount and the net present value savings are based on the existing bonds at a current interest rate of 4.14% (as of January 4, 2007), which may fluctuate before permanent financing bonds are sold. This refunding will have minimal impact on the systemwide debt capacity since all auxiliary debt is already included in overall CSU financial statements and debt capacity calculations.

**Trustee Resolutions and Recommended Action**

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for the refinancings described in this agenda item that authorize interim and permanent financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of the Trustees of the California State University Systemwide Revenue Bond in an amount not-to-exceed $69,600,000 to refinance the Senior Debt Student Unions for Chico, Fullerton, Northridge, San Diego, and San Francisco and certain actions relating thereto.
2. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed $202,975,000 to acquire projects for the purpose of refinancing the CSUCI Financing Authority – Faculty/Staff Housing and certain actions relating thereto.
3. Authorize the sale and issuance of Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed $4,250,000 to refinance The University Corporation, CSU Northridge Bookstore and certain actions relating thereto.
4. Authorize the sale and issuance of the Trustees of the California State
University Systemwide Revenue Bonds in an amount not-to-exceed $3,960,000 to refinance The Cal Poly Pomona Foundation Center for Training, Technology and Incubation and certain actions relating thereto.

5. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the acquisition of the projects and the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in Agenda Item 2 of the Committee on Finance at the January 23-24, 2007 meeting of the CSU Board of Trustees is recommended for:

**Senior Debt Student Unions – Chico, Fullerton, Northridge, San Diego, and San Francisco**

**California State University, Channel Islands Financing Authority - Faculty/Staff Housing Refinancing**

**Cal Poly Pomona Foundation – Center for Training, Technology and Incubation Refinancing**

**The University Corporation (CSU Northridge) – Bookstore Refinancing**
COMMITTEE ON FINANCE

Public/Private Partnership Residential Condominiums and Hotel and Conference Center Project at California State University, Bakersfield

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Horace Mitchell
President
California State University, Bakersfield

Summary

The campus is seeking conceptual approval of a public/private partnership for mixed-use development to build residential condominiums, a four-star hotel and conference center, office space, a parking structure, and a retail center on the Bakersfield campus. The campus would propose to enter into a long-term, market rate ground lease with a developer.

Background

The campus is in the process of finalizing an update of its master plan that describes the proposed general physical layout of the 376-acre campus in anticipation of increasing its master plan enrollment from 12,000 students to 18,000 students. The plan outlines the location of new academic buildings, residence halls, student services and athletic facilities and new roadways and parking lots. A portion of the southern boundary of the campus is planned for buildings and other facilities that through development of public-private and public-public partnerships would advance and enhance the educational mission of the university while also providing resources and services to the campus and local community.

The proposed changes for the master plan have undergone extensive review and consultation with various members of the campus community, including the Academic Senate and the campus Master Plan Review Committee. In addition, the primary landowners bordering the campus, CSUB Foundation Board members, and City of Bakersfield Council members representing districts bordering the campus property have reviewed the plan. The campus is currently undergoing the CEQA review process; the estimated date for submission of a completed Master Plan to the Board of Trustees is May 2007.
On February 3, 2006, California State University, Bakersfield issued a Request for Proposals (RFP) to private developers to work cooperatively with the campus in a long-term public/private or public/public partnership to develop all or part of the 36 acres of vacant land along the southern end of campus property. The campus received six responses to the RFP, and selected three proposals for further review and consideration. The Trustees provided conceptual approval for a four to six story Class “A” office building of 100,000 to 130,000 square feet at the November 2006 meeting. The project under consideration in this item consists of luxury high-rise condominiums, a four-star hotel and conference center, parking structure, office space, and a retail center.

**Project Description**

The campus has received a proposal from a local developer (Crisp & Cole) for the development of twin 31-story towers, including high-rise luxury condominiums, a four-star hotel and conference center with banquet seating for over 1,000 guests, office space, and a retail center, a $300-400 million project. The proposal also included a 700-space parking garage, estimated at $14 million. The proposed project would require 19-21 acres in the southwest portion of the campus.

Current marketing and feasibility studies were completed by Economics Research Associates (ERA), which concluded that there is demand in the Bakersfield region for such a mixed-use project. The Environmental Impact Report (EIR) currently underway to support the new CSUB master plan will encompass public-private partnerships, and this proposed project is consistent with the new master plan.

Fair market value for the use of the land will be paid by the developer, to be determined by an independent real estate appraisal that will be conducted before the business terms of the agreement are concluded. It is anticipated that use of approximately 20,000 square feet of office/classroom space, a one-bedroom guest suite, and a 2,300 square foot hospitality suite will be provided to the campus, as well as use of the 700-space parking structure. The value of these will be determined according to an independent appraisal before the business terms of the agreement are concluded.

**Educational Benefits**

The proposed project would provide an opportunity for the development of student employment and internships in management, communications, accounting and marketing. Additionally, the project could provide a stimulus for the establishment of new or expanded CSUB degree programs in fields such as Merchandising, Marketing, Retail, Business, and Residential, Restaurant, and Hotel Management, upon appropriate faculty consultation and approval. The project would be designed as a “green” project, with provisions for LEED certification, solar
energy applications, and other environmental and energy conservation measures, all which would provide activities for faculty and students. The proposed project would also provide meeting and conference facilities, as well as space for the Osher Lifelong Learning Institute.

**Recommended Action**

The developer Crisp & Cole has made a specific project recommendation and the campus and Chancellor’s Office, based upon the Trustees’ conceptual approval, will undertake negotiations to determine project details and the business terms of an agreement, returning to the Trustees for final approval of the development plan; however, should the negotiations with this developer not produce a viable development plan, the campus has determined that it does want to have this project or a project with similar components, including a hotel, on this parcel. If negotiations with the current developer do not result in an acceptable development plan, then the campus will continue to pursue development opportunities with other developers for the creation of a similar type of project.

The following resolution is recommended for approval:

1. **RESOLVED**, By the Board of Trustees of the California State University that conceptual approval is given for the development of residential, hotel, restaurant, parking and retail space on the California State University, Bakersfield campus, as described in Agenda Item 3 of the Committee on Finance at the January 23-24, 2007 meeting.
2. Authorize the campus in consultation with the Chancellor’s Office to formulate a development plan for the proposed project with the understanding that the development plan and additional information will be presented to the Trustees at key points in the process;
3. Consider the following action items for approval by the Trustees at the appropriate times during the development process:
   a. The development plan that includes, but is not limited to, an update of the conceptual plan presented to the Trustees, a summary of important terms and conditions of specific agreements negotiated by the campus and the developer, the results of due diligence studies including an assessment of risks associated with the project, and a multi-year financial plan;
   b. Master Plan revisions;
   c. Proposed schematic plans; and
   d. Environmental documents for the project.
COMMITTEE ON FINANCE

Approval of Loan for Construction of California State University San Bernardino Palm Desert Health Sciences Center

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Albert Karnig
President
California State University, San Bernardino

Background

The San Bernardino campus has been conducting a fundraising campaign to provide funds to construct the “Palm Desert Health Sciences Center”. The fundraising campaign has successfully been completed, the design of the building has been completed, and a successful bid has been received for the project. The Board of Trustees at its May 17, 2006 meeting approved the schematic design for the project.

The funds for the project are coming from several funding agreements entered into among the Foundation for CSUSB and various cities, agencies, foundations, and a few individuals. Many of the funding agreements call for payments by the donors to be made over a period of a few years. The campus desires to begin the construction of the building at this time and has reached agreement with the Francis Berger Foundation to provide an interim loan of $3.5 million to the Foundation to provide the interim funds needed to complete the project over the next year.

To mitigate the minimal risk that one or more donors may not keep the financial commitment contained in the funding agreements, the Berger Foundation has agreed to forgive any portion of the loaned funds if donations are not received by the campus in a timely manner to allow for loan repayment.

The campus has developed a financial plan for the project including all project costs such as design, construction, project management, etc. A cash flow plan has also been prepared demonstrating the cash inflows and outflows needed to fund the project, including interest to the Berger Foundation, are sufficient and that the project can commence.
The entire project cost is approximately $14.5 million. The interim funds required are $3.5 million, the loan amount sought from the Berger Foundation. The Foundation for CSUSB will provide the Berger Foundation with a general obligation pledge and will amortize the loan over a period of three years at 7% interest.

The following resolution is recommended for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the Trustees: 1) Approve the proposed auxiliary financing in an amount not to exceed $3.5 million as described and for the purpose indicated in agenda item 4 of the Committee on Finance at its January 23-24, 2007 meeting, and 2) Confirm that the Chancellor; the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor, Financial Services, and the Senior Director, Financing and Treasury, are authorized to take any and all action on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary to complete the financing described herein.