

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 9:05 a.m., Wednesday, July 16, 2003  
Glenn S. Dumke Auditorium

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Roberta Achtenberg  
Harold Goldwhite  
Ricardo F. Icaza  
M. Alexander Lopez  
Frederick W. Pierce IV

#### Consent Item

Approval of Minutes of Meeting of May 14, 2003

#### Items

1. Status Report on the 2003/2004 Support Budget, *Information*
2. State University Fee Increase, *Action*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at San Francisco State University, *Action*
4. Public/Private Venture to Develop Student Housing on Private Property Adjacent to California State University, San Bernardino, *Action*
5. Student Housing and Land Acquisition at California Polytechnic State University, San Luis Obispo, *Action*

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

**May 14, 2003**

**Members Present**

William Hauck, Chair  
Debra S. Farar, Chair of the Board  
Murray L. Galinson  
Harold Goldwhite  
Frederick W. Pierce, IV  
Charles Be Reed, Chancellor  
Erene S. Thomas  
Kyriakos Tsakopoulos  
Anthony M. Vitti

**Members Absent**

Shailesh J. Mehta  
Dee Dee Myers

**Other Trustees Present**

Roberta C. Achtenberg  
Bob Foster  
Ricardo Icaza  
Alexander Lopez  
Ralph R. Pesquiera

**Chancellor's Office Staff**

David S. Spence, Executive Vice Chancellor and Chief Academic Officer  
Richard P. West, Executive Vice Chancellor and Chief Financial Officer  
Christine Helwick, General Counsel  
Jackie R. McClain, Vice Chancellor, Human Resources  
Freda Hinsche Otto, Assistant Vice Chancellor, University Development  
Karen Y. Zamarripa, Assistant Vice Chancellor, Governmental Affairs

Chair Hauck called the meeting to order at 8:59 a.m.

### **Approval of Minutes**

The minutes of March 11, 2003 and April 17, 2003 were approved.

Chair Hauck informed the committee of a change to the order in which the committee agenda items would be presented. He indicated the consent items would be presented first, followed by the budget and fee items.

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

Mr. Richard P. West, executive vice chancellor and chief financial officer, introduced the item. He noted a four-page handout had been distributed providing background information and an update on the status of the systemwide revenue bond program. Mr. West reviewed the contents of the handout focusing on the university's current debt status and how various factors affect the university's credit rating.

Mr. West reported CSU's credit rating is in good standing with our rating agencies, and assured the committee that efforts are continually in process to improve the university's bond program. Trustee Foster commented on the importance of maintaining a good credit rating status, and emphasized it is an asset that should be carefully guarded.

Mr. Dennis Hordyk, assistant vice chancellor, financial services presented information on two projects requiring approval by the committee.

The first project is a request by CSU, Fullerton, to construct a parking structure on the southwest portion of the campus. Mr. Hordyk outlined the background, details, and terms of the proposed project. The cost of the project is not to exceed \$28,410,000 and is scheduled for completion in August 2004.

The second project is a request by CSU, Los Angeles, for approval to finance construction of a four-level parking structure on the campus. Mr. Hordyk explained the history and need for the structure. The cost of the project is not to exceed \$12,500,000 and is scheduled to be completed in May 2004.

The committee recommended approval of the proposed resolution (RFIN 05-03-07).

### **Public/Private Venture to Develop Student Housing on Private Property Adjacent to California State University, San Bernardino**

Mr. Hordyk explained this agenda item provides information regarding a proposal to enter into an agreement with a private developer in which the developer would build 480 beds of student housing on private land located directly across the street from the San Bernardino campus. The

campus would purchase the project and the land from the developer upon completion, using proceeds of bonds issued through the Systemwide Revenue Bond Program as the source of funds.

Mr. Hordyk outlined the details and timeline of the project. Dr. Albert Karnig, president, California State University, San Bernardino, remarked this was a unique opportunity for the campus to creatively employ land not currently in the university's possession, in an ideal location, in order to build some much-needed additional student housing.

The committee recommended approval of the proposed resolution (RFIN 05-03-08).

### **Real Property Ventures at California State University, Fresno for a Mixed-Use Development Project**

Trustee Pierce asked to be excused from discussions on the item due to his involvement in some aspects of the project.

Mr. West introduced the item that requests conceptual approval to permit the campus to continue developing a plan for a real property venture project at California State University, Fresno, for a mixed-use development facility. The project is to be funded by the California State University, Fresno Association. Mr. West pointed out this was a unique project in that it encompasses a wide variety of uses under one proposal.

Dr. John D. Welty, president, California State University, Fresno, presented background information on the events leading to the proposed development of this project and said it was in the very early stages of development. A Request for Qualification for a master developer has been issued and two proposals are being reviewed.

Dr. Welty explained how development of this project would help support the academic mission of the university by providing land uses that will support operations at the new Save Mart Center, as well as yielding a valuable return to the university.

Trustee Achtenberg asked about the abandoned retail space along the project corridor and how that space might affect the project. Dr. Welty responded that the campus obtained a professional assessment on the use of the surrounding property and it was determined that the proposed site was better suited for maximizing revenue and development of complimentary facilities than previously considered sites.

Trustee Hauck said this was an extensive development project and one that needs to be carefully considered. He cautioned that the CSU is not in the development business and certain things need to be closely examined, particularly when it relates to the university's debt capacity.

The committee recommended approval of the proposed resolution (RFIN 05-03-09).

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Fin.

Trustee Pierce excused himself from the vote.

### **Status Report on the 2003/04 Support Budget and 2003/2004 State University Fee Increase**

Trustee Hauck referred to Chancellor Reed's letter dated May 5, 2003 that was distributed as a handout. The letter recommended that the board conduct an extensive discussion of the budget and the potential for fee increases, but to delay taking action at this session on a fee increase.

Trustee Hauck said the intention of this session would be to proceed with a discussion on the fee increase, and to present an update on the 2003-2004 budget. . He also announced there would be a portion of the session set aside for public discussion of the item.

Trustee Hauck noted the May Revision would be issued today. He said initial indications suggest there will be substantial changes from the governor's January budget however, there appear to be no additional cuts for the CSU beyond what we are currently aware of at this point.

With the assistance of a PowerPoint presentation, Mr. West delivered a comprehensive overview of the current budget situation. He also presented background on efforts undertaken with respect to consultation on, and evaluation of, the internal budget. Two campus presidents, Dr. Robert Maxson, CSU, Long Beach, and Dr. Manuel Esteban, CSU, Chico, spoke about how their respective campuses were planning to deal with the budget cuts.

Mr. Patrick Lenz, assistant vice chancellor, budget development, initiated a discussion on the external budget. He apprised the committee of actions taken on various measures, proposals, and bills, and how those actions may potentially affect CSU's budget. He concluded noting that while there is some slight sign of relief with release of the May Revise, the budget process is still ongoing with no immediate sign of a resolution.

The discussion then turned to the fee increase issue.

Trustee Icaza voiced his opposition to a student fee increase.

Trustee Galinson said he was philosophically opposed to a fee increase, but acknowledged there seems to be no alternative at this point.

Trustee Vitti voiced his concern about the need for a formal, predictable, and fair fee policy that allows students to plan for the cost of their education. Mr. West commented that there is currently a fee proposal in the legislature addressing the issue. However, there is no indication at this time on whether it stands a chance of becoming policy.

Trustee Hauck announced the next portion of the meeting would be devoted to comments from students who were present to discuss this issue.

The following students addressed the board on the fee increase issue:

Julie Lewis- CSU, Chico  
S. Chavez - CSU, Dominguez Hills  
Alex Lopez - CSU, Fullerton  
Cindi Newbold - CSU, Hayward  
Joyce Kelly - CSU, Long Beach  
Carlos Illingworth - CSU, Los Angeles  
Josh Lodolo - CSU, Northridge  
Eric Guerra - CSU, Sacramento  
Eric Fallis - CSU, San Bernardino  
Bruce Wolfe - San Francisco State  
Lisa Canini - Sonoma State

The students presented their comments, frustration, and concerns about the proposed fee increase. Many of them said they felt students have been unfairly targeted and urged the board to look at other alternatives to the funding crisis in lieu of a fee increase. Students also expressed their support for the CSU in general, and shared individual experiences about how attendance at a CSU campus has enriched their lives. They also stressed how important it was to them individually to be able to continue studying at their respective campuses without additional financial burden. One student summed things up by urging the university to ‘keep the doors of opportunity open, to protect access, and to preserve quality, for those who dare to pin their dreams on the CSU.

Trustee Hauck thanked them for their input and suggestions. He emphasized that the board of trustees supports the establishment of a long-term fee policy and has previously but unsuccessfully, attempted to pursue a formal policy in Sacramento. He indicated that the problem is not with the trustees, but with the legislature. He added that the legislature’s direction to reduce fees over the past several years is largely responsible for the position the university is in today.

Trustee Hauck assured the students that the chancellor, staff, and campuses are all trying to do everything in their power to reduce expenses without harming instruction; without eliminating classes; and attempting to avoid layoff of faculty and staff. The chancellor, campus administration, and staff in Long beach are working very hard to do exactly what students are asking them to do; protecting their ability to go to school. The board supports continuing to support to students

Mr. Art Pimentel, chair, California State Student Association, thanked Trustee Hauck for affording the students the opportunity to address the board on the realities students are facing and urged the board to consider other forms of funding.

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Fin.

Trustee Hauck concluded the meeting noting the chancellor has recommended that action be deferred on the fee issue.

The meeting adjourned at 11:17 a.m.

## **COMMITTEE ON FINANCE**

### **Status Report on the 2003/2004 Support Budget**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Patrick J. Lenz  
Assistant Vice Chancellor for Budget Development

#### **Summary**

The legislature continues to engage in budget discussions in their effort to get the two-thirds vote in the Senate and Assembly to send a budget to the Governor by the beginning of the fiscal year. While the legislature has missed the June 15 constitutional deadline to pass a budget, and the two-house budget conference committee has recessed until further notice, there continues to be budget proposals offered by the legislature and meetings by the "Big 5" to enact a state budget. The board will be given an overview of actions by the Senate and Assembly, the two-house conference committee, and alternative legislative budget proposals that have surfaced during this process.

#### **2003-04 Support Budget**

As reported to the Board of Trustees in May, the Governor's January budget assumed \$447.7 million in fewer state General Fund resources to the CSU with an off-set of \$187 million in student fee revenue and funding to address the over-enrollment growth in the 2002-03 fiscal year. This resulted in a net budget reduction for the CSU of \$260.7 million for the 2003-04 fiscal year. The Governor's May Revise, while significantly different in revenue and expenditure assumptions than his January budget, made only minor adjustments to the CSU budget.

Prior to the May Revise, the legislature enacted and the Governor signed legislation that would allow the state to achieve \$650 million in General Fund savings for the 2003-04 fiscal year by issuing bonds to fund the Public Employee Retirement System and the State Teachers Retirement System pension obligations. In conjunction with this legislation, the legislature enacted and the Governor signed \$3.6 billion in budget cuts for the 2003-04 fiscal year. Although CSU or UC were not specifically identified in the enacted budget reduction legislation, the initial legislative proposals considered reductions to each system's state General Fund by

\$69.5 million and \$80.5 million, respectfully, over the reductions in the Governor's January budget. For CSU this brings the total budget reductions to \$330.2 million.

In considering the Governor's May Revise, both houses of the legislature indicated that there had been an agreement among the four caucuses to reduce the CSU and UC budgets by a total of \$150 million. However, the Department of Finance testified that the Administration has not agreed to the reductions and stood by the Governor's May Revise budget for CSU and UC. The Assembly cut the CSU budget by \$69.5 million, indicating that the CSU should not make reductions in classroom instruction, student services, or outreach programs. In addition, the Assembly fully restored the January budget reduction of \$12.5 million for outreach funding, making adjustments to the original funding allocations; \$2 million to the Bilingual Teacher Recruitment program, and added \$1.5 million to fund fee waivers as an incentive for individuals to join the California National Guard.

The Senate cut the CSU budget by \$69.5 million indicating that \$66 million would be attributed to reduced enrollment growth and \$3.5 million is additive to the CSU unallocated budget reduction of \$142 million. The Senate's budget bill language stipulates funding for four percent enrollment growth instead of the seven percent enrollment growth provided in the Governor's January budget. In addition, the Senate restored \$2.5 million in outreach funding with language specifying it be dedicated to the CSU Early Assessment and Academic Outreach programs.

The two-house conference committee met for approximately ten days in an effort to resolve the differences between the Senate and Assembly versions of the budget, closing items that could be resolved immediately, referring items to various task force groups, and indicating the issues that would need to be resolved by the "Big 5." In the case of CSU, as with UC, the conference committee put over to the "Big 5" issues related to the overall budget reduction, funding related to outreach programs, and specific to the CSU the funding for the Bilingual Teacher Recruitment program. The conference committee took action on the \$1.5 million for fee waivers associated with the California National Guard, by deleting the funding in the budget and indicated the appropriation should be carried in legislation. As of June 11, the conference committee has recessed upon call of the chair; however, it is unlikely that this committee will reconvene.

There are three budget proposals, in addition to the Governor's budget and current legislative actions that have been presented, but have yet to be introduced in legislation. Two of these plans have previously been reported to the board, including the Senate Republican Plan to cut state spending by seven percent across the board, resulting in an additional \$182 million reduction over the Governor's budget; and the Assembly Republican Plan which would cut the CSU budget by \$200 million in 2003-04, an additional \$210 million in 2004-05, and another \$221 million in 2005-06.

On June 17, Assembly members Joe Canciamilla and Keith Richman introduced a “Moderate Budget” plan that was represented as the only budget proposal to date that had any bipartisan support, that of Mr. Canciamilla and Mr. Richman. The plan assumes \$5.5 billion for 2003-04, \$6 billion in 2004-05, and \$7.5 billion in budget reductions over the Assembly version of the budget. For the CSU and UC, the plan assumes \$200 million in additional reductions in 2003-04, a ten percent increase in student fees in 2004-05, and 2005-06 with comparable state General Fund reductions, and elimination of CSU and UC outreach funding (\$138 million). While this proposal has been introduced as another budget option, it has yet to be placed in bill form to be voted on by the legislature.

The Board of Trustees will receive a further update on the budget deliberations at their July meeting.

## COMMITTEE ON FINANCE

### 2003/2004 State University Fee Increase

#### Presentation By

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Patrick J. Lenz  
Assistant Vice Chancellor  
Budget Development

#### Summary

The board has the authority to establish, adjust, and abolish systemwide fees. In December 2002, the Board increased undergraduate fees by 10 percent (\$72) and graduate fees by 15 percent (\$114), the first increase in resident student fees since 1994-95. Increasing student fees were estimated to generate a total of \$30 million in the remainder of the 2002-03 fiscal year, and \$60 million in the 2003-04 fiscal year on an annual basis. Of these amounts, \$10 million was set-aside for State University Grant financial aid in 2002-03 and \$20 million would be set-aside in 2003-04. The undergraduate fee increase would total \$144 on an annual basis in 2003-04. The graduate fee increase would total \$228 on an annual basis in 2003-04.

In January 2003, the Governor's Budget identified a statewide shortfall of approximately \$35 billion for fiscal year 2003-04. In order to help bridge the shortfall, the Governor's Budget proposed reducing the CSU General Fund budget by \$326 million. The Governor's Budget also assumed increases in student fees to achieve \$142 million in State University Fee revenue to mitigate these reductions. This revenue increase was predicated on CSU increasing resident student fees by 25% for undergraduate students and 20% for graduates students above the rates approved in December 2002. The revenue assumption is also based on continuing CSU Board of Trustees' financial aid policy approved in March 1993, which sets aside one-third of the revenue from resident student fee increases for financial aid grants. The total budget shortfall for CSU in the Governor's 2003-04 budget proposal is \$447.7 million, which includes a \$326.1 million cut in state dollars, \$78.6 million in mandatory costs that did not receive any funding but which the CSU is obligated to pay, and \$43 million in other permanent reductions.

The CSU has a long-standing commitment to provide early notification to students and their families whenever fees are to be raised. The board was presented, at the May meeting, with an action item to raise the state university fee by 25% for undergraduates and 20% for graduates, in response to the revenue requirements of the Governor's January budget. However, due to the uncertainties of the state budget situation, this action was postponed.

As the May Revision to the Governor's January budget proposal, which did not include any significant changes to the CSU's Governor's budget appropriation, progressed through legislative sub-committees and the conference committee, it appears the CSU will receive an additional reduction of at least \$69.5 million in addition to the \$447.7 million reduction in the January budget. This additional cut would raise the total reduction to the CSU to \$517.2 million. In order to address a reduction of this size, the CSU is faced with using a combination of program reductions, enrollment reductions, student fee increases, and possible layoffs.

Due to the probability of the CSU receiving an additional cut above the Governor's May Revise Budget, the university is faced with raising fees beyond the original fee increase of 25% for undergraduates and 20% for graduates. In order to meet the entire cut of \$69.5 million dollars, the CSU would be forced to raise the undergraduate state university fee by 37.5% above current fee rates, and 12.5% above the percentage increase assumed in the Governor's January budget. It is proposed that undergraduate and graduate state university fees be raised by 30% above current fee rates, 5% above the Governor's proposed undergraduate rate in the January budget. At the 30% fee rate increase, additional revenue above the Governor's January budget would be approximately \$38.1 million, of which \$12.7 million would be used for financial aid, leaving a net increase in fee revenue of \$25.4 million on an annual basis. This fee increase would offset a \$69.5 million reduction to roughly \$44 million.

The total net fee revenue increase of \$166.9 million, including the full year implementation of the mid-year fee increase and the proposed 30% fee increase, are as follows:

Full-Year implementation of December 2002 Fee Rate Increases	\$60 million
CSU Fee Policy Financial Aid Grant Set-Aside	<u>-\$20 million</u>
<b>Net 2002 Fee Rate Increase Revenue to Offset Reduction</b>	<b>\$40 million</b>
2003-04 Proposed Rate Increase (30% Undergraduate and Graduate)	\$190.3 million
CSU Fee Policy Financial Aid Grant Set-Aside	<u>-\$63.4 million</u>
<b>Net 2003-04 Fee Rate Increase Revenue to Offset Reduction</b>	<b>\$126.9 million</b>

In order to address the fee action proposed in the 2003-04 Governor's Budget to mitigate the budget shortfall, undergraduate fees would increase annually from \$1,572 to \$2,046 (\$474) and graduate fees would increase annually from \$1,734 to \$2,256 (\$522). Assuming undergraduate fees of \$2,046 and including the average campus-based fee of \$498, the total annual undergraduate fee of \$2,544 would still be \$41 lower than the lowest of our comparison institutions and \$2,040 less than the average of the CSU comparison institutions in 2002-03. Comparison institution 2003-04 fee data is not currently available.

**2002-03 Comparison Institution  
 Academic Year Resident, Undergraduate, Student Fee Levels**

<b>University</b>	<b>2003/04</b>	<b>2002/03</b>
Rutgers University (Newark, NJ)		\$7,308
University of Maryland, at Baltimore		6,362
University of Connecticut (Storrs, CT)		5,843
State University of New York, at Albany		5,337
Cleveland State University		5,196
Illinois State University		5,037
Wayne State University (Detroit, MI)		5,031
<b>COMPARISON AVERAGE*</b>		<b>4,584</b>
George Mason University (Fairfax, VA)		4,416
University of Wisconsin, at Milwaukee		4,356
University of Texas, at Arlington		4,123
North Carolina State University		3,827
Georgia State University, at Atlanta		3,472
University of Colorado, at Denver		3,238
University of Nevada, at Reno		2,622
Arizona State University, at Tempe		2,585
<b>CALIFORNIA STATE UNIVERSITY</b>	<b>\$2,544</b>	<b>\$2,070</b>

*\*Average does not include CSU*

**Recommended Trustee Action**

The recommendation before the board is to increase undergraduate fees by \$474 and graduate fees by \$522 for the 2003-04 Academic Year, effective Fall 2003, setting aside one-third of the fee revenue for State University Grant financial aid. The Board is requested to approve the following resolution.

**RESOLVED**, By the Board of Trustees of the California State University, that the following schedule for the State University Fee, which incorporates a thirty percent increase for undergraduate and graduate students, for the 2003-04 academic year, effective fall term 2003 is approved until further amended:

**2003-04 State University Fee Schedule (Effective Fall 2003)**

All Campuses, except California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Per Quarter</u>	<u>Per Academic Year</u>
<b>Undergraduate</b>			
6.1 or more	\$1,023	\$682	\$2,046
0 to 6.0	\$594	\$396	\$1,188
<b>Graduate</b>			
6.1 or more	\$1,128	\$752	\$2,256
0 to 6.0	\$654	\$436	\$1,308

California State University, Stanislaus:

<u>Units</u>	<u>Per Semester</u>	<u>Winter Term</u>	<u>Per Academic Year</u>
<b>Undergraduate</b>			
6.1 or more	\$931	\$184	\$2,046
0 to 6.0	\$502	\$184	\$1,188
<b>Graduate</b>			
6.1 or more	\$1,027	\$202	\$2,256
0 to 6.0	\$553	\$202	\$1,308

And, be it further

**RESOLVED**, That the chancellor may approve individual campus State University Fee rates that do not exceed the maximum fee rates established by this fee schedule.

## COMMITTEE ON FINANCE

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

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$3,865,000 to provide needed funds for upgrading a facility currently undergoing renovation. The long-term bonds, when sold for the projects are expected to bear the same ratings from Moody's Investor Services and Standard and Poor's Corporation as the existing Systemwide Revenue Bonds.

The project is as follows:

#### **San Francisco State University, Residence Apartment Building Improvement Project**

In 1987, the Board of Trustees approved the issuance of \$22,500,000 in bonds to finance a housing project at San Francisco State University. The project consisted of a 17 story Residential Apartment Building and four-story Guest Center. The project was completed in 1990. After occupancy, the campus identified mold contamination and was forced to vacate the housing facility. The campus pursued the matter with the contractor and received a legal settlement in August 2002 which is providing funds to rebuild the building's exterior walls and roof, and strengthen the concrete foundation structure along with other work at no cost to the campus. As the interior repairs required by the agreement are limited to selected areas only, other residence quarters will not be covered by the settlement. The campus does not have reserves to pay for these costs and is asking for approval to finance the Residence Apartment Building Improvement project which will replace existing cabinetry in the apartment kitchens, vanities, bathroom fixtures, replace closet doors, and upgrade the fire alarm system. The campus' goal is to complete the improvement project concurrent with the repair effort of the building with a completion date of July 2004. The project received a favorable recommendation by the Chancellor's Housing Proposal Review Committee in January 2003. The not-to-exceed par value of the proposed bonds is based on an estimated project cost of \$3,546,000. While the nature of

expenditures normally would be funded from campus housing reserves, the campus' financial difficulties as a result of the mold contamination of the facility is necessitating the campus need to request financing of the improvement project.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 3,865,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$ 254,450
Projected debt service coverage including the new project: 1	
Gross revenue – all San Francisco pledged revenue programs:	6.81
Net revenue – all San Francisco pledged revenue programs:	0.89
Net revenue – projected for the campus Housing Program:	1.35

1. Projected information – Combines the 2001/02 information for the campus-operated pledged revenue programs , the first year of operation of the new project with expected full debt service, and projected revenue from the recent Park Merced property acquisition.

The not-to-exceed amount, the maximum annual debt service and the ratios above are based on estimated construction project costs, expected debt service and capitalized interest at the current interest rate environment plus 100 basis points (computed average coupon rate – 5.14%; June 10, 2003), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. The campus has developed a financial plan that demonstrates its ability to meet its housing program and debt service obligations. By itself this project generates no direct revenue, so all of the Trustees' housing program resources at the campus will be utilized to cover the additional debt. The financial plan also includes level amortization of debt service, which is our CSU program standard.

The combined net revenue debt service coverage from all pledged revenue programs for the campus is .89 for 2001-02, which is significantly below our 1.35 times debt-service system benchmark. This number reflects how the campus is initially dealing with rising costs and reduced revenues of its pledged revenue programs including the unusual problems in its student housing. However, the campus is managing its overall use of debt so that with this project, the campus debt payments will total approximately 3.75% of its net unrestricted expenditures, which is within the CSU program benchmark maximum of 4.0% for campuses. The campus will be reviewing the related debt management issues as the housing program gets back to normal.

**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 project described in this agenda item that authorize interim and permanent financing for the project. The proposed set of resolutions will be distributed at the meeting and will achieve the following:

- (1) 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 \$3,865,000 and certain actions relating thereto.
- (2) Provide a delegation to the Chancellor, the Executive Vice Chancellor And Chief Financial Officer, and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this agenda item is recommended for:

**San Francisco Residence Apartment Building Improvement Project**

## **COMMITTEE ON FINANCE**

### **Public/Private Venture to Develop Student Housing on Private Property Adjacent to California State University, San Bernardino**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

Albert Karnig  
President  
CSU San Bernardino

#### **Summary**

This item requests the Board to grant authority to the Chancellor to enter into an “Affiliation Agreement” and an “Option to Purchase Agreement” with American Campus-Titan (ACT) to facilitate the operation and potential purchase by the CSU of a student housing project to be constructed by a private developer on private land located across the street from campus.

#### **Background**

The Board approved a resolution at the May 13-14, 2003 meeting to approve the concept of a public-private partnership that would provide land and facilities to support the University’s educational mission and academic programs, and bring additional student housing close to campus. The resolution authorized the Chancellor and the campus to enter into negotiations for agreements as necessary to facilitate the public-private venture as proposed in Agenda Item 4 of the May 13-14, 2003 meeting of the Committee on Finance.

Over the last few months, the campus has negotiated an Affiliation Agreement that would establish an ongoing relationship with the developer and result in servicing the university’s student housing needs in exchange for the university’s support for the developer receiving building permits from the City of San Bernardino. In addition, the campus has been given the opportunity to review the proposed development plans and has now been offered an “Option to Purchase” the project from the developer with a “not to exceed” purchase price and other terms and conditions. The option is a change from the previous plan that called for the CSU to develop a letter of intent to purchase the project.

### **Development Procedure and the Agreements**

The campus proposes to enter into the Affiliation Agreement and an Option to Purchase Agreement with the developer, ACT. At the time this agenda item was prepared, the Affiliation Agreement is in near-final form based on negotiations with the ACT. The concepts of the Option Agreement have been agreed to with the ACT and a draft of the agreement is finished. The following are key concepts agreed to by the parties. Once the developer's project nears completion, the rental housing would be operated in accordance with the terms of the Affiliation Agreement, until such time as the University may exercise its option to purchase the facility. The Affiliation Agreement would include the terms under which the campus would be affiliated with the developer during the marketing stage and initial operations of the project prior to the possible acquisition by the CSU, and indefinitely if the CSU did not purchase the project. ACT has the right to terminate the agreement. Additionally, the agreement provides that CSUSB policies shall apply to the student housing project. CSUSB is to conduct student services and student discipline programs, and provide university police and patrol for the facility. The agreement provides for ACT to be able to unilaterally assign the agreement to a wholly owned LLC prior to completion of the facility, or to another entity with CSU's consent. After the project is completed, ACT may assign the agreement to another party to which it sells the property only with CSU's consent. If the University and ACT maintain the relationship under the Affiliation agreement for 30 years without CSU's purchase of the project, ACT will donate the project and the property to CSU upon that 30 year anniversary. Similarly, if CSU does not purchase the project and ACT sells it to some other party, CSU will gain an imputed equity interest in the project calculated to increase over time that would be credited to CSU upon sale of the property. Upon such a sale, the CSU would receive a gift of funds from ACT equal to the calculated equity.

The Option to Purchase Agreement would include a description of the scope of the project, a not-to-exceed dollar amount to establish a purchase price, and the procedure in which the CSU could purchase the project upon its satisfactory completion. Prior to purchasing the project, the campus would conduct a due diligence procedure to ensure the completed project meets the CSU applicable code compliances, quality and safety standards. The proposed project plan and the concept of the affiliation agreement with the possibility of a purchase have been reviewed by the Housing Proposal Review Committee and received a positive recommendation. The campus proposes to fund the purchase of the project with the sale of Systemwide Revenue Bonds. A recent financial plan shows that if purchased, the campus would meet the project and program net revenue coverage debt management benchmarks except that with this project, 1) the campus will be at or slightly below the campus coverage minimum benchmark for combined pledged net revenue of at least 1.35 times debt service, and 2) annual debt payments for the campus will slightly exceed the debt capacity benchmark of 4% of unrestricted expenditures.

## **Project Description**

The proposed 169,638 square foot project is to be built directly across the street from the existing campus student housing complex. This is an ideal location, as this situation allows the student housing projects to be easily served by existing staff.

As proposed by ACT six separate buildings are to be built on the site, including five 3-story student housing buildings and a single-story community center. The building design will complement existing campus housing in style, design and building materials. The facilities will consist of concrete slabs on grade with spread concrete reinforced footings, wooden frames, stucco exteriors, drywall interiors and attractive and highly durable concrete tile roofs. As part of the development, the developer is willing to consider constructing the facilities to the CSU's construction standards.

Ample parking will be provided around the outer perimeter of the buildings. There will be 429 spaces included within the wrought iron gated community, and 66 spaces provided for guest and overflow parking along the northern perimeter of the complex. The gates will be operated by a magnetic stripe key card system provided to residents only.

There will be a large swimming pool surrounded by a spacious pool deck. A sand volleyball court and a large park-like central courtyard are also included. Generous landscaping throughout the project will complement the landscape plan of the campus.

Vehicle access to the facility will be provided by utilizing an existing cut in the center divider in Northpark Boulevard. A new traffic signal will be added, including left-turn lane signals. For added safety, the crosswalk will be delineated with an accented color and texture of pavement. The driveway entry into the project parking lot will align directly with "Serrano Drive" – the existing campus roadway that provides access to on-campus housing.

The apartment-style housing complex will contain a variety of unit types designed to meet the demands of today's students. There will be 24 two-bedroom, one-bath units; 84 four-bedroom, two-bath units; and 24 four-bedroom, four-bath units. The total number of bed spaces for all units combined is 480.

Five CSUSB market studies have been conducted over the last five years. The studies have consistently demonstrated the demand for student housing far exceeds the availability; that students' parents find great value in housing operated by the University; that students prefer apartment-style housing; and the price range of CSUSB housing is reasonable.

## **Educational Benefits**

This housing project would support the academic mission of the University by accommodating an additional 480 students to live directly adjacent to the campus. With an enrollment of over 16,500 headcount, the San Bernardino campus currently accommodates only 1,039 students in existing housing – or 6.3% of the student population. Enrollment in 2003/2004 is expected to exceed 17,000 students. The additional 480 beds would allow the campus to accommodate 8.9% of its students. On-campus student housing has been demonstrated to enhance retention rates, increase graduation rates, and expand the college experience for students in a positive way. The Affiliation Agreement would establish a close linkage between the new housing and the university enabling the project to directly support the academic mission of the university while owned by the developer.

There are several benefits in acquiring this housing project in the proposed public-private partnership. The campus land reserved for student housing on the southeast portion of the campus is now fully developed. To expand facilities in this area would require the removal of a large number of surface parking spaces and the replacement of these spaces with an expensive parking structure. This development will avoid the cost of a replacement parking structure. In addition, either through exercise of the purchase option agreement or through operation of the housing with the developer for the 30 year term of the Affiliation Agreement, the campus will obtain ownership of adjacent land that will enhance future developmental and operational flexibility at the campus.

It is also beneficial to the CSU that all of the development cost and risk is solely upon the developer. The campus benefits by not having the risk of costly claims, change orders, or even liability for potential litigation that is accompanied with many construction projects.

## **Resolution**

The following resolution is recommended for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the Trustees authorize the Chancellor or his designee to enter into an “Option to Purchase Agreement” and “Affiliation Agreement” consistent with Agenda Item 4 of the July 15-16, 2003 meeting of the Committee on Finance.

## **COMMITTEE ON FINANCE**

### **Student Housing and Land Acquisition at California Polytechnic State University, San Luis Obispo**

#### **Presentation By**

Dennis Hordyk  
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Financial Services

Warren J. Baker  
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California Polytechnic State University, San Luis Obispo

In March 2003 the Board approved in concept a partnership development for student housing at the California Polytechnic State University, San Luis Obispo campus. Since that time the university has been working on developing agreements that would document the detailed parameters of the relationship. This item requests approval of a resolution that expresses the Board's continued interest in the proposed concept: an agreement that would enable construction of needed student housing and provide the University with new land and facilities to be developed in support of the University's educational mission.

The Office of the Chancellor has enlisted the assistance of a consultant to review the details of the project, while at the same time the campus and chancellor's office staff continue to work through some of the financial issues and evaluate applicable policy and legal requirements related to the proposal. The Housing Proposal Review Committee will review the project in early July and the conclusions of that review will be shared with the Board at this meeting.

The campus is requesting that the Board take an action expressing its interest that the Capstone Development Corporation (Capstone) continues to devote time and effort on the project. The next steps in the proposal development are:

- ❑ Negotiation of banking relationships for the project and development of loan documents that will be presented as part of the final proposal package.
- ❑ Completion and evaluation of the consultant's review.
- ❑ Completion and receipt of finalized or near finalized transaction documents that include advice from legal, financial, tax law, and project development staff as required by Board policy on land development.

Once these actions are completed the project proposal will be brought back to the Trustees for review and final approval. Accordingly, the Board is being asked to approve the following resolution at this time.

**RESOLVED,** By the Board of Trustees of the California State University that this Board expresses its continued interest in the proposed contractual relationship for additional student housing and the acquisition of additional land at the California Polytechnic State University, San Luis Obispo consistent with the concept proposed in Item 3 of the Committee of Finance approved at the March 2003 meeting of the Board of Trustees.