

AGENDA

COMMITTEE ON FINANCE

Meeting: 3:00 p.m., Tuesday, March 16, 2004
Arena Floor -- Save Mart Center

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

Consent Item

Approval of Minutes of Meeting of January 27, 2004

Discussion Items

1. Report on the 2004/2005 Support Budget, *Information*
2. Report on the Consultation Process to Develop a Long-Term Student Fee and Financial Aid Policy, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments to Refund California State University Channel Islands Financing Authority Bond Anticipation Notes, *Action*

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

January 27, 2004

Members Present

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Debra S. Farar, Chair of the Board
Roberta Achtenberg
Kathleen Kaiser
M. Alexander Lopez
Frederick W. Pierce, IV
Charles B. Reed, Chancellor

Members Absent

Ricardo F. Icaza

Other Trustees Present

Cruz M. Bustamante, Lt. Governor
Robert G. Foster
Eric Guerra
Ralph R. Pesquiera
Kyriakos Tsakopoulos
Anthony M. Vitti

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

Chair Hauck called the meeting to order at 2:42 p.m.

Approval of Minutes

The minutes of November 19, 2003 were approved.

Report on the 2004-2005 Support Budget

Mr. Richard P. West, executive vice chancellor and chief financial officer, introduced the item. He acknowledged this would be a challenging and difficult budget year with significant cuts and major challenges. He then introduced Mr. Patrick Lenz, assistant vice chancellor, budget development, and asked him to continue presentation of the item.

With the aid of a PowerPoint presentation, Mr. Lenz outlined a comprehensive description of the budget proposal and the overall impact on CSU.

Topics of primary concern and discussion included the need for redirection of a portion of new CSU enrollment to the California community colleges; implications of the result of the vote on the Proposition 57 bond initiative; CSU's request for an unallocated budget reduction; and pursuit of a new compact that will meet the future needs of student access.

Other issues of note include: Educating policy makers on the merits of CSU's Educational Opportunity and Academic Preparation programs; deferral of CMS costs; exploration of an excess course units policy; and development of a prudent student fee and financial aid recommendation that does not financially disenfranchise students, and provides them with adequate notice of fee and financial aid implications for the fall of 2004.

Mr. Lenz indicated the importance of timing in developing proposed recommendations. He explained the Chancellor has requested an engaged budget discussion at each campus and hopes to convene a Budget Summit before the next Board of Trustees meeting. The purpose of the Summit will be to allow for a comprehensive strategic approach in our effort to convince the administration and the legislature of alternative budget options that despite significant cuts would be in the best interest of our students and the CSU.

Chancellor Reed commended the presidents for their magnificent efforts in managing the debilitating reductions of the previous year. He cautioned that unfortunately, this year would be even more difficult and with less time available for the planning process. He stated the only way to maintain quality and to manage the size of the impending reduction would be to implement an enrollment reduction of 5%; which translates to approximately 20,000 students.

The Chancellor said his goal was to return at the March 2004 board meeting with a comprehensive plan on how to manage the reductions.

Trustee Vitti expressed concern about how the redirection of students to the community colleges would be handled. Mr. West explained there is currently no programmatic strategy to ensure that students go to the community colleges and that it would be the students' choice to do so.

Trustee Pierce said he reluctantly agreed that there seems to be no alternative other than reducing enrollment under the circumstances. He also stressed that part of our message must be to require

that any reductions to the CSU be unallocated. He emphasized we must allow our executive management team to exercise their discretion in terms of the best way to deal with finite resources.

Trustee Pierce also urged that we must include as part of our message, that CSU is proactively addressing a long-term student fee policy, and emphasized the importance of allowing CSU through the Board of Trustees, the authority to set those fees as appropriate.

Trustee Mehta asked if students who are facing two years at the community colleges and who wish to transfer to the CSU would be assured of a place at CSU. Chancellor Reed replied that transfer students who have completed their 60 hours at a local community college must be our number one priority.

Lt. Governor Bustamante expressed concern about remedial education students and urged the committee to look at those students and their general ability to succeed, rather than at a specific deficiency.

Mr. West concluded saying there is much work to do and very little time in which to do it.

He indicated a more comprehensive plan would be presented to the board in March after additional discussions have taken place. He noted admissions and enrollment targets would be given to the presidents so they can make admission decisions now in order to implement a 5% reduction in enrollment for the entire academic year. He added there are many other elements of the plan that will be brought back for overall discussion.

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

Trustee Hauck announced the item concerned bond proposals for projects at three CSU campuses: Humboldt, Northridge, and San Bernardino. Mr. West added the projects were approved during the past year and are included in the commercial paper program for short-term financing.

Before presenting the item, Mr. Dennis Hordyk, assistant vice chancellor, financial services, provided a brief update on the status of bond sales. He noted plans were in place to sell the third series of CSU bonds within the next few days for an estimated \$155 million.

Mr. Hordyk explained that the item requested authorization of system bonds and issuance of interim financing through the CSU commercial paper program in an aggregate amount not-to-exceed \$19,360,000.00, for construction of two projects that had been previously approved through the non-state capital improvement program. He explained this was a change from the printed agenda since the San Bernardino campus had subsequently asked to withdraw the financing of their student union remodel project.

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Mr. Hordyk briefly reviewed the two projects. Lt. Governor, Cruz M. Bustamante asked if there was any room for flexibility to utilize bonding capacity to support enrollment and services to meet current needs, rather than the lesser needs of the CSU. Mr. Hordyk replied these were restricted bonds that are funded from student union fees, parking fees, or housing fees, and are structured solely for that purpose.

The committee recommended approval of the proposed resolution (RFIN 01-04-01).

Revision of Title 5—Fee Waiver for Dependents of Deceased/Disabled Veterans

Mr. West indicated the item was simply a technical adjustment to Title 5 to reflect repositioning the placement of the statute to a different location within the code. He indicated there is no change to the waiver policy and it continues as originally implemented.

The committee recommended approval of the proposed resolution (RFIN 01-04-02).

The meeting was adjourned at 3:20 p.m.

COMMITTEE ON FINANCE

Report on the 2004/2005 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Governor's January Budget Proposal

On January 10, 2004 Governor Schwarzenegger submitted to the legislature a 2004-05 budget that assumed a \$2.4 billion state General Fund commitment to the CSU, which represents a reduction of \$239.7 million or 9 percent from the prior year budget. The budget proposal also assumes student fees will be increased to offset \$101.5 million of the General Fund reduction, of which 20 percent would be set-aside for financial aid. The fiscal impact of the Governor's budget recommendations reduces funding by \$191.5 million, a 7.2 percent net reduction to the CSU budget. The Governor's proposal does not provide funding for \$57.5 million in Mandatory Costs and additionally assumes some reductions will be taken in specific ways, such as:

- \$52 M to eliminate CSU General Fund Outreach and EOP programs
- \$52.6 M consistent with a 7.5 percent reduction in Academic and Institutional Support
- \$6 M as a one-time deferral of Common Management System implementation costs
- \$53.5 M to increase the student-faculty ratio by a factor of one
- \$24.4 M to eliminate the General Fund subsidy for students taking course units in excess of a certain number
- \$23 M as an unallocated budget reduction
- \$31.7 M to reflect a 10 percent increase in undergraduate fees
- \$33.9 M to reflect a 40 percent increase in graduate fees
- \$12.8 M to reflect a 20 percent increase in nonresident tuition

Finally, the budget assumes three higher education initiatives: establishment of a long-term student fee policy, redirection of first-time freshman to community colleges, and elimination of the state subsidy for students taking in excess of 10 percent the number of units they need for graduation. In recognition of some assumed costs associated with the second initiative the

budget includes an augmentation of \$1.9 million to increase counseling services to advise CSU eligible freshmen that decide to enroll at the community colleges.

Given the magnitude of the current year and the proposed reductions in 2004/05, the CSU will be severely challenged to meet the overall demand for student access in the 2004/05 academic year. The University has expressed concerns to the administration regarding its ability to achieve the funding assumptions contained in the proposal due to the specific recommendations contained in the Governor's budget. However, the CSU has indicated that given the magnitude of the state's fiscal crisis, the CSU will live within the Governor's overall budget allocation.

Legislative Analyst's Recommendations

On February 18, 2004 the Legislative Analyst Office (LAO) released its analysis of the Governor's 2004-05 state budget. The LAO raised concerns regarding the administration's overall revenue and expenditure assumptions and indicated that even with the passage of the \$15 billion bond measure (Proposition 57) on the March 2 ballot, its projections indicate the state still would face a \$7.7 billion budget shortfall by the end of the 2004-05 fiscal year. If correct this would mean the Governor and the legislature would need to make additional budget reductions or support additional revenues, tax increases or fees, in order to implement a balanced budget by July 1, 2004, the start of the new fiscal year.

The LAO offered a variety of specific recommendations regarding the CSU budget, that in some cases were consistent with recommendations for the University of California (UC). In the areas of enrollment growth, outreach programs, long-term student fee policy, and financial aid the LAO recommendations are similar for both university systems. The LAO supports the Governor's recommendation to redirect more students to the community colleges to pursue lower division coursework before transferring to a four-year university as one mechanism to manage enrollment growth. Unfortunately, the LAO holds a misunderstanding regarding the recommendation that CSU and UC could accommodate more "eligible students" if the universities reduced the number of "special admission" students. The Analyst's recommendations reviewed only the initial 1960 Master Plan recommendations and did not consider several additional public policy decisions associated with "special admission" that have resulted in a higher percentage of these students being admitted to the CSU. The LAO provides recommendations regarding K-14 Outreach Programs that complement and support the CSU's current efforts through the Early Academic Assessment program.

The Analyst supports a long-term fee policy that recognizes the student/family contribution and suggests this contribution should be between 30 and 50 percent of the cost of education. While the LAO agrees that fees should be increased in 2004-05, the specific level of increase is different than the Governor's proposal for the different categories of student. In addition the

LAO encourages higher fees for high cost graduate programs such as business, nursing, cinema, and suggests consideration of other programs like engineering, architecture and other health sciences. The Analyst recommends authority for implementing this new fee rate should remain with the Board of Trustees and estimates as much as \$2 million in General Fund savings can be deleted from the CSU budget and replaced with this additional fee revenue. Finally, the LAO recommends that the various fee increases should take place as early as summer 2004 in order to generate \$9 million in revenue, along with a like amount of savings that could be deleted from the CSU budget.

The LAO report poses a comprehensive set of recommendations associated with financial aid that is juxtaposed to the Governor's recommendations for state institutional aid and funding for the Cal Grant program. The major issues for the CSU include recommendations to delete \$17.4 million in financial aid for students participating in the Educational Opportunity Program (EOP) and \$12.9 million in State University Grants for undergraduate students. The same recommendation is made for the UC. The combined funds would replace General Fund support at each university budget that would be redirected to the Student Aid Commission to fully fund the Cal Grant entitlement program and fully restore Cal Grants for students attending independent colleges and universities. The CSU is adamantly opposed to any proposal that would take student fee revenue away from CSU institutional aid programs for purposes of providing financial aid resources to non-CSU students.

Finally, there is an inveterate theme in several of the recommendations that suggest fee or financial aid monies can be substituted for General Fund support and the University's budget should be reduced by an equal amount. In the final recommendation in the report, the LAO proposes to reduce by \$24.5 million an agreed upon restoration of \$69.5 million that had been cut from the CSU in 2003/04. Budget Bill language in 2003/04 indicated this was a "one-time reduction", therefore the CSU anticipated the administration would honor this statutory language, which they did, and include this funding in the 2004-05 budget proposal. The Analyst believes that an additional \$24.5 million was generated from fee revenue in 2003/04 and consequently this amount should be reduced from the University's budget.

In general the LAO fails to recognize the CSU had a loss of \$304 million in the 2003/04 budget and faces an additional \$200 million reduction in the 2004/05 budget proposal. The University will oppose any recommendations to further reduce its budget based on fee revenue assumptions or the redirection of student financial aid.

COMMITTEE ON FINANCE

Report on the Consultation Process to Develop a Long-Term Student Fee and Financial Aid Policy

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Karen Y. Zamarripa
Assistant Vice Chancellor
Advocacy and Institutional Relations

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Background

Since the legislative “sunset” of the Maddy-Dills Act in 1996, there has not been a statutory policy in place to govern student fees at California’s public postsecondary institutions. Given the unpredictable nature of student fees since that time – with reductions being implemented at the state level in good economic times, and increases adopted recently to help cope with the current fiscal crisis – there have been numerous efforts to develop a long-term policy to provide stability to the fee-setting process. In 2002, reports recommending a fee policy were released by the Legislative Analyst’s Office and the California Postsecondary Education Commission, and in 2003 legislation was introduced by the Assembly Higher Education Committee, Assembly Member Manny Diaz, and Assembly Member Shirley Horton that would have placed a fee policy in the Education Code. None of the bills advanced further than the Assembly Appropriations Committee.

The budget released by Governor Schwarzenegger in January 2004 also includes a proposed university long term student fee policy. The Administration proposes to link future increases in undergraduate student fees to the increase in per-capita income. To ensure that the institutions retain the ability to address unforeseen fiscal needs, the Administration proposes that the policy provide sufficient flexibility to increase fees annually by as much as 10 percent.

In 2003, the Board requested Chancellor Reed to develop a long-term student fee policy for consideration by the Board of Trustees. Since last Fall, the Chancellor's Office has been working through the Systemwide Budget Advisory Committee (SBAC) to develop recommendations for the Chancellor. In addition, CSU representatives have met with the leadership of the California State Student Association (CSSA) and the Statewide Academic Senate of the CSU (ASCSU) to develop such a policy. The discussions to date have centered on the principles that would guide such a policy, and at this juncture conversations have begun on the implementation measures that would be adopted as part of the policy. The discussions have focused primarily on undergraduate fees.

CSU Long-Term Fee and Financial Aid Policy: Principles

The policy under discussion with CSSA and ASCSU would be designed to reaffirm the University's historic commitment to ensuring authentic access and maintaining quality at CSU, while recognizing the fiscal challenges that confront both the State and the system. The policy would provide a measure of predictability and stability to students and families in planning campus costs, and also to campuses and the CSU system as a whole in managing resources to best meet the needs of students.

The following key principles have generally been agreed to by the CSU, the CSSA leadership, and the ASCSU leadership:

- The state shall fund CSU at the levels necessary to support the state's Master Plan for Higher Education.
- It is the responsibility of the state to support access, while student fee revenues shall be utilized to invest in teaching and learning and affect quality improvements in instructional programs and the services necessary for students to achieve their academic objectives.
- The state shall bear the preponderance of responsibility for funding the cost of education for all eligible students, and resident undergraduate and graduate student fees shall remain as low as possible.
- Any increase in systemwide fees should be gradual, moderate and predictable, taking factors into account including the cost of educating students at CSU; the current share of that cost borne by students and the state; and the availability of federal, state and institutional aid to maintain access and affordability.

- Systemwide financial aid policies should take into account a student's ability to pay, and should be aligned with the distinct functional needs of the CSU's student population and student fee levels.

The policy principles also call for adequate notice on proposed fee adjustments (they would be set for the following Fall term when the Board submits a proposed budget to the Administration each October), an annual report to the Board on the status and impact of the fee and financial aid policy, and a statement that student fee revenues would remain with the CSU system and be utilized to fund programs that directly benefit students attending CSU.

CSU Long-Term Fee and Financial Aid Policy: Implementation Components

After a considerable amount of discussion, general agreement has been reached that undergraduate student fees should be adjusted on an annual basis over a period of years until they reach a level which is the equivalent of a set percentage of the average cost of education per full-time student. Once the fees reach that level (various percentages in the 25-33% range have been discussed to date), they would then be adjusted annually based on an index such as California per-capita income, or the Higher Education Price Index (HEPI). In addition, a set percentage of new fee revenue (likely in the 25-33% range) generated by the annual increases in resident undergraduate fees would be set aside for institutional financial aid programs for CSU students.

The cost of education would be defined as the average cost per student based on the total General Fund appropriation, plus State University Fee Revenue for the CSU in the year prior to the fiscal year in which fees will be assessed.

As noted above, the Board would adopt the annual fee adjustment as part of the budget request submitted to the Governor and Department of Finance each Fall to ensure students and families have adequate notice of fee adjustments for the upcoming academic year.

A critical component of the policy would be an annual cost of education report, to be presented to the Board no later than September of each year to assist the Chancellor in the development of the final budget request for the upcoming fiscal year. The report would provide information to the Board using available financial data on several topics, including the following:

The state's obligation to fund the CSU at a level sufficient to maintain access and quality: the amount of General Fund support provided to the CSU in the previous fiscal year, the cost of education per FTES as determined by CSU, and pertinent trends in the California economy including considerations relating to the cost of living, the consumer price index, and the higher education price index.

Charges and costs for CSU students: the socio-economic characteristics of students enrolled at the CSU, the total indebtedness of CSU students who do not qualify for financial aid, and the total cost of attending the CSU including campus, course, and maintenance fees.

Maintenance of adequate provision of financial aid: the availability of institutional, state and federal grant programs based on age, circumstance, and economic status.

Next Steps

Additional meetings are scheduled with the leadership of the CSSA and the ASCSU, and the matter will be further discussed at a meeting of the Systemwide Budget Advisory Committee prior to the May board meeting, at which a formal policy proposal will be presented to the Board for consideration and adoption.

COMMITTEE ON FINANCE

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

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the University's commercial paper program in an aggregate amount not-to-exceed \$57,515,000 to provide needed funds for the construction of three projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investor Service and Standard and Poor's Corporation as the existing Systemwide program.

The projects are as follows:

1. Cal Poly Pomona Foundation, University Village (Phase III) Student Housing Project

Previously the Board of Trustees approved an amendment to the Nonstate Funded Capital Outlay program and schematic plans for the student housing project at the September 2002 and July 2003 meetings, respectively. The project will be an in-fill of the existing 20-acre University Village site. The Phase III project will provide a minimum of 474 beds located in five, three-story apartment buildings that will blend with the existing village housing. The project will also improve the landscaping, site lighting, signage, and add approximately 327 new parking spaces. The not-to-exceed par value of \$30,920,000 for the proposed bonds is based on a project cost of \$28,189,000. The campus has received a favorable recommendation from the Housing Proposal Review Committee, has received good construction bids, and expects to move forward with construction and open the facility in Fall 2005. When completed, the project will be operated under a financing lease with the Cal Poly Pomona Foundation, an auxiliary organization in good standing that currently leases and operates University Village. The financing lease is being developed and will be fully executed before the Trustees issue debt for this project.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 30,920,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$ 2,006,190
Projected debt service coverage including the new project: ¹	
Gross revenue – all Pomona pledged revenue programs:	4.08
Net revenue – all Foundation pledged revenue programs:	1.97
Net revenue – projected for the Foundation Student Housing Program:	1.25

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount, the maximum annual debt service, and the ratios above are based on the construction project bids, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 4.99%; January 2004), 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 foundation’s obligation to pay rent under the financing lease will constitute general obligation that is on parity with its existing bond issues. The foundation has developed a financial plan that demonstrates its ability to meet its debt service obligations for the new project. The financial plan also includes level amortization of debt service, which is the CSU program standard. With this project, the foundation’s net income from pledged revenue is at 1.97 times debt service, which is above the CSU benchmark for auxiliary projects of 1.25%. The campus is managing its overall use of debt so that including this project the campus debt payments will total approximately 2.89% of its net unrestricted expenditures, which is well below the maximum CSU internal management benchmark of 4.0% for campuses.

2. San Diego State University Foundation, Bioscience Center

Previously, the Board of Trustees approved this project through an amendment of the Nonstate Funded Capital Outlay program at the November 2002 meeting. The Committee on Campus Planning Buildings and Grounds will be asked to approve schematic/design at this meeting. The project will be an expansion of the North Life Science Building called the Bioscience Center. The addition will contain labs and include support offices, a seminar room and vivarium space. The not-to-exceed par value of \$8,345,000 for the proposed bonds is based on a project cost of \$7,850,000. When completed, the project will be operated under a financing lease with the San Diego State University Foundation an auxiliary organization in good standing. The financing lease is being developed and will be fully executed before the Trustees issue debt for this project.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$ 8,345,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$ 538,343
Projected debt service coverage including the new project: ¹	
Gross revenue – all San Diego pledged revenue programs:	5.66
Net revenue – all Foundation pledged revenue programs:	2.05
Net revenue – projected for the program:	2.05

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount, the maximum annual debt service, and the ratios above are based on the construction project bids, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 4.99%; January 2004), 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 foundation has developed a financial plan that shows the ability to repay the expected annual debt service as of the first year of the project's operation. The lease payments to be made by the foundation to the Board will be secured on a parity basis with certain other outstanding debt of the foundation through a pledge of indirect cost recovery payments (currently known as "facilities and administrative costs") relating to government-sponsored research contracts. The financial plan also includes level amortization of debt service, which is the CSU program standard. With this project, the foundation's net income from pledged revenue is at 2.05 times debt service, which is above the CSU benchmark for auxiliary projects of 1.25%. The campus is managing its overall use of debt so that including this project the campus debt payments will total approximately 3.51% of its net unrestricted expenditures, which is below the maximum CSU internal management benchmark of 4.0% for campuses.

3. California State University, San Bernardino Student Union Expansion

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for the student union expansion project. In March 2001, the California State University, San Bernardino students passed a student fee referendum to expand the student union and to build a student recreation center. The student union expansion project will renovate 22,000 gross square feet of space in the existing student union facility, and construct an addition of 40,000 gross square feet. Renovation of existing areas shall include functional modifications and code upgrades, such as compliance with the Americans with Disabilities Act, fire alarm systems, and structural work. The additional space will include

lounge/study areas, a small 200-seat theater, meeting rooms, club and organization workspace, retail space, and office space. The not-to-exceed par value of proposed bonds is \$18,250,000 and is based on estimated student union expansion project costs of \$18,000,000 of which \$400,000 will be paid from campus student union reserves and the remaining balance will be paid from financing proceeds. At the time the agenda item was written the campus was awaiting receipt of new construction bids. The campus expects to award the project in April or May 2004 to the successful bidder, and expects the expansion to be completed in February 2006.

The campus initially requested that the Board approve the project financing at the November 2003 meeting of the Trustees contingent upon the campus receiving future construction bids that were consistent with its financial plan. However, the bids received exceeded the project cost estimate by an amount that was not acceptable, and the item was withdrawn. The campus has now made adjustments in the project plans and revised its financial plan so that the administration is confident that it will receive acceptable bids in the current rebidding process.

The student recreation center, concurrently in planning, is a recreational and multipurpose facility and will be located on a separate site from this student union facility. It is anticipated that the recreation center project will be presented to the Board of Trustees at the May board meeting for financing approval.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$18,250,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service:	\$1,174,383
Projected debt service coverage including the two new projects: ¹	
Gross revenue – all San Bernardino pledged revenue programs:	3.05
Net revenue – all San Bernardino pledged revenue programs:	1.20
Net revenue – projected for the campus Student Union Program:	1.18

1. Projected information – Combines the 2002/03 information for the campus-operated pledged revenue programs, the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$18,250,000, the maximum annual debt service, and the ratios above are based on an estimated construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.00%; February 20, 2004), 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 student union program and debt service obligations for the

new project. The financial plan also includes level amortization of debt service, which is the CSU program standard.

The campus combined net revenue debt service coverage from all pledged revenue programs for the campus is 1.20 which is below our 1.35 times debt-service system benchmark. This number reflects some difficulties that the campus has experienced in housing operations in connection with a new facility that recently opened. The campus has recently investigated the problems and is implementing improvements in managing the administrative and accounting aspects of the program. Furthermore, the campus is confident that it will improve its housing and overall campus position in the current fiscal year. The campus is managing its overall use of debt so that with the student union expansion project, the campus debt payments will total approximately 2.86% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for each project described in this agenda item that authorize interim and permanent financing for the projects. 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 \$57,515,000 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, individually or in total, of separate sets of the financing resolutions for the following projects as described in this agenda item is recommended for:

Cal Poly Pomona Foundation, University Village (Phase III) Student Housing Project

San Diego State University Foundation, Bioscience Center

San Bernardino Student Union Expansion

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments to Refund California State University Channel Islands Financing Authority Bond Anticipation Notes

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 commercial paper program (CSU CP) in an aggregate amount not-to-exceed \$11,000,000 to provide needed funds for the redemption Bond Anticipation Notes (BANs) of the CSU Channel Islands Financing Authority.

Background

The Board of Trustees previously approved the new library project at CSU Channel Islands. In addition several other minor academic projects not exceeding \$10 million in the aggregate were approved. The debt for these projects including the library is to be funded by the stream of revenue from the nine hundred unit residential development (East campus) at CSU Channel Islands currently under construction to provide affordable housing to faculty and staff. Originally the library and the minor projects were planned for financing at the same time. However, last spring, delays in the library project planning process necessitated the development of a separate alternative financing plan to accommodate the minor capital projects moving forward on a schedule requested by the campus. The East campus development entity, the CSU Channel Islands Site Authority (Site Authority), looked originally to its financing options and its financing arrangements with its CSUCI Financing Authority (Financing Authority) and Citigroup Global Markets, Inc. to develop a financing plan and concentrate all of the East campus activity under one financing unit.

In the spring of 2003, the East campus project team and the Site Authority proposed a BAN financing structure to be issued by the Financing Authority that was to be secured initially with planned revenues of the East campus project and ultimately with a leaseback of the facilities to the CSU. The BANs were approved and issued by the Financing Authority on June 30, 2003, with a maturity date of June 30, 2004. At the time the BANs were issued, the library was

scheduled to be financed in October 2003, whereupon the BAN's would be redeemed and the minor projects permanently financed with the library bonds.

At the time of the BAN planning, a timing estimate was made to afford sufficient longevity to the BAN issue that would provide a cushion if the library financing were to be delayed, hence the June 30, 2004 maturity of the BAN issue. However, circumstances with the library planning process have resulted in substantial additional delays. The indenture for the BANs requires the Financing Authority to have funds on deposit with the bond trustee or to issue new debt to retire the BANs 60 days prior to the June 30, 2004 maturity date, which is April 30, 2004. A failure to have these funds on deposit could result in a Financing Authority default on the BANs.

The library project now is expected to be financed in early summer of 2004 and would not provide funding soon enough to refund the CSUCI Financing Authority BANs. While it is possible to "roll-over" the current BAN financing by issuing refunding BANs, this involves certain costs. At this point in time the CSU CP financing program is developed further and the CSU can authorize new debt through its revenue bond program, then provide funding through its commercial paper program, which would be used to redeem the Financing Authority's BANs. The costs for a CSU CP financing to extend the temporary financing compared to a new open market financing appear favorable. While the CSU could eventually issue Revenue Bonds for this project (lease revenue), it is intended that the library financing would provide the revenues to pay off the CSU CP financing. It is anticipated that all of the CSU CP program interest costs would be capitalized and repaid in the library financing.

Citigroup Global Markets Inc., the firm that has provided most of the Channel Islands underwriting and development banking services has proposed an alternative arrangement in which it would purchase the existing BANs in a manner that would accomplish the repayment of the original BAN investors within the parameters of the BAN covenants, but extend the maturity of the BANs to a time when the library and the minor projects could be permanently financed together. This concept is still under development and review by bond counsel and staff. At this time the details of this plan are less certain and it is not assured that the plan will result in a financing alternative that is more beneficial than the CSU CP alternative above.

Trustee Resolutions and Recommended Action

The Board is being asked to approve the proposed CSU CP financing as a contingency to ensure there is a means to address the redemption of the current Financing Authority BANs. The alternatives for a Financing Authority take-out financing on the open market now are not as attractive because of the higher costs that would be incurred, and details of the Citigroup proposal are still being worked out. It is likely that the CSU CP plan will prove the most economical and practical. Once all proposals are fully developed, researched, and understood,

the Executive Vice Chancellor and Chief Financial Officer would decide whether to proceed with the authorization to use CSU CP financing provided by the Board. If the Trustees approve this item, they would be temporary extending an exception to their policy of using CSU's direct credit through a lease-leaseback financing structure for the support of the Revenue Bond program.

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting for the project described in this agenda item that authorizes interim and permanent financing for the project. The proposed 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 \$11,000,000 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 financing resolutions for the project as described in this agenda item is recommended for **Academic Projects at CSU Channel Islands**.