

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting: 1:45 p.m., Tuesday, September 17, 2002**  
**Glenn S. Dumke Auditorium**

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Murray L. Galinson  
Harold Goldwhite  
Dee Dee Myers  
Frederick W. Pierce IV  
Erene S. Thomas  
Kyriakos Tsakopoulos  
Anthony M. Vitti

#### **Consent Items**

Approval of Minutes of Meeting of July 16, 2002

#### **Discussion Items**

1. 2002/2003 Support Budget Update, *Information*
2. Status Report on the 2003/2004 Support Budget and Recommended Lottery Revenue Budget, *Information*
3. Annual Investment Report, *Information*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bond and Related Debt Instruments for Various Projects, *Action*

**MINUTES OF THE MEETING OF  
COMMITTEE ON FINANCE**

**CSU Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**July 16, 2002**

**Members Present**

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Debra S. Farar, Chair of the Board  
Murray L. Galinson  
Harold Goldwhite  
Frederick W. Pierce, IV  
Charles B. Reed, Chancellor  
Erene S. Thomas  
Kyriakos Tsakopoulos

**Members Absent**

Dee Dee Myers  
Anthony M. Vitti

**Other Trustees Present**

Cruz M. Bustamante, Lieutenant Governor  
Martha Fallgatter  
Ralph R. Pesqueira

**Chancellor's Office Staff**

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

Chair Hauck called the meeting to order at 3:01 p.m.

**Approval of Minutes**

The minutes of May 14, 2002 were approved.

### **Status Report on the 2002/2003 Support Budget**

Chair Hauck said there was little to report due to the lack of any budget activity in Sacramento.

Mr. Richard P. West, executive vice chancellor and chief financial officer, stated simply that there was no budget. He noted that the final budget approved by the senate was very similar to the Governor's May Revise. And, from the CSU's perspective, this is a very positive budget in that it funds our enrollment, some compensation increases, and our mandatory costs.

Mr. West indicated there are some reductions. There is a one-time reduction of \$43 million that does affect the instructional program, specifically in equipment acquisitions, library materials and deferred maintenance. However, there are no other cuts affecting direct programmatic support at this stage. Other cuts affecting various governor's initiatives have been made. These programs have either been reduced or eliminated as part of the budget deliberation.

Because CSU is part of the flexible portion of the budget, we remain in an uncertain status and are continuously monitoring what is happening in Sacramento with regard to resolution on the Assembly side. Mr. West said at the moment there appears to be a general sense of cautious optimism with regard to the budget numbers. However, it is anyone's guess about when a resolution will occur.

Chair Hauck speculated that from his perspective he doubted anything would happen until mid-August at the earliest.

The committee adjourned at 3:06 p.m.

**COMMITTEE ON FINANCE**

**2002/2003 Support Budget Update**

**Presentation By:**

Richard P. West  
 Executive Vice Chancellor and  
 Chief Financial Officer

**Summary**

The 2002/03 Support Budget is still pending in the Legislature. The Senate has adopted the budget resolution for 2002/03 prepared by the Conference Committee, but the Assembly has not taken any action. The budget adopted by the Senate provides \$174.2 million for 5 percent enrollment growth, a 1.5 percent increase in employee compensation, \$24.5 million for mandatory cost obligations, and \$5 million for technology which would fund equipment associated with the completion of CSU's telecommunications infrastructure build out.

<b>2002 CSU SUPPORT BUDGET PLAN</b>	<b>Revised CSU Budget Plan</b>	<b>May Revise Support Budget</b>	<b>Conference Committee Action</b>	<b>Difference Conference vs BOT</b>
<b>Sources of New Funding</b>				
January Budget - Partnership & CPEC Eligibility Study	\$245,383,000	\$116,924,000	\$116,924,000	(\$128,459,000)
May Revise - 1% Enrollment Growth	19,516,000	19,516,000	19,516,000	0
CSU Student Fees Revenue Increase	40,651,000	37,819,000	37,819,000	(2,832,000)
	<b>\$305,550,000</b>	<b>\$174,259,000</b>	<b>\$174,259,000</b>	<b>(\$131,291,000)</b>
<b>Use of Funds</b>				
Mandatory Costs				
Health Benefits Premium Increase	\$14,150,000	\$13,739,000	\$13,739,000	(\$411,000)
New Space	9,720,000	9,720,000	9,720,000	0
Property Insurance	1,000,000	1,000,000	1,000,000	0
Enrollment				
5% Enrollment Growth (15,038 FTES)	109,855,000	109,867,000	109,867,000	12,000
YRO Conversion	10,838,000	1,353,000	1,353,000	(9,485,000)
Compensation	100,687,000	33,573,000	33,573,000	(67,114,000)
Technology, Libraries, Deferred Maintenance	26,000,000	5,000,000	5,000,000	(21,000,000)
CPEC Eligibility Study	0	7,000	7,000	7,000
	<b>\$305,550,000</b>	<b>\$174,259,000</b>	<b>\$174,259,000</b>	<b>(\$131,291,000)</b>

The budget also incorporates a \$43 million one-time reduction in CSU operating support in areas of long-term need: technology, instructional equipment, libraries and deferred maintenance. CSU will eliminate the \$5 million approved in the budget for technology to reduce the impact of reductions required by the university to \$38 million. In addition to the cuts in the CSU operating budget, the budget approved by the Senate eliminates funding for two Governor's initiatives

administered by CSU: the Governor's Teaching Fellowships and the Education Technology K-12 Teacher Professional Development Initiative; and, eliminates \$9 million previously allocated to the CSU Center for Educational Reform for in-state and out-of-state teacher recruitment. These budget cuts are in addition to the \$54 million in CSU base budget reductions approved in the Governor's January budget. Campuses have been asked to submit budget allocations based on approval of the Conference Committee budget by the Senate so that preparation of materials for the 2003/04 CSU Support Budget request can proceed on schedule.

Total 2002/03 General Fund support in the Senate approved budget is \$2,680,280,000 and includes the adjustments in CSU support shown on the following chart.

**State Appropriations**

CSU 2001/02 FINAL BUDGET	\$ 2,607,425,000
One-Time General Operating Cost Deferrals	(9,500,000)
Reduction for Natural Gas and Unallocated Operating Cost Savings	(20,000,000)
PERS Employer Retirement Contribution Increase	84,245,000
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CSU 2002/03 BASE BUDGET	\$2,662,170,000

**GOVERNOR'S JANUARY BUDGET**

Base Budget Adjustments	(\$43,477,000)
2002/03 CSU Budget Plan Increases:	
Funding of CSU Partnership Agreement	116,917,000
CPEC Eligibility Study Funding	7,000
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<b>TOTAL, GOVERNOR'S BUDGET GENERAL FUND INCREASE</b>	<b>\$73,447,000</b>

**MAY REVISE ADJUSTMENTS:**

Base Budget Adjustments:	
Defer Funding for Technology/Equipment/Maintenance/Libraries	(\$43,000,000)
Reduce K-12 Education Technology Funding to \$0	(6,000,000)
Transfer Funds for Governor's Fellowships to APLE	(21,000,000)
Increase in General Fund Lease Bond Payment Costs	209,000
Increased Annuitant Dental Benefits Cost	38,000
Reduce CalTeach Advertising and Outreach Activities to \$0	(4,000,000)
Eliminate Funding for Service Learning Course Development	(1,100,000)
2002/03 CSU Budget Plan Increases:	
1% Additional Enrollment Growth (3,008 FTES)	19,516,000
<hr/>	
<b>TOTAL, GOVERNOR'S MAY REVISE GENERAL FUND DECREASE</b>	<b>(\$55,337,000)</b>

<b>TOTAL, CSU GENERAL FUND SUPPORT BUDGET</b>	<b>\$2,680,280,000</b>
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## COMMITTEE ON FINANCE

### **Status Report on the 2003/2004 Support Budget and Recommended Lottery Revenue Budget**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

#### **Summary**

##### **2003/2004 Support Budget**

This item is being presented to the Board of Trustees at this meeting as an information item and is scheduled for adoption at the special October budget meeting. At the time this agenda was prepared, a draft budget outline had been prepared for discussion with the Executive Council, the System Budget Advisory Committee and other CSU constituencies. Those discussions will be used to help establish system budget priorities and form the detailed plan to be discussed at the September board meeting. This draft budget proposal will be developed consistent with the Partnership agreement reached with Governor Davis.

The Board will be provided with handout material for discussion.

##### **2003/04 Lottery Revenue Budget**

The recommended 2003/04 Lottery Revenue Budget is also being presented to the Board of Trustees at this meeting as an information item and is scheduled for adoption at the special October budget meeting. The change from previous budgets is a decrease in projected lottery receipts.

Systemwide program budgets continue to be designated for the Forgivable Loan/Doctoral Incentive Program, California Pre-Doctoral Program and CSU Summer Arts. The Campus-based budgets are allocated directly to the campuses and an allocation equal to the current year allocation is recommended. The allocation reflects the lower expectation of Lottery receipts in 2003/04 based on the latest projections from the Lottery Commission for 2002/03.

In summary, a total of \$39.1 million is the proposed lottery budget for 2003/04. After deducting \$1.3 million for the systemwide reserve that is used for cash flow and as a hedge against potential downward fluctuations in revenue, \$37.8 million is recommended for programmatic use. Three system-designated programs remain (Forgivable Loan/Doctoral Incentive Program, Pre-Doctoral Program, and Summer Arts) and the rest of the dollars are recommended for campus-based programs.

**DRAFT**  
**2003/2004 Recommended Lottery Revenue Budget**

	2002/03 Adopted Budget	2003/04 Recommended Budget
<b>Sources of Funds</b>		
Beginning Balance	\$ 5,000,000	\$ 5,000,000
Receipts	36,000,000	32,300,000
Interest	<u>1,800,000</u>	<u>1,800,000</u>
Total Revenues	\$42,800,000	\$ 39,100,000
<i>Less Systemwide Reserve</i>	<u>(5,000,000)</u>	<u>(1,300,000)</u>
<b>Total Available for Allocation</b>	<b>\$37,800,000</b>	<b>\$ 37,800,000</b>
<b>Uses of Funds</b>		
<i>System Programs</i>		
Forgivable Loan/Doctoral Incentive Program	\$ 3,000,000	\$ 3,000,000
California Pre-Doctoral Program	633,000	633,000
CSU Summer Arts Program	1,200,000	1,200,000
Systemwide Implementation Costs	<u>341,000</u>	<u>341,000</u>
	<u>\$5,174,000</u>	<u>\$5,174,000</u>
<i>Campus Based Programs</i>		
Lottery Fund Allocations	30,826,000	30,826,000
Campus Interest Earnings	1,500,000	1,500,000
Systemwide Interest Earnings	<u>300,000</u>	<u>300,000</u>
	<u>\$32,626,000</u>	<u>\$32,626,000</u>
<b>Total Uses of Funds</b>	<b>\$37,800,000</b>	<b>\$ 37,800,000</b>

**COMMITTEE ON FINANCE**

**California State University Annual Investment Report**

**Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

**Summary**

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

The California State University  
Office of the Chancellor



# Annual Investment Report

July 1, 2001 – June 30, 2002  
Prepared by  
Office of Financing and Treasury

## **Summary**

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

This agenda item reports the results of the CSU investment program administered by Metropolitan West for the twelve months ending June 30, 2002. In addition, results are provided for the Surplus Money Investment Fund (SMIF) and Local Agency Investment Fund (LAIF). The State Treasurer administers SMIF and LAIF, which are available to the campuses as investment options.

## **Market Recap**

An economic recession, the terrorist attacks of September 11, and a wave of corporate accounting scandals all impacted the markets during the fiscal year ended June 30, 2002. In December of 2001, we saw the Fed reduce its target Federal Fund rate for the eleventh consecutive time to 1.75%, where it has remained unchanged through the end of the fiscal year.

Despite signs of an economic recovery commencing around March, investors continued to show concerns over the integrity of corporate financial statements. All major stock indices returned to their post September 11 lows by year-end as investors sold off equity securities and invested in safer alternatives, such as U.S. Treasury bonds.

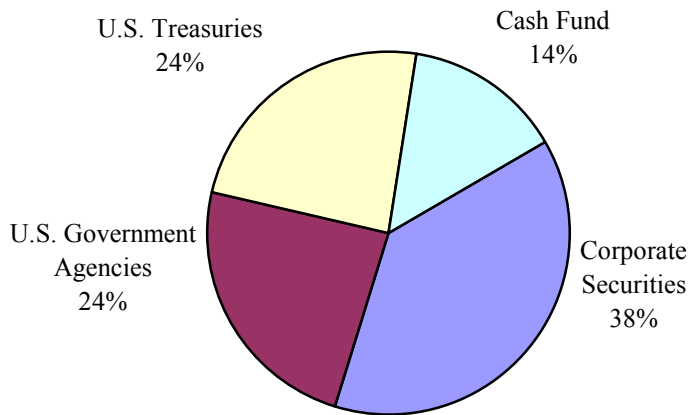
This environment has been generally favorable to participants in the three fixed income accounts, most notable on the Total Return and Long-Term accounts. Rising demand in the domestic debt market has benefited the portfolio returns by supplying price appreciation in addition to interest income.

## **CSU Short-Term Investment Account Performance**

As of June 30, 2002, the asset balance in the Short-Term account totaled \$158 million. The objective of the Short-Term account is to maximize current income along with preservation of capital. Consistent with the CSU investment policy, the portfolio is restricted to U.S. Treasury securities, government agency securities, and highly rated corporate securities. State law

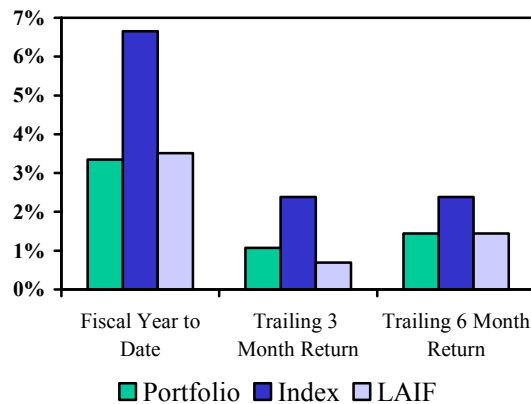
prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Short-Term account are as follows:

**California State University Short-Term Account  
 Sector Breakdown as of  
 06/30/2002**



The Short-Term account has provided a return of 3.35 percent during the 12 months ended June 30, 2002. This return approximated the 12-month return for the Local Agency Investment Fund. Because of the better performance of U.S. Treasuries over corporate bonds, the portfolio underperformed relative to its benchmark index, the Merrill Lynch 1-3 Year Treasury Index.

**California State University System  
 CSU Short-Term Account  
 06/30/2002**

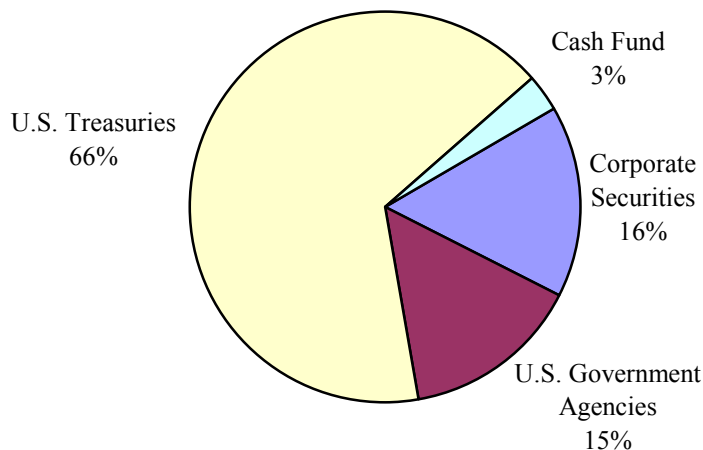


### CSU Total Return Investment Account Performance

The objective of the Total Return account is to maximize medium term total return. The account is invested in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 3.75 to 5.75 years. The account is structured to perform consistently with the Merrill Lynch 5-7 year Treasury Index, and to outperform both the Short - Term account and LAIF over a 5-7 year investment horizon. As of June 30, 2002, the net asset value of the account was \$173 million.

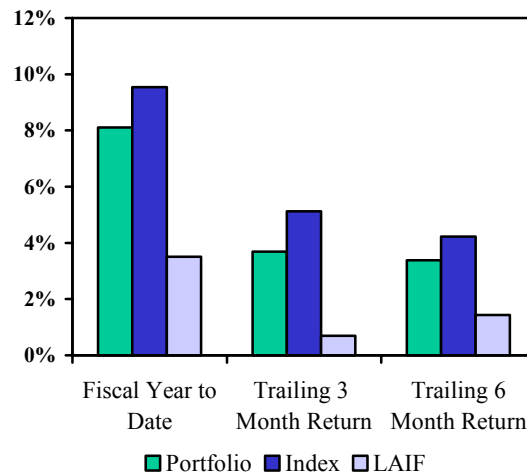
Consistent with the CSU investment policy, the Total Return account portfolio is restricted to U.S. Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for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

**California State University Total Return Account  
Sector Breakdown as of  
06/30/2002**



The Total Return account has provided a return of 8.11 percent during the 12 months ended June 30, 2002. This return exceeded the 12-month return for the Local Agency Investment Fund. Because of the better performance of U.S. Treasuries over corporate bonds, the portfolio underperformed relative to its benchmark index, the Merrill Lynch 5-7 Year Treasury Index.

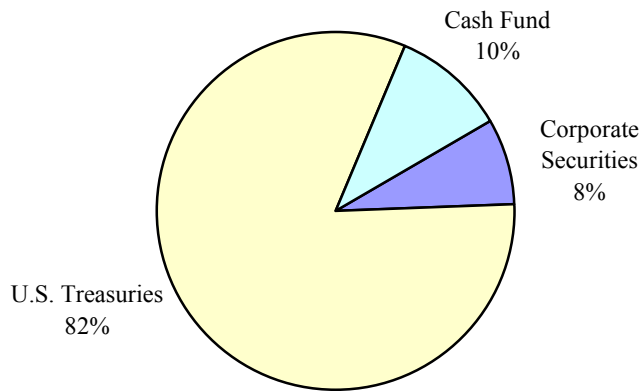
**California State University System  
 CSU Total Return Account  
 06/30/2002**



**CSU Long-Term Account Investment Performance**

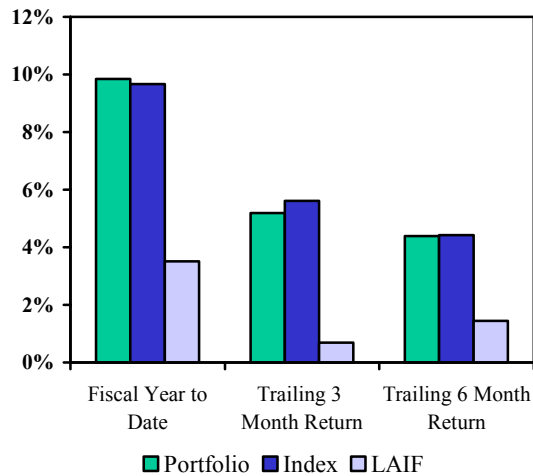
The investment objective of the Long-Term account is to maximize returns for funds that can be invested for a longer term. This account invests in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 5 to 7 years. As of June 30, 2002, the net asset value of the account was \$42 million. Consistent with the CSU investment policy, the portfolio is restricted to U.S. Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Long-Term account are as follows:

**California State University Long-Term Account  
 Sector Breakdown as of  
 06/30/2002**



The Long-Term account has provided a return of 9.85 percent during the 12 months ended June 30, 2002. This return exceeded the 12-month return for the established benchmarks, which are the Merrill Lynch 7-10 Year Index and the Local Agency Investment Fund.

**California State University System  
 CSU Long Term Return Account  
 06/30/2002**



**Surplus Money Investment Fund (SMIF)**

The Surplus Money Investment Fund (SMIF) is a vehicle used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. Cash on this account is available on a daily basis. SMIF is managed by the State Treasurer's Office. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2002, the balance was \$28.4 million.

**SMIF Performance Report  
Apportionment Yield Rate**

06/30/2002: 2.853%  
12/31/2001: 3.993%

**SMIF Past Performance  
1997-2002**

Average: 5.277%  
High: 6.493%  
Low: 2.853%

**Local Agency Investment Fund (LAIF)**

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

**LAIF Performance Report  
Quarter ending 06/30/2002**

Apportionment Rate: 2.75%

## **The California State University Investment Policy**

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

### **Investment Policy Statement**

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

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

### **Investment Authority**

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

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

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

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

### **Investment Reporting Requirements**

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

## COMMITTEE ON FINANCE

### **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 CSU's commercial paper program in an aggregate amount not-to-exceed \$14,130,000 for the construction of two projects previously approved through the Board's Non-State Funded Capital Improvement Programs. 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, when sold for the projects are expected to bear the Aa3 and A+ ratings of the existing Systemwide Revenue Bonds from Moody's Investor Services and Standard and Poor's Corporation. In addition, when approaching the time to issue the Systemwide Revenue Bonds, the Board's approval may be sought to approve a credit facility that would enable up to 20% of the principal amount of the Systemwide Revenue Bonds to be issued as variable-rate bonds. The prudent use of variable-rate debt is expected to further lower borrowing costs.

In March 2002 the Board approved the new Systemwide Revenue Bond Program intending to use it as the means for issuing the most cost effective debt for the CSU. The new program provides for the conversion of older Housing System Revenue Bonds to a new bond indenture that will add flexibility and financing advantages. The bonds for the following projects will be issued pursuant to that older resolution with integrated provisions for the conversion to the new bond indenture. The conversion to the covenants of the new Systemwide Revenue Bond Program will take effect upon approval of 2/3 of the bondholders, which will automatically occur when 2/3 of the outstanding bonds have been issued under the new program. The financing approval and sale of bonds for these projects will assist in implementing the conversion by adding bondholder consents toward the 2/3 requirement.

The projects are as follows:

**1. San Diego State University, Continuing Education Facility**

The Board previously approved the Gateway Addition project in the campus master plan and the Non-State Funded Capital Improvement Program, and the Committee on Campus Planning Buildings and Grounds will be asked to approve the schematic/design at this meeting. The Gateway Addition project will meet the need for permanent classroom space for the College of Extended Studies (CES), and ease the campus' increasing and immediate need for temporary faculty offices. The project consists of a four-story building, approximately 58,523 gross square feet, containing classrooms, faculty, administrative offices and other amenities and includes replacement of parking spaces. The campus has received design/build proposals and has determined a qualified winning proposal for the design and construction of the project. The total project costs are estimated at \$13,000,000, of which up to approximately 47% of the funding for the project will be paid from Continuing Education Revenue Fund reserves and 9% from parking program reserves. The balance of the costs will be paid from financing proceeds.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$6,905,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$438,508
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all San Diego pledged revenue programs:	8.15
Net revenue – all San Diego pledged revenue programs:	2.12
Net revenue – projected for the campus Continuing Education Program:	1.58

1. Projected information – Combines the 2000/01 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service

The not-to-exceed amount and the maximum annual debt service is based on a current market rate of interest plus 50 basis points (average coupon rate – 5.5%), capitalized interest and a bond reserve, which provides a safeguard for changing market conditions until the permanent financing bonds are sold. However, with the use of the commercial paper program during construction, and with a continuation of relatively stable markets for bond activity, savings to the not-to-exceed and the maximum annual debt service amounts shown above, as well as an enhancement of the above ratios, could be expected. The campus has presented a viable financial plan supporting the new project that relies on excess general revenues of the Continuing Education Program. Even though the financial plan does not show that additional revenues

would be generated specifically because of the project, the campus believes that the benefits of the project offset the impact of this project providing no additional revenue contribution to campus revenue bond program or the Systemwide Revenue Bond financing program.

**2. CSU Monterey Bay, Auxiliary Student Housing Renovation**

Previously the Board approved the renovation of a vacant residence hall (#211) in the campus master plan, the Non-State Funded Capital Outlay Program, and in a project schematic design presentation. The campus is in the process of planning the project, and at the time this agenda item was prepared, had not received construction bids. The campus expects to receive bids one week before the Board’s meeting and award a contract to a bidder later in September. The project consists of a renovation of a vacant former military residence hall that will contain areas for social and programmatic activity and a total of 140 bed spaces.

The estimated total project costs of \$6,800,000 are to be paid from financing proceeds. The campus wishes to move forward with the financing approval to provide funds for the construction of the project, which when complete will be operated by the Foundation of California State University, Monterey Bay (the Foundation), an auxiliary organization in good standing.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$7,225,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$491,875
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all CSUMB pledged revenue programs:	6.14
Net revenue – all CSUMB pledged revenue programs:	1.86
Net revenue – projected Foundation revenue:	1.85

1. Projected information – Combines the 2000/01 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service

The not-to-exceed amount and the maximum annual debt service is based on the estimated construction cost, a current market rate of interest plus 50 basis points (average coupon rate – 5.4%), capitalized interest and a surety insurance reserve, which provides a modest safeguard for changing market conditions until the permanent financing bonds are sold. However, with the use of the commercial paper program during construction, and with a continuation of relatively stable markets for bond activity, limited savings to the not-to-exceed and the maximum annual

debt service amounts shown above, as well as a limited enhancement of the above ratios, could be expected.

The Foundation has developed a financial plan that shows that the project does not fully support itself, but when combined with other student housing operations of the Foundation, shows the ability to repay the expected annual debt service and maintain a debt service coverage ratio above 1.25x from the Foundation's total revenues as of the first year of the project's operation. The Foundation would lease the facility from the Board under the terms of a "financing lease", thereby providing the Board with the funds for repayment of the debt. The financing lease between the Board and the Foundation would include a pledge and parity lien with owners of the Foundation's existing bonds on the Foundation's revenue. At this time, this revenue generally includes all revenues and fund balances of the Foundation exclusive of funds restricted by a donor or by law for a particular purpose that is inconsistent with the payment of funds for the purposes created by the financing lease. In the future these revenues may be limited to student housing revenues if certain financial coverage tests in the Foundation's lease payments are satisfied. Thus, the lease would contain covenants that require that lease payments have a senior, parity lien with existing Foundation bonds on the Foundation's revenues before annual discretionary distributions are made to the campus. The lease would require the Foundation to meet a net revenue debt service coverage test each year on all debt, including the lease payment of a minimum of at least 1.20 times debt service before distributions to the campus and non-cash items. The lease would also contain an additional borrowing test of 1.30 times debt service including the lease payments, which is consistent with the requirement of the Foundation's existing bonds.

The Foundation's board has authorized the management of the Foundation to go forward with the project. The Foundation's board has not approved the terms and conditions of a lease that is being developed and will be executed prior to the university awarding the contract for construction this fall. The financing transaction will go forward if market assumptions of the financial plan remain valid at the time of the financing, if there are acceptable construction bids that are consistent with the financial plan, and if the Foundation has approved a financing lease acceptable to the Executive Vice Chancellor and Chief Financial Officer.

### **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 these projects. The proposed sets of resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of the Systemwide Revenue Bond Anticipation Notes and authorize the related sale and issuance of the Trustees of the California State University, Systemwide Revenue Bonds and certain actions relating thereto in an amount not-to-exceed the amounts shown for the projects above, and certain actions relating thereto.
- (2) Provide for a delegation to authorize 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 two separate sets of financing resolutions for the following projects as described in this agenda item is recommended:

**San Diego State University, Continuing Education Facility**

**CSU Monterey Bay, Auxiliary Student Housing Renovation**