

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

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Summary

This item reports on the debt of the California State University Systemwide Revenue Bond program in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

Background

The Systemwide Revenue Bond (SRB) program, under provisions and authorities of the State University Revenue Bond Act of 1947 (California Education Code sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with authority to establish procedures for the management of the SRB program consistent with the Board of Trustees' objectives for the use of debt, including the establishment of benchmark financial ratios to ascertain the financial viability of projects to be financed with CSU debt. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended by the Board of Trustees in November 2014 and is included as Attachment A.

The SRB program provides capital financing for projects of the CSU approved by the Board of Trustees, including student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other academic facilities. Revenues from these programs and revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the debt issued to finance the projects. A strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

Since the inception of the SRB program, the CSU has also issued commercial paper (CP) primarily to provide campuses with short term, lower cost capital financing on projects until long term bonds are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by bond anticipation notes issued by the CSU. The CSU currently has a CP program in the amount of \$300 million, although both the Board of Trustees and the CSU Institute have authorized a CP

program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in May 2025.

SRB and CP Portfolio Profile

As of June 30, 2021, and December 31, 2021, outstanding SRB debt of the CSU was approximately \$7.9 billion and approximately \$8.8 billion, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.23%
Weighted Average Maturity:	15.9 Years
Interest Rate Mix:	97% Long Term Fixed Rate 3% Short Term Fixed Rate

As of December 31, 2021, outstanding CP was \$746,000 at a weighted average interest rate of 0.11 percent.

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2019, June 30, 2020, and June 30, 2021, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>
Operating Revenues	\$5,326	\$5,188	\$4,790
Operating Expenses	<u>1,763</u>	<u>1,864</u>	<u>1,622</u>
Net Revenues	3,563	3,324	3,168
Annual Debt Service	\$384	\$423	\$470
Debt Service Coverage ¹	9.28	7.86	6.74

(1) The minimum benchmark for the system, as established by executive order, is 1.45.

Activity since the May 2021 Annual Debt Report

Series 2021A and Series 2021B SRB Issuance, and Series 2016B-2 SRB Remarketing

In July 2021, the CSU issued \$1,888,320,000 of SRBs comprised of the following series:

Series 2021A (Tax-exempt):	\$124,235,000
Series 2021B (Taxable):	\$1,664,085,000
Series 2016B-2 (Tax-exempt put bond remarketing):	<u>\$100,000,000</u>
Total par amount of the bonds:	\$1,888,320,000

Approximately \$910 million was issued for new projects, comprised of about \$88 million from Series 2021A at an all-in true interest cost of 2.21 percent and about \$822 million from Series 2021B at an all-in true interest cost of 2.83 percent. The remaining \$879 million of the Series 2021A and 2021B bonds were used to refund outstanding SRB debt for net present value savings of about \$103 million, with year one cashflow savings of about \$24 million and savings of approximately \$73 million in the first four years. The Series 2016B-2 put bonds were remarketed for an additional five years at a rate of 2.75 percent and net present value savings of about \$13 million.

Projects Approved for Financing under Delegated Authority

In March 2018, the Board of Trustees amended Section II(f). of its Standing Orders to delegate authority to the chancellor to, among other things, authorize debt financing for projects valued up to \$40 million and authorize debt financing for all remodels, parking structures, and utilitarian projects, regardless of cost.

In June 2021, under this delegation of authority, the chancellor authorized debt financing for the following project:

- California Polytechnic State University, San Luis Obispo Housing Renovation projects with a not-to-exceed financing amount of \$39,995,000

This project met CSU debt financing benchmarks and was included in the 2021A and 2021B SRB issuance in July 2021.

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN/CPBG 11-14-01

WHEREAS, The Board of Trustees of the California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework, the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings or restructurings; and

WHEREAS, The Board finds it appropriate to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of the California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the "CSU Bond Acts") provide the Board of Trustees with the ability to acquire,

construct, finance, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees' debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees' programs shall be designed to improve efficiency of access to the capital markets by consolidating bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities, and plan the issuance of all long-term debt consistent with the five-year capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Structure of the CSU's Debt Programs

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty, and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

2.2 The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added,

and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

2.3 The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.4 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the Trustees, to take any and all actions necessary to issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such financing transactions.

2.5 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible for, or are inappropriate for financing under the CSU Bond Acts. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing, if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the CSU Bond Acts financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the

Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1 The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supersedes RFIN 03-02-02 and shall take effect immediately.