

## MINUTES OF MEETING OF CSU INSTITUTE BOARD

Chancellor's Office  
401 Golden Shore, 6<sup>th</sup> Floor, Rm. 639  
Long Beach, CA

October 22, 2015  
10:02 a.m. – 10:27 a.m.

### Board Directors Present

1. Timothy White, Chairman
2. Loren Blanchard, Secretary
3. Garrett Ashley, Director
4. Lori Lamb, Director

Steve Relyea, Treasurer (absent)

### Staff Present

1. Robert Eaton, Assistant Vice Chancellor, Financing, Treasury, and Risk Management
2. Jean Gill, Interim Assistant Vice Chancellor/Controller, Financial Services
3. Syrus En, Senior Financial Manager, Financing and Treasury
4. Randy Libunao, Assistant Financial Manager, Financing and Treasury
5. Daniel Regan, Administration Analyst, Financial Services

Chair White called the meeting to order at 10:02 a.m.

Minutes were taken by staff (Syrus En).

### Approval of the Institute Board minutes of July 23, 2015 (action item)

Chair White asked for a motion to approve the minutes from the Institute Board meeting on July 23, 2015. Secretary Blanchard moved and Director Ashley seconded the motion. The motion was approved unanimously.

### Acceptance of June 30, 2015 Audited Financial Statements (action item)

For benefit of newly elected Secretary Blanchard, Gill provided a general overview on the role of the CSU Institute and how its existence serves the CSU, namely as an interim financing vehicle primarily through the issuance of commercial paper (CP). Gill explained the business nature of the Institute's operations and how they were reflected in the financial statements. Gill then informed the board of KPMG's completion of the Institute Audit with a clean opinion.

Gill presented components of the Institute's Financial Statements starting with the balance sheet. Assets and liabilities have decreased from \$180 million in the 2013-2014 fiscal year to \$150 million in the 2014-2015 fiscal year. Chair White questioned if the year to year balance sheet fluctuation was normal. Gill confirmed that the changes were normal and present in years past. Eaton agreed and added that the year to year variance was primarily a function of the volume and timing of projects approved by the Board of Trustees.

Gill then gave a presentation of the Institute's Income Statement. The Income Statement sees the same year to year variability as the balance sheet with some years seeing increases in net position and other years seeing decreases in net position. This has been the trend over the last five years. Chair White asked if the Institute has historically been in a net asset position. Gill affirmed Chair White's statement and mentioned that the Institute is well capitalized with an approximate \$4 million net asset position as of June 30, 2015.

Lastly, Gill explained the mechanics of the Statement of Cash Flows. The Institute's largest cash flow for the 2015-2016 fiscal year involves \$132 million of Cash Inflows from Financing Activities through the issuance of CP and \$132 million of Cash Outflows from Investing Activities through the purchase of CSU Revenue Bond Anticipation Notes. This depicts the normal course of business for the Institute.

Chair White asked how often staff monitors and projects cash flows to avoid liquidity problems. Gill stated that Accounting Staff monitors cash balances on a monthly basis. Eaton explained that Institute cash problems are essentially mitigated since the issuance of CP is synchronized with the purchase of Bond Anticipation Notes, virtually eliminating cash flow risk. Cash balances may vary month to month in the normal course of operations, but no real liquidity risk exists. Eaton remarked that the biggest risk for the Institute lies in its ability to successfully issue and roll CP and that even during the financial market crisis in 2008, the CSU Institute was still in a position to access the capital markets.

Director Lamb confirmed the Institute Audit Committee's review of the financial statements and expressed confidence in the reports as presented. Chair White asked for a motion, which was moved by Director Lamb and seconded by Director Ashley. The motion was approved unanimously.

*Presentation of an update of the Institute's commercial paper program (information item)*

Eaton gave an update on the CP balance at slightly above \$5 million, financed at an average rate of .05%. This substantial decrease of approximately \$148 million from the previous update was due to the pay down of CP utilizing a portion of the proceeds from the 2015 Systemwide Revenue Bond sale.

At the request of Chair White from the last Institute meeting, Eaton briefed the committee on CP capacity and the forecasted outlook for projects requiring CP issuance. Systemwide Revenue Bond projects will not require financing until the spring of 2016 with a light pipeline of projects. Approximately \$100 million of CP would need to be issued around that time based on six projects and the associated projected cash flows from the spring to early summer prior to next year's planned bond sale.

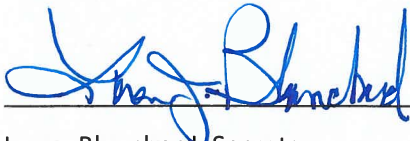
The Institute's Letter of Credit and CP documents stipulate commercial paper capacity at \$300 million, with the Institute reserving the authority, given by the Board of Trustees, to issue up to \$500 million of CP. The projected open capacity stands at \$195 million, factoring in the current \$300 million program, \$5 million of CP currently outstanding and the forecasted \$100 million of CP issuance for Systemwide Revenue Bond projects scheduled for the spring of 2016. This \$195 million could potentially provide interim financing for infrastructure projects under the CSU's new capital authorities. For the 2015-2016 fiscal year, the CSU has allocated \$25 million of its operating budget for capital financing and, based on current market conditions, could leverage this \$25 million to support about \$400 million in debt. Eaton stated that not all of the \$400 million would require interim financing through the CP program due to project cash flows through the time of the sale of bonds. Eaton affirmed the \$195 million in capacity should be sufficient for critical infrastructure projects after discussion with CPDC, but staff will continue to monitor closely.

Chair White asked if all financed projects would get funneled through the CSU Institute under the CSU's new capital authorities. Eaton clarified that projects would run through the Institute only if CP is issued to provide interim financing under the normal CP issuance and BAN purchase structure.

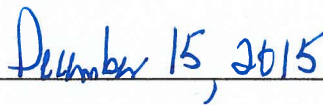
Chair White also posed a question regarding the actions of the Fed, the raising of short term interest rates and its impact on CSU's financing needs. Eaton answered and commented that any immediate rise in short term interest rates would have minimal impact on our stated capacity of \$195 million and to remain conservative, the CSU Institute would only issue 80-85% of capacity leaving cushion for more issuance. Eaton also stated this cushion gives the Institute increased flexibility to issue long term bonds during favorable market conditions, as opposed to issuing bonds simply to clear up CP capacity during a less favorable interest rate environment.

Meeting was adjourned at 10:27 a.m.

Respectfully submitted,



Loren Blanchard, Secretary



Date