The California State University

Bakersfield • Chico • Channel Islands • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt
Long Beach • Los Angeles • Maritime Academy • Monterey Bay • Northridge • Pomona • Sacramento
San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marcos • Sonoma • Stanislaus

Board of Trustees

Ex Officio Members
Arnold Schwarzenegger
Governor

Cruz Bustamante
Lieutenant Governor

Fabian Nuñez
Speaker of the Assembly

Jack O'Connell
State Superintendent of Public Instruction

Charles B. Reed
Chancellor

Appointed Members
Roberta Achtenberg
Chair

Jeffrey L. Bleich
Vice Chair

Herbert L. Carter

Carol R. Chandler

Moctesuma Esparza

Debra S. Farar

Kenneth Fong

Murray L. Galinson

George G. Gowgani

William Hauck

Raymond W. Holdsworth

Ricardo F. Icaza

Andrew LaFlamme

A. Robert Linscheid

Lou Monville

Melinda Guzman Moore

Jennifer Reimer

Craig R. Smith

Glen Toney

Kyriakos Tsakopoulos

401 Golden Shore
Long Beach, California
90802-4210

Telephone: (562) 951-4020
Fax: (562) 951-4949

MEMORANDUM

Date: August 18, 2006

TO: Ad Hoc Committee on Alternative Funding Sources
George G. Gowgani, Trustee
Melinda Guzman Moore, Trustee
Milton A. Gordon, President, CSU, Fullerton
Don W. Kassing, President, San Jose State University
Richard P. West, Executive Vice Chancellor/CFO

FROM: William Hauck, Chair Bill Hauck

SUBJECT: Notice of Meeting – Monday, August 28, 2006

The Committee will meet in open session for the purpose of reviewing different types of revenue opportunities. The meeting will be held at 10:00 a.m. on Monday, August 28, 2006 in the Capital Room of the Alumni Center located at CSU Sacramento, 6000 J Street, Sacramento, CA 95819. The committee will report back to the full board at its September 19-20, 2006 meeting.

c: Members, Board of Trustees
Agenda Mailing List

MINUTES OF THE MEETING OF
AD HOC COMMITTEE ON ALTERNATIVE FUNDING SOURCES
California State University Sacramento
Board Room –Alumni Center
6000 J Street
Sacramento, California

June 21, 2006

Members Present

William Hauck, Chair
George G. Gowgani, Trustee
Melinda Guzman Moore, Trustee
Don W. Kassing, President, San Jose State University
Richard P. West, Executive Vice Chancellor and Chief Financial Officer

Review of Revenue Alternatives

Trustee Hauck called the meeting to order and reviewed the charge to the committee as outlined in the written agenda item.

A discussion took place during which the committee explored the advantages and disadvantages of various options for other revenue opportunities that might augment the state contribution to the CSU budget.

Some areas of discussion included: More efficient use of CSU land and land-lease agreements; enhanced investment efforts on current endowment funds and philanthropic gifts; tighter oversight of investment management fees; reconsideration of sponsored contracts and grants overhead; potential exclusive provider arrangements, and the feasibility of lease-back arrangements as a potential revenue source.

Other areas of discussion included a review of potential cost reductions including: Making greater use of Energy Service Contracts by financing them through the Commercial Paper/Equipment financing program or through issuance of Certificates of Participation (COP's); the creation of a Systemwide Investment Fund-Trust that could serve to demonstrate CSU's liquidity; and finally, working with the private sector to 'outsource' or create partnerships that would benefit both CSU and the private party.

In conclusion, the committee requested that revenue or savings be estimated on a Systemwide basis, and that recommendations for each of the categories of revenue and expense reduction options be made.

The committee decided to meet one final time before reporting to the full Board at its September 2006 meeting.

AD HOC COMMITTEE ON ALTERNATIVE FUNDING SOURCES

Review of Alternative Revenue Sources

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Background

At the June 2006 meeting of the special subcommittee, members reviewed several existing and potential revenue sources to augment the funding for the University provided from the state. This agenda item will summarize the benefits for each of those alternatives in anticipation of presenting these ideas to the Committee on Finance of the Board of Trustees in September 2006.

Alternative Revenue Sources

Several sources of additional revenue including land development, philanthropic gifts, sponsored contracts and grants, exclusive provider arrangements, and lease backs were considered as well as some cost reduction ideas. The University currently receives revenues from most of these areas.

Philanthropic Gifts

The annual amount of giving for the system is approximately $300 million. However, the majority (97%) of annual revenue from gifts and endowments are for restricted purposes, such as scholarships, buildings, or specific programs. Recently, the University established an Advancement Fund Grant program to help build and enhance advancement programs. The expected outcome of this funding is an increase in voluntary support, strengthening of alumni involvement, and/or improved public perception of the university. One part of the program is an endowment incentive program designed to encourage the growth of endowment funds and raise the level of aspiration for the size of endowment gifts.

Campuses establish and evaluate performance goals annually. These campus advancement plans measure both philanthropic productivity and resource investment. The plans are guided by the principles that campuses should operate a well-rounded development program and that results should be consistent with investment. Currently, improving endowment management, developing capital campaigns, and enhancing the university's image are common objectives

represented in the plans. A report of the campus advancement plans is presented to the Board of Trustees each March. The current endowment corpus for the system is approximately $650 million, which yields approximately $45 million each year.

Total Estimated Revenues/Year: $45 million from endowment returns plus the non-endowment portion of the $300/year in fund raising.

Recommendation: Continue to encourage campuses to achieve fund raising goals; engage consulting expertise to aid campuses in developing multi-year campaign strategies.

Sponsored Contracts and Grants

Contracts and grants activities of faculty are typically justified as providing a public service through the advancement of knowledge, giving students an opportunity to participate in research, which enriches their learning, and brings some additional resources to the institution. Due to administrative caps and pressure from sponsoring agencies, indirect cost recoveries may not always be adequate to completely compensate the CSU for its actual expenditures.

- *Objectives and Considerations*
  - Overhead on contracts and grants is intended to reimburse the CSU for the costs associated with those programs; there is no "profit" associated with their provision. The programs are intended to advance scholarship for the faculty and provide public service and advance knowledge in the respective discipline.
  - The amount of research conducted by the CSU is modest, although growing. Current levels are at approximately $350 million/year, and most of the research is conducted through campus auxiliaries.

- *Examples*
  - CSU's contracts and grants activities are generally too limited to warrant some of the expedited reimbursement methods available to large research institutions. As a result, campuses may end up "loaning" funds to the contracts and grants activities as they await reimbursement from the sponsoring agency.

Total Estimated Expenditures/Year: $350 million/year in sponsored projects activities
Total Estimated Indirect Cost Recoveries/Year: $100-130 million/year
Net Estimated Return to the CSU: None

Recommendation: Continue promoting contract and grant activity for academic and public service purposes; evaluate overhead rates to help cover costs in providing contract and grant services.

Exclusive Provider Arrangements

Although the exclusive arrangements are generally arrived at based on an RFQ/RFP process, competitors may complain about restriction of free competition due to the long-term nature of these agreements (usually about 10 years), with campus users potentially paying higher prices for goods.

- *Objectives and Considerations*
  - Exclusive Provider Arrangements involve a contract with a single service provider to make their services available to a campus.
  - The most common type of exclusive provider arrangement is for pouring rights contracts. Most campuses currently having pouring rights contracts in place – usually through auxiliary organizations.

- *Examples*
  - The Fresno campus has exclusive pouring rights as a part of a larger agreement with a vendor.
  - Campus pouring rights agreements can yield $100-200,000/year, to as much as $1.5 million/year.

Total Estimated Revenues/Year: $2 million

Recommendation: Continue to evaluate opportunities associated with NCAA sports activities, which comprise the majority of such arrangements; continue to provide consulting expertise to campuses in sports management and fund raising.

Lease Backs

- *Objectives and Considerations - (a) Tax credit "sale"*
  - The CSU has not participated in any of these opportunities to create cash from existing assets. Using them would likely involve higher accounting overhead costs, temporary loss of ownership of the asset, and increased federal scrutiny created by this tax "loophole." There may be some concern that would be raised by the trustees and the public from "selling" a public asset to a private party.

- *Objectives and Considerations - (b) Sale/lease back of asset*
  - Neither has the CSU engaged in any sale/lease back of assets to create cash. Proposals have been received regarding parking and student housing projects. Concerns include loss of direct control of an asset, the raising of rates to market

pricing by a private company, and attendant labor issues. The tax advantage of lease backs, if determined to be feasible, have a value of $10-50 million in one-time funds.

Total Estimated Revenues/Year: None currently

Recommendation: Continue to monitor proposals to determine if potential revenue might outweigh the public policy concerns associated with these types of projects.

Review of Cost Reductions

1. Greater use made of Energy Services Contracts, coupled with tax-exempt financing
   - Finance energy services contracts through either the Commercial Paper/Equipment financing program or through the issuance of Certificates of Participation. COP's may be needed when there are real estate-based enhancements required or if the amortization is greater than the stated period for the CP/Equipment program of 8 years or when the amounts to be financed exceed $5 million. Rates for fixed-rate debt will not be quite as low as Systemwide Revenue Bond (SRB) debt, but could be close, and the rating agencies and market would really like the consolidated approach of these contracts coupled with a consolidated approach for financing the improvements.
   - If campuses should experience a decline in energy rates, it may become difficult for campuses to recover, through lower energy costs, the savings to fully pay for the improvements they are constructing. Additionally, the financing mechanism of using energy savings also assumes that campus energy budgets would remain at current levels.

2. Creation of Systemwide Investment Fund-Trust
   - As a part of the overall changes that will be occurring with Fees in Trust, the CSU will be able to generate a short-term investment pool of available campus funds (combination of student fees and other trust fund monies) that can demonstrate the liquidity of the CSU and could eventually be used in some of the ways that University of California uses its Short Term Investment Pool (STIP) funds (Commercial Paper back-up in place of expensive letters of credit, faculty/staff mortgages, working capital borrowings, etc.)

3. External Services Provision/Partnering with Private Sector
   - Work with the private sector to "outsource" or create partnerships that benefit both the CSU and the private party. These frequently revolve around information technology services, resulting in labor force reductions.

- Third party student housing, a frequent third-party partnership opportunity that is presented to the CSU, can provide some off-balance sheet housing needs for campuses, but the debt will frequently result in being on-credit after analysis, especially if campus land is leased to the provider and the campus seeks to limit or control the rental rates to students. Since the CSU has available credit capacity, and CSU financing (borrowing) costs are cheaper than developers' available borrowing, this approach doesn't have a current benefit to the CSU. With third party housing, control of student housing and residential life and the ability to create the best educational environment for students, as well as the ability to effectively discipline students, may be lessened. The private sector may either resist or may readily promote spending extra square footage in student housing for common areas, such as study group space and computer laboratories, based on their perceptions about what makes student housing attractive to students. Third-party housing rates may be, when compared against campus-built housing of similar quality, more expensive because of the rate of return expected by third parties; however, third-party housing providers may also have an advantage over campus-constructed housing contractors from using non-prevailing wage and by building outside State contracting requirements. Campus land ground rents for third-party student housing are typically not as high as the net revenues that would eventually be achieved if campuses built and managed their own student housing.

Total Estimated Savings/Year: Very limited

Recommendation: Continue to monitor this market for savings opportunities.

Use CSU Land More Intensively

There have been land lease arrangements at some CSU campuses, which have included faculty/staff housing projects and third party leases to generate revenue. The range of annual income depending on project size, length of rental term and location of land (campus) is $220,000 per year to $2 million per year. In some cases the campuses have been able to successfully use such housing projects to attract and retain, faculty and staff. Typically, however, land leased to outsiders or used for faculty/staff housing projects ties up the land for 50-100 years, which is too long to assume the land can be returned to relevant campus use for educational purposes. One of the more complex difficulties with land development is determining a proper valuation for the land and/or project to allow for an accurate evaluation about whether it is a good deal for the campus. The CSU often uses the services of consultants to advise the University in this area.

Land is an extremely valuable asset to the CSU. Trustee policies advocate for intensive use of land on all campuses. Master Plans for each campus should examine not only the need to accommodate the projected number of students expected to be served by the campus, but also look at ways to use land to generate revenue to serve University purposes.

The Trustees' Public/Private Partnership policies (Attachment A - Executive Order 747) outline the principles and processes the Trustees will assess the viability and benefits of proceeding with such projects. Given the complexity, long-term commitment, and risk associated with these projects, it is critical that experts with current market expertise who are independent of the project proposed review these proposals. This review usually will be done in conjunction with a Chancellor's Office review before the development of a Trustee item presented for discussion and/or approval.

Following are some recent examples of Public/Private Partnerships:

No Risk to the University – Income Stream Only

Fresno	Development of Campus Pointe, a 45-acre parcel of mixed use development next to the SaveMart Center
Pomona	Innovation Village, a multi-phased development of 65 acres for commercial office and research use
Northridge	Mini-Med
Dominguez Hills	The Home Depot Center
Bakersfield	Mixed use commercial development (under consideration)

Total Estimated Revenues/Year: $2.4 million currently

Projects with Risk Assumed by the University

- Faculty/Staff Housing – Existing Projects

  Channel Islands, Fullerton, Monterey Bay, San Francisco, San Luis Obispo

- Faculty/Staff Housing – Proposed Projects

  Dominguez Hills, Northridge, Sacramento, San Diego, Sonoma

Total Estimated Revenues/Year: $6-7 million upon completion of listed projects (mainly from Channel Islands Housing)

Recommendation: Use central expertise for evaluation of proposals; encourage mixed-use strategies as campus Master Plans are reviewed.

Summary

In conclusion, the amount of revenue that is currently generated from all of these sources, including endowment income and non-endowment one-time gifts ($300 million), is $340 million or 9.5% of the State-funded portion of the University budget (fee revenue and general fund). Although these funds are important in helping to provide a margin of excellence, these sources will never supplant existing resources. There are some benefits to continuing to maximize the dollars earned in this way, but this should be tempered with the recognition that the University will never reach a level of revenue that could supplant existing state funding. Given the lack of appropriate funding provided by the State, efforts will continue to share best practices with the campuses in order to increase additional revenue.

THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210

(562) 951-4000

Date: June 1, 2000

To: CSU Presidents

From: Charles B. Reed
Chancellor

Subject: Real Property Development Projects -- Revision of Policy
Executive Order No. 747

At the May 9-10, 2000 meeting of the Board of Trustees, the Board rescinded the policy and procedures for public/private (public/public) real estate partnerships approved at the March 22-23, 1994 meeting, and directed the chancellor to issue policies and procedures for projects involving real property development consistent with the principles contained in agenda item six of the Committee on Finance (RFIN 05-08-00). This executive order fulfills that directive and contains the policies and procedures for projects involving real property development. Campus presidents are required to implement these policies and procedures for all such projects.

In accordance with the policy of the California State University, the campus president has the responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

Enclosure

Distribution:
Vice Presidents for Administration/Business Affairs
Vice Presidents for Student Affairs
Vice Presidents for University Development
Business Managers
Deans of Students
Chancellor's Office Staff

THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210

(562) 951-4000

Executive Order No.: 747

Title: Policy for Real Property Development Projects

Effective Date: June 1, 2000

Supersedes: No prior executive order

Purpose

This policy applies to projects involving long-term contractual relationships that use or develop campus real property to further the educational mission of the campus through the acquisition of physical assets, income, and/or educationally related opportunities for students and faculty.

Roles and Procedures

Campus presidents are responsible for the planning and execution of all matters related to real property development projects on their respective campuses. The Executive Vice Chancellor and Chief Financial Officer is responsible to assist campuses in planning projects and for staff review and analysis prior to action by the Board of Trustees. The Chancellor and the Executive Vice Chancellor and Chief Financial Officer shall make the decision if there are questions as to the applicability of the policy to a specific project.

Approval of Concept

Early in the process the campus will present a conceptual plan to the Board of Trustees for approval describing the campus aspirations for a real property development.

The process leading to ultimate approval of the project by the Board of Trustees requires early and continuing involvement of the chancellor's office. Therefore, the campus should contact the land development review committee established by the Executive Vice Chancellor and Chief Financial Officer that includes finance, campus planning and legal staff at the beginning of the conceptual phase. Upon notification of the project, the Executive Vice Chancellor and Chief Financial Officer will issue a set of specific procedures to be used by the campus in developing the project. The letter will indicate the steps and process to be followed leading to approval of the development plan. Campuses will be responsible for notifying the land development committee of project developments as they occur.

Approval of Development Plan

Before execution of any commitments for use of the property, the campus will seek final approval of the real property development project from the trustees. An action item will be presented to the Board of Trustees that will provide detailed information on the project including:

1. an update of the conceptual plan presented to the trustees that describes how the project will further the educational mission of the campus,

Executive Order No. 747

2. the results of due diligence studies including an assessment of risks associated with the project,
3. a summary of the important terms and conditions of all proposed substantive agreements, and
4. a multi-year financial plan.

The campus will seek approval of the trustees for the development plan after all terms and conditions have been negotiated by the campus, finalized in appropriate legal documents, and reviewed and analyzed by the chancellor's office. Further approvals by the Board will be sought as necessary to accommodate master plan changes, and schematic design review and approval.

Charles B. Reed, Chancellor

Dated: June 1, 2000