

AGENDA

COMMITTEE ON FINANCE

Meeting: 3:05 p.m., Tuesday, July 18, 2006
Glenn S. Dumke Auditorium

William Hauck, Chair
Moctesuma Esparza, Vice Chair
Herbert L. Carter
Carol R. Chandler
Raymond W. Holdsworth
Ricardo F. Icaza
Andrew LaFlamme
A. Robert Linscheid
Melinda Guzman Moore
Craig R. Smith

Consent Item

Approval of Minutes of Meeting of May 16, 2006

Discussion Items

1. Report on the 2006-2007 Support Budget, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project, *Action*

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

May 16, 2006

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Carol R. Chandler
Moctesuma Esparza
Murray L. Galinson, Chair of the Board
Corey Jackson
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig R. Smith

Approval of Minutes

The minutes of January 31, 2006 were approved.

Report on the 2006-2007 Support Budget

Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer, introduced the item. He noted that Friday, May 12 was the May Revise of the Governor's budget. Since then, activity in Sacramento has been brisk however; no action had been taken on the CSU budget or on most other sectors of higher education budgets.

Mr. West said he expected the trustee's budget to be approved with one exception that differs from the Governor's budget; that being a reduction of \$7 million as part of the academic preparation and outreach programs. He indicated it is hoped the legislature will reinstate those funds. Otherwise, the budget remains unchanged and as outlined in the written agenda.

Mr. West reported some controversy continues on marginal cost funding issues and despite efforts to resolve it with the LAO and legislative staff, no resolution has yet been reached with respect to the marginal cost methodology.

Overall, the Governor's May Revision reflects a very active and robust state economic picture. Mr. West observed there was \$7.5 billion more in the May revision than was true in the January version of the Governor's budget and outlined the Governor's priorities for spending the additional revenue.

Following questions and comments from the Board, Mr. West concluded saying he believed the legislative analyst's comments on the May revision were resonate with his own experience on the revenue picture in California, in that the Governor's budget meets the legislative and statutory requirements with respect to where funding needs to go, (i.e., K-14 and Prop. 98). He cautioned however, it is wise to be prudent with respect to one-time expenditures and reserves since the economy will inevitably cool and additional revenues will decrease.

The budget now goes to the committees where it is expected to be acted upon the following week.

California State University Education Doctoral Degree Program

Mr. West noted the item had been revised since distribution of the printed agenda and that a revised copy had been distributed to the committee.

He explained the item was being presented to the Board of Trustees to recommend authorization of a new fee, the CSU Education Doctorate State University Fee, which will be charged in lieu of the CSU State University Fee students currently pay to attend the university.

Mr. West reviewed the details and chronology leading to enactment of SB 724 (Scott) that for the first time, allows the California State University to offer an independent doctoral degree. The law authorizes CSU to charge fees for its independent education doctoral program consistent with the University of California's educational fee for doctoral programs in order to satisfy program costs.

Mr. West addressed questions and concerns raised by various board members. He indicated this was an information item and that he would come back to the committee in the fall with the specific fee actions and formal approval requests required to set the fee at the level described in the legislation.

Student Costs of Attendance

Mr. West introduced, Mr. Allison C. Jones, Assistant Vice Chancellor, Academic Affairs and Student Academic Support, who presented the report.

Mr. Jones reminded the committee at the November 8, 2005 presentation of the student fee report, Board members requested information on how the total costs of attendance at California State University campuses compare to similar charges to students at comparison institutions.

In response to the Board's request, financial aid administrators at the comparison institutions were contacted to confirm the 2005-06 cost of attendance allowances for full-time, resident undergraduates at their institution.

Utilizing a detailed slide presentation, Mr. Jones presented the results of a comprehensive study performed to fulfill the Board's request for this information.

In his presentation, Mr. Jones explained the basic foundations for financial aid and the methodology utilized to determine the various levels of students' financial need. He apprised the Board that in addition to mandatory fees and tuition, the Cost of Attendance (COA) used for purposes of determining eligibility for student financial aid recognizes the following allowances: books and supplies; food and housing; transportation and miscellaneous personal expenses. He further clarified that for purposes of the tables used in the report, CSU costs were represented by the average costs at four Los Angeles area campuses (Dominguez Hills, Long Beach, Los Angeles and Northridge).

When the reported costs of attendance for comparison institutions are adjusted using the Los Angeles area as a base, the CSU campus average costs are significantly lower than those of all comparison institutions. While the total cost of attendance at some CSU campuses may be slightly higher than the total cost at a few of the comparison institutions, taking into account variances in the cost of living index leads to the conclusion that most CSU students incur costs that are lower than those of students at the comparison institutions.

Trustee Esparza expressed concern that there appeared to be certain discrepancies in the index which suggests the tables could be somewhat skewed. After a brief discussion, it was agreed that the graph would be redone to better reflect cost of living index adjustments exclusive of tuition and fees.

Trustee Guzman Moore said she would like to receive more information on the comparison institutions used in the report. She requested that for future analyses of this nature, she would like to see a profile and demographics of the states and universities to which CSU is being compared.

Auxiliary Organization Financing at San José State University

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services, presented the action item.

Mr. Hordyk explained the item was a request by San José State University and the San José State University Foundation (Foundation) for approval of external financing for \$2 million to finance an already-completed land acquisition made by the Foundation of the Rubis Property for Moss Landing Marine Laboratories. The David and Lucile Packard Foundation will provide the loan to the Foundation in furtherance of their program for conservation and science in the California coastal areas.

The Foundation acquired the property in October 2005 in order to provide visiting scientists faculty housing in the two residential units; overflow parking at the labs; and set aside a portion of land dedicated to conservation and habitat restoration.

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The campus' long-term goal is to develop the property to become a mixed-use facility to accommodate summer workshops and provide short-term housing for first year graduate students.

Mr. Hordyk stated the Foundation will repay this loan with rental income, contributions received by the Foundation, Moss Landing laboratory reserves, and a portion of the facilities and administration revenue from campus grants and contracts performed at the laboratory.

He concluded noting this opportunity will allow the Foundation to externally finance the project at a very low interest rate (1%) over a four-year term.

The committee recommended approval of the proposed resolution (RFIN 05-06-02).

COMMITTEE ON FINANCE

Report on the 2006-2007 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor of the Budget

Summary

The Board of Trustees will be presented with an overview of 2006-07 state budget, actions of the two-house budget conference committee, and the final actions on the 2006-07 CSU budget.

2006-07 Support Budget

On June 30, 2006, Governor Schwarzenegger signed into law Assembly Bill 1801 (Laird) the 2006 Budget Act consisting of \$131 billion in total funds that include a \$2 billion reserve for economic uncertainties. The budget provided K-12 with nearly \$5.2 billion, reduced community college fees from \$26 to \$20 per unit, prepays \$2.8 billion in budgetary debt, provides \$1.4 billion for transportation and increases funding for CalWORKs and foster care programs. While the budget begins to address the state's ongoing structural deficit it would appear the state General Fund may be short nearly \$3.3 billion in the 2007-08 fiscal year.

The 2006-07 budget anticipates revenue for the CSU that includes \$2.7 billion from the state General Fund and just over \$1 billion in student fee revenue. This funding level represents a state General Fund augmentation of \$202.3 million, or a 7.8% increase, with an additional \$23.8 million in student fee revenue associated with the 2.5% increase in enrollment. The final budget is consistent with the expenditures identified in the Board of Trustees budget request. Although the Trustees' budget request assumed a student fee increase, the Governor proposed General Fund dollars in lieu of a fee increase. The legislature approved this fee "buy-out" of the student fee increase.

The Governor's January budget provided full funding of the Compact for Higher Education, and included a change in the "marginal cost" funding calculation per student and an augmentation for nursing programs. In addition, it proposed a statutory accounting change that would allow the

University to place student fee revenue in a local trust fund, which will have a significant and positive impact on business processes.

In concluding its' budget deliberations, the legislature fully supported the Governor's recommendations for the University budget, including modifications to the marginal cost formula and additional funding for the Bachelor of Science in Nursing (BSN) programs.

The 2006-07 CSU budget will reflect increases to the following Trustees' budget priorities:

Employee Compensation	\$ 94.0 million
Enrollment Growth (2.%)	\$ 70.6 million
Mandatory Costs	\$ 34.4 million
Long Term Need	\$ 10.0 million
Academic Preparation and Student Outreach	\$ 7.0 million
Student Financial Aid Grants	\$ 6.4 million
Expansion of Nursing programs	\$ 2.4 million
K-12 Math/Science Teacher Recruitment	\$ 1.1 million
Center for CA. Studies, Capitol Fellows Program	\$ 100,000
Capital Outlay Program (Including \$50 million for the CSU Capital Renewal Program)	\$239.3 million

In approving this budget, the Governor and legislature provided the funding to support a compensation pool of 3.6%, to enroll an additional 11,000 students, and to increase financial aid grants for needy students. Additionally, it will allow the CSU to move forward with the commitment to increase the number of K-12 math and science teachers and restores funding for Academic Preparation and Student Outreach programs that had been targeted for reduction.

The Board will be provided with a comprehensive budget update on the 2006-07 CSU budget at the July Board meeting.

COMMITTEE ON FINANCE

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

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 \$28,915,000 to provide funds for one project. The Board is being asked to approve resolutions relating to the project. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue program bonds.

The project is as follows:

Fullerton Student Recreation Center Project

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program in September 2003 and the schematics in July 2005 for the Fullerton student recreation center project. The project is comprised of a two-story 95,000 gross square foot facility located in the northwest portion of the main campus, immediately north of the Titan student union and east of parking structure 2. The first floor will house a lobby, a rock-climbing wall, a cardio fitness area, two multi-purpose rooms, a three-basketball court gymnasium, locker rooms, and building support services. The second floor will also include a cardio fitness area along with a multi-purpose room, two racquetball courts, a running track above the gymnasium, and administrative offices. As part of the project's site improvements, a lap and recreation pool with a lounging deck will be constructed south of the building and a satellite central plant to provide heating and cooling. In May 2001, the California State University, Fullerton students voted to support an increase in student body center fees to construct and operate the student recreation center project.

The not-to-exceed par value of the proposed bonds is \$28,915,000 and is based on an estimated project cost of \$40,608,000 and a student union reserve contribution of \$14,608,000. The project

delivery method is Construction Manager at Risk. The campus received an acceptable Guaranteed Maximum Price in June 2006. The campus expects to award a contract to construct the project in July 2006 and expects the project to be completed in January 2008.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$28,915,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected total debt service:	\$1,926,924
Projected debt service coverage including the new project: ¹	
Net revenue – all Fullerton pledged revenue programs:	1.95
Net revenue – projected for the campus Student Union program:	1.90

1. Projected information – Combines audited 2004/05 information for the campus-operated pledged revenue programs and the first full year of operations of the new project and other projects currently in construction.

The not-to-exceed par amount of bonds for the project totaling \$28,915,000, the maximum annual debt service, and the ratios above are based on the construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.31% as of June 21, 2006), 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 submitted a financial plan, which has a program net revenue debt service coverage of 1.90 and a campus combined net revenue debt service coverage of 1.95 from all pledged programs, both of which meet the CSU benchmarks of 1.10 and 1.35 respectively.

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 the project described in this agenda item that authorize interim and permanent financing. 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 \$28,915,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; 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 the financing resolutions for the project as described in this Agenda Item 2 of the Finance Committee of the July 18-19, 2006 meeting of the CSU Board of Trustees is recommended for:

Fullerton Student Recreation Center project