

AGENDA

COMMITTEE ON FINANCE

Meeting: 3:00 p.m., Tuesday, September 18, 2007
Glenn S. Dumke Auditorium

William Hauck, Chair
Glen O. Toney, Vice Chair
Herbert L. Carter
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
Ricardo F. Icaza
A. Robert Linscheid
Jennifer Reimer

Consent Item

Approval of Minutes of Meeting of July 11, 2007

Discussion Items

1. Report on the 2007-2008 Support Budget, *Information*
2. Report on the 2008-2009 Support Budget, *Information*
3. 2008-2009 Lottery Revenue Budget, *Information*
4. California State University Annual Investment Report, *Information*
5. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project, *Action*
6. Auxiliary Organization Financing at California State University, Fullerton, *Action*

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

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

July 11, 2007

Members Present

William Hauck, Chair
Glen O. Toney, Vice Chair
Roberta Achtenberg, Chair of the Board
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
A. Robert Linscheid
Charles B. Reed, Chancellor

The minutes of May 16, 2007 were approved as submitted.

Report on the 2007-2008 California State University Support Budget

Mr. Patrick Lenz, assistant vice chancellor, budget, presented the item.

Mr. Lenz provided a detailed overview of the 2007-2008 support budget and updated the committee on the state's fiscal condition and overall state budget issues.

Mr. Lenz reported the CSU budget at this point has been able to stay under the radar of any budget reductions. For additional details, he referred the committee to the CSU fact-sheet handout that reflects the difference between the trustees' proposals last fall, the January and May revise recommendations of the administration, and the subcommittee actions.

Given the state's overall fiscal condition, the governor and the legislature have prevailed in their support of higher education and particularly the CSU budget. The 2007-2008 CSU budget has virtually no issues before the conference committee. Mr. Lenz confirmed that both houses have approved the Compact funding, restored \$7 million in outreach funding, and augmented the CSU budget for K-12 math and science teacher preparation (\$2 million), and nursing programs (\$3.6 million). In addition, the CSU budget includes:

- \$129.5 million for compensation
- \$76.9 million for enrollment growth of 2.5 percent to enroll nearly 11,000 additional students
- \$42 million for mandatory costs (health benefits, new space, energy costs)
- \$38.8 million for student financial aid and,

- \$9.2 million for long term need (academic technology, libraries, deferred maintenance)

Barring no additional changes, the 2007-2008 CSU operating budget will total \$4.3 billion with nearly \$3.0 billion from the state General Fund and \$1.3 billion from fee revenue. This represents an increase of \$302 million or 6.4 percent over the 2006-2007 CSU support budget.

Dr. Charles B. Reed, chancellor, commented it is good news that CSU will receive over \$300 million more going forward in the new fiscal year. However, we are starting out this budget year with approximately \$40 million dollars less than projected expenses. He explained the \$40 million deficit reflects the cost of all our labor agreements and the unanticipated increase in employee health care premium costs. The chancellor acknowledged the need for a plan to offset the deficit and advised there will be some compromises required at the campuses in order to do so.

Mr. West observed even though we appear to have a substantial budget, our expenditure projections are greater than originally budgeted and there will be a financial management challenge going forward into the next fiscal year. He indicated we will have some help from the new revenue management program but it would not be a significant amount given the newness of the program.

Trustee Holdsworth inquired about how to handle added enrollment growth with respect to next year's budget. Mr. West indicated there has been some discussion with the legislature and the speaker and there appears to be some willingness for further discussion on the issue. As a result, Mr. West said it would likely be considered for inclusion as part of the budget proposal for 2008-2009. Trustee Holdsworth agree that would be a good idea.

Lt. Governor, John Garamendi said it was important that CSU consider now what we want to do for the 2008-2009 budget. He indicated the Department of Finance is already in the process of determining what CSU should be allotted and that we ought to be figuring out what to ask for to fully fund the university. He cautioned if we only ask for what we think they are going to give us, we are most likely going to be under-funded and will not receive what we actually need.

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Various Projects

Before presentation of the item, Mr. West said he was pleased to introduce Ms. Colleen Nickles, and informed the committee Ms. Nickles has been appointed as the new assistant vice chancellor, financial services. He noted Ms. Nickles previously held the position of senior director of financing and treasury in the Chancellor's Office and comes to the position with a wealth of experience and knowledge both inside and outside the CSU. Mr. West welcomed her to the board and wished her well in her new position.

Ms. Nickles then presented the action item.

Fin.

The item requested the trustees to approve approximately \$125,515,000 for Systemwide revenue bonds for three separate projects: A student center at CSU, Chico; student housing at the East Bay campus; and a taxable financed bookstore project at CSU, Stanislaus. She noted upon approval of the projects, commercial paper would be issued to fund the construction costs of the three projects.

The first project for approval was for the Wildcat Activity Center at CSU, Chico. Trustees previously approved changes to the non-state capital outlay program and the schematics for the project. The facility will provide a variety of student fitness and activity space as well as an outdoor aquatic area. The project cost is estimated at \$62,837, and the not-to-exceed par value of the proposed bonds is \$68,430,000. Ms. Nickles indicated debt service coverage for the project and campus are better than CSU benchmarks and staff recommends approval.

The second project pertained to the East Bay Pioneer Heights Student Housing project, Phase III. In May 2007, the trustees approved a non-state capital outlay program amendment and the schematic design for the project. The facility will provide 472 beds and a dining facility that will serve this project as well as the Phase II facility of the student housing project. The project delivery method is design-bid-build and received construction bids in June 2007. The project is expected to be completed in March 2009.

The third project concerned the Auxiliary & Business Services (ABS) university bookstore project at CSU, Stanislaus. Ms. Nickles reviewed the terms and conditions of the proposed project as described in the written agenda item. The total project construction cost is \$5,587,000 of which Barnes and Noble, the bookstore operator, is providing \$775,000 for interior capital improvements and equipment.

The trustees are being asked to approve \$5.415 million, the amount of taxable bonds to be issued. These bonds are taxable because of the nature of the management contract and operation of the bookstore. Barnes and Noble will pay ABS annual compensation based on a percentage of the bookstore's net sales.

Trustee Hauck asked for clarification of the basic terms and provisions of the management agreement with Barnes and Noble. Dr. Hamid Shirvani, president, CSU, Stanislaus, reviewed the terms and addressed the trustee's concerns regarding any potential liability to the university.

The committee recommended approval of the proposed resolution (RFIN 07-07-16).

COMMITTEE ON FINANCE

Report on the 2007-2008 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

On July 20, 2007 the State Assembly passed Senate Bill 77, the 2007-08 state budget, and a number of implementing statutes known as “budget trailer bills”. The State Senate finally came to an agreement on the 2007-08 state budget on August 21, 2007 and four days later the Governor signed the budget after vetoing over \$700 million in program funding for as part of the action necessary to break an eight week budget stalemate. The Board will be advised of the impact of the 2007-08 budget negotiations and the action pertaining to the 2007-08 CSU budget.

2007-08 Support Budget

State Budget Overview

In January, Governor Schwarzenegger proposed a total budget of \$131 billion, which included a \$2.1 billion reserve and a declaration that the budget was balanced assuming no “net operating” budget deficit. The Governor updated his budget in the “May Revision” to reflect new expenditure and revenue assumptions that increased the total budget to \$131.7 billion, which included a budget reserve of \$2.2 billion and a “net operating” budget deficit of \$1.4 billion. In June, state revenues were \$1 billion less than anticipated and by the time the two-house conference committee sent its report to the Senate and Assembly, the budget deficit was nearly \$2.4 billion.

In July, the Assembly passed a budget (SB 77) making the cuts necessary to bring the state operating deficit down to just over \$700 million. However, the Senate Republicans refused passage of the budget until a budget was before them that contained “no net operating deficit”. At this point, all budget reduction options were on the table including a proposed 1 percent reduction to all state budgets that would have resulted in a \$30 million cut to the 2007-08 University budget. Four weeks after the Assembly approved the 2007-08 state budget, the

Senate approved a budget with a guarantee that the Governor would veto the \$700 million necessary to bring anticipated state expenditures in line with state revenues. Fortunately, the CSU did not receive any budget reductions with the Governor's vetoes.

2007-08 University Budget

The Governor's January budget fully funded the Compact with an augmentation of 4 percent for the CSU base budget; funding for a 2.5 percent enrollment growth; assumed an increase of 10 percent for undergraduate, teaching credential, and graduate student fees; and reserved 33 percent for State University Grant financial aid. The Governor augmented the CSU budget by \$302 million representing a 7 percent increase over the prior year funding or a total of \$4.3 billion from the state General Fund and fee revenue. Of this amount, \$296.4 million funded the following Compact budget augmentations:

- \$129.5 million for compensation
- \$76.9 million for enrollment growth of 2.5 percent to enroll nearly 11,000 additional students
- \$42 million for mandatory costs (health benefits, new space, energy costs)
- \$38.8 million for student financial aid
- \$9.2 million for long term need (academic technology, libraries, deferred maintenance)

In addition to the Compact funding, the Governor's January budget proposed an augmentation of \$2 million for K-12 math and science teacher programs and his May Revise included \$3.6 million to expand CSU's baccalaureate programs. The only issue of concern in the Governor's budget was a reduction of \$7 million for outreach and academic preparation programs.

During the Senate and Assembly budget subcommittee deliberations the Legislative Analyst Office (LAO) proposed reducing the CSU base funding to 2.5 percent; enrollment growth to 2.0 percent; and student fees to 2.4 percent. If the legislature had adopted the LAO recommendations it would have resulted in the loss of \$139 million to the University's budget. Fortunately, both houses rejected most of the LAO recommendations with the exception of funding per student (marginal cost formula) that resulted in a \$1.1 million reduction. The legislature's support of the Governor's budget resulted in both houses approving the Compact funding, restoring \$7 million in outreach funding, and augmenting the CSU budget for K-12 Math and Science Teacher Preparation (\$2 million) and Nursing programs (\$3.6 million). The 2007-08 CSU budget had virtually no issues before the conference committee.

While there were no funding issues before the two house conference committee the threat of budget reductions represented a serious concern with each day the legislature delayed in finalizing the budget. At one point, a 1 percent reduction for all state agency budgets was being considered that would have reduced the CSU budget by \$30 million. Fortunately, through the

collective advocacy efforts of the various University constituency groups, the CSU was spared any legislative budget reductions or vetoes by the Governor.

Conclusion

Given California's overall fiscal condition and the last minute veto of \$700 million in state programs, the Governor and legislature should be commended for their support of higher education and particularly the CSU budget. The Board will be presented with an overview of the final recommendations on the overall state budget and a detailed accounting of the actions on the 2007-08 CSU budget.

COMMITTEE ON FINANCE

Report on the 2008-2009 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

While the legislature and Governor just completed action on the 2007-08 state budget a month ago, the season has begun for considering recommendations to the Governor for the 2008-09 CSU budget. The Board of Trustees will be provided with an overview of the state's fiscal condition and budget challenges for the 2008-09 fiscal year. The Board will also be presented with revenue and expenditure assumptions under the Higher Education Compact along with CSU budget priorities that will require a state General Fund investment above the Compact funding.

2008-09 Support Budget

State Budget Overview

The \$131.5 billion 2007-08 state budget was enacted 55 days after the start of the July 1 fiscal year and assumed a \$4.1 billion reserve and "no net operating" deficit. The 2007-08 budget is balanced on optimistic revenue and expenditure assumptions that may exhaust the entire budget reserve before the end of the fiscal year. The overall fiscal condition of the state's General Fund and future viability of the California economy will play a significant role in the state meeting its budget priorities for the 2008-09 fiscal year.

The housing market continues to slump with new home construction down 32 percent in the first six months of 2007 compared to the same period in the previous year. New home permits in June 2007 were the lowest since March 2000 contributing to the drop in employment of 12,000 jobs in construction and 7,000 in financial activities. In July 2007 the Department of Finance (DOF) indicated that monthly cash flow would be \$267 million below the revenue projected in the Governor's 2007-08 state budget. Personal income tax revenue, the state's principle revenue

source, was down \$137 million, although sales tax, the state's second largest revenue stream, was up \$31 million.

There are unaccounted mandatory costs in the 2007-08 state budget that will place demands on the state's \$4.1 billion reserve such as the \$400 million necessary for collective bargaining agreements yet to be negotiated with state correctional officers and other employee groups. In addition, the budget assumes revenue from the sale of EdFund (\$1 billion), additional revenue from Indian Gaming (\$269 million), and the possibility that the legislature and Governor will come to an agreement of health care reform that will cost millions. Additional pressures on the 2008-09 state budget include: \$567 million of "one-time" funding currently being used in the 2007-08 fiscal year for K-12 "ongoing" expenditures, fully funding the Cost-of-Living Adjustment (COLA) for CalWorks (\$124 million) and the Aged, Blind, and Disabled (\$124 million). Finally, although early in the fiscal calendar, the LAO has projected that without additional revenue or more base budget reductions the state will likely face a \$5 billion net operating shortfall in the 2008-09 fiscal year.

2008-09 CSU Budget

Despite the state's fiscal condition, the CSU will have funding demands for student access, compensation, mandatory costs, financial aid, and long-term need (academic technology, libraries, and deferred maintenance). Over the past three fiscal years, the Higher Education Compact has provided the revenue to support these critical funding issues and the CSU anticipates the Governor and the legislature's support for the Compact in the 2008-09 fiscal year. Initial projections indicate the CSU will need a minimum of \$321.4 million from the state's General Fund to fully fund the current provisions of the Compact. Early estimates of expenditures include:

- Mandatory Costs (Health Benefits, New Space, Energy, and Full-Year SSI Comp.) \$34.3 million
- Student Enrollment Growth (2.5 % or 8,572 FTES) \$81.8 million
- Financial Aid (assumes no increase in student fees) \$ 7.1 million
- Long Term Need ¹ \$43.0 million
- Compensation \$155.2 million

Total **\$321.4 million**

The 2008-09 revenue and expenditure assumptions are only estimates at this time and there will certainly be other issues for the Board to consider. For instance, CSU grew by more than 2,100 FTES in the 2005-06 academic year at an unfunded state cost of \$15 million and grew by 6,300

¹ Deferred maintenance, libraries, and technology

FTES in the 2006-07 academic year at an unfunded state cost of \$46 million. It would appear the demand for student access to the CSU will continue to grow in the 2007-08 academic year and the Board may consider a request beyond the previously funded Compact amount for enrollment growth at 3.5% (\$94.5 million to serve 12,001 FTES).

In addition to funding within the Compact, the CSU has recognized funding priorities “above the Compact” and achieved some success in getting these priorities funded by the Governor and the legislature. In the 2007-08 CSU budget, the “above Compact” funding will support increasing the number of K-12 math and science teachers (\$2 million) and expanding baccalaureate nursing programs (\$3.6 million). Other CSU funding priorities include:

- | | |
|---|----------------|
| • Clinical Nursing (MSN and BSN) | \$ 6.9 million |
| • Teacher Performance Assessment | \$10.0 million |
| • Applied Research | \$12.0 million |
| • Student Services Initiative | \$25.0 million |
| • Compensation (1 percent) | \$30.3 million |
| • ACR 73 ² | \$38.0 million |
| • Long-Term Need ³ (Est. 129 million) | * |
| • Closing CSU Salary Gap (\$244.8 million) (2008/09 Projected salary cost deficit is \$21.2 million) | ** |

* \$43.0 million is reflected in the CSU Compact Expenditure Plan

** \$64.4 million is reflected in the CSU Compact Expenditure Plan

In an effort to make progress on all these “above Compact” budget priorities CSU would need an additional \$143.4 million. If the Board pursued funding for 3.5 percent enrollment growth, then another \$32.7 million would need to be requested for the “above Compact” funding.

Conclusion

This is an information item and the Board will be presented with the an update on the state’s fiscal condition and an overview of the issues anticipated in the 2008-09 CSU budget.

² Funding for additional full-time, tenure-track faculty

³ Deferred maintenance, libraries and technology initiatives

COMMITTEE ON FINANCE

2008-2009 Lottery Revenue Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

This is an information item regarding the lottery revenue budget proposal for fiscal year 2008-09. The lottery revenue projection for 2008-09 is \$44.4 million, with \$39.4 million available for allocation after setting aside CSU's annual \$5 million systemwide reserve. Lottery revenue assumes the same level of projected support for fiscal year 2007-08. This assumption is consistent with the average state distribution CSU received over the past three fiscal years. The beginning reserves are maintained at \$5 million and interest earnings from lottery allocations are now incorporated in campuses' total revenue earnings achieved under the new CSU Revenue Management Program implemented in 2006-07. CSU does not anticipate any additional carry forward funds in 2008-09 above the planned \$5 million budget reserve. The \$5 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

2008-09 Lottery Budget Proposal

The \$39.4 million lottery budget plan proposal will continue to be designated to campus based programs and the three system-designated programs that have traditionally received annual lottery funding support (Chancellor's Doctoral Incentive Program, California Pre-Doctoral program, and CSU Summer Arts Program). The Chancellor's Doctoral Incentive Program will receive \$2 million for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU. The California Pre-Doctoral Program will receive \$.7 million to support CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages. The CSU Summer Arts program will receive \$1.2 million for academic credit courses in the visual, performing, and literary arts.

The remaining \$35.1 million in 2008-09 lottery funds will continue to be used for system program administration and campus based programs. The campus based programs represent a significant source of funds that allow presidents maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships.

The following table provides a detailed description of how lottery funds allocated for the 2006-07 fiscal year were expended.

2006-07 Lottery Expenditure Report

| <u>Program Support Area</u> | <u>Expense</u> | <u>Percent of Total</u> |
|------------------------------------|-----------------------|--------------------------------|
| Academic | \$ 26,516,666 | 54% |
| Library Services | \$ 9,961,278 | 20% |
| Student Services | \$ 4,555,088 | 9% |
| Administration | \$ 4,223,821 | 9% |
| University Maintenance | \$ 1,822,815 | 4% |
| Financial Aid | \$ 1,375,516 | 3% |
| Community Relations | \$ 388,486 | 1% |
| | \$ 48,843,670 | 100% |

Ninety-one percent of lottery allocations are spent on supplemental programs and services for students and faculty.

The CSU lottery revenue budget proposed for 2008-09 is as follows:

2008/09 Proposed Lottery Revenue Budget

| | 2007/08 Approved Budget | 2008/09 Proposed Budget |
|---|--|--|
| Sources of Funds | | |
| Beginning Reserve | \$ 5,000,000 | \$ 5,000,000 |
| Receipts | 39,000,000 | 39,000,000 |
| Projected Interest Earnings | 400,000 | - |
| Total Revenues | \$ 44,400,000 | \$ 44,000,000 |
| <i>Less Systemwide Reserve</i> | <i>(5,000,000)</i> | <i>(5,000,000)</i> |
| Total Available for Allocation | \$ 39,400,000 | \$ 39,000,000 |
| Uses of Funds | | |
| <i>System Programs</i> | | |
| Chancellor's Doctoral Incentive Program | \$ 2,000,000 | \$ 2,000,000 |
| California Pre-Doctoral Program | 714,000 | 714,000 |
| CSU Summer Arts Program | 1,200,000 | 1,200,000 |
| Program Administration | 491,000 | 491,000 |
| | \$ 4,405,000 | \$ 4,405,000 |
| <i>Campus Based Programs</i> | | |
| Campus/CO Programs | \$ 34,595,000 | \$ 34,595,000 |
| Campus/CO Interest | \$ 400,000 | \$ - |
| | \$ 34,995,000 | \$ 34,595,000 |
| Total Uses of Funds | \$ 39,400,000 | \$ 39,000,000 |

This item is for information only and an agenda item will be presented at the November meeting to adopt the 2008-09 Lottery Revenue Budget.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Colleen Nickles
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2006-07 for funds managed under the California State University (CSU) Investment policy.

As of June 30, 2007, the CSU had \$1.327 billion invested in the Wachovia Portfolio Services Short Term Account and \$155 million invested in the Wachovia Portfolio Services Medium Term Account. For the year, both the Short Term and Medium Term Accounts outperformed their benchmark indices.

The attached Year End Investment Report, Attachment A, has been prepared by Wachovia Portfolio Services for the Board of Trustees and provides additional information on the results of the investment program for the fiscal year ended June 30, 2007.

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. LAIF is used by the State Treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment B, which has been prepared by the Office of Financing and Treasury.

The Board of Trustees' Investment Policy is included as Attachment C.

COMMITTEE ON FINANCE

MARKET SUMMARY

Interest rates moved somewhat lower during the past year as the yield curve steepened. The Federal Funds overnight target rate stayed at 5.25% throughout the year. While the Federal Reserve has remained concerned about inflation, they have gradually adopted a neutral stance. The Fed now has concerns about the slowing economy. The U.S. Treasury 2-year Note rate fell from 5.16% at the end of June 2006 to 4.87% at June 30, 2007; and the 10-year Note rate decreased from 5.14% to 5.03% in that same time period.

Unemployment dropped to 4.5% during the year before rebounding to 4.6% in June which is where we started the year. While job growth slowed in 2007, the tight labor markets became a reason for concern to the Federal Reserve as productivity growth abated. GDP growth slowed dramatically during the year with growth coming in at 1.8% during the second quarter of 2007. Current expectations are for GDP growth to rebound somewhat in the 2nd half of 2007. The housing market and the sub prime mortgage markets became a major drag on the economy during the year. The impact of the housing recession is expected to continue to slow the economy into 2008.

The last year continued to show good returns in fixed income accounts. The small decline in rates meant short and long portfolios performed well.

SHORT-TERM INVESTMENT ACCOUNT PERFORMANCE

As of June 30, 2007, the asset balance in the Short-Term Account totaled \$1.327 billion. 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 US Treasury securities, mortgage-backed securities, government agency securities, and highly rated corporate and money market 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:

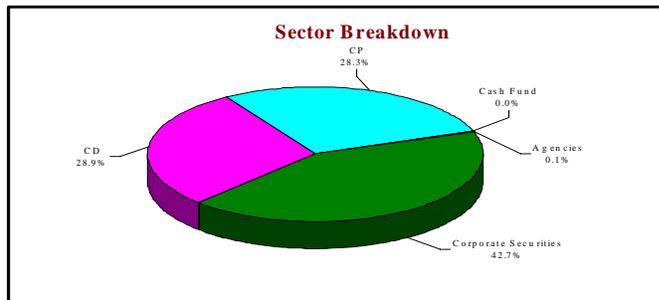
**California State University Short-Term Account
Sector Breakdown as of
June 30, 2007**

| | |
|------------------------|-------|
| Corporate Securities | 42.7% |
| US Government Agencies | 0.1% |
| Commercial Paper | 28.3% |
| CD | 28.9% |
| Cash Fund | 0.0% |

The Short-Term Account provided a return of 5.42% during the 12 months ended June 30, 2007. This return outperformed the 12-month return for the Local Agency Investment Fund (LAIF). Because of the relatively short duration in the CSU Short-Term Account, the portfolio also

**California State University System
 CSU Short-Term Account
 6/30/2007**

| | <u>Portfolio</u> | <u>LAIF</u> |
|------------------------------------|------------------|-------------|
| Trailing 3 Month Return: | 1.34% | 1.31% |
| Trailing 12 Month Return : | 5.42% | 5.24% |
| Fiscal Year to Date: | 5.42% | 5.24% |
| Annualized Return since Inception: | 4.32% | 4.19% |
| Return for June: | 0.43% | 0.43% |



The above chart depicts the performance of one account managed by Wachovia Portfolio Services. The performance reflects the reinvestment of dividends and other earnings. Performance was calculated net of investment advisory fees. The Local Agency Investment Fund (LAIF) is a diversified managed portfolio administered by the State of California for local governments and special districts. Past performance is no guarantee of future results.

outperformed somewhat longer fixed income benchmarks, like the Merrill Lynch 1-3 Year Treasury Index.

MEDIUM-TERM INVESTMENT ACCOUNT PERFORMANCE

The objective of the Medium-Term Account is to maximize medium term total return. The Account is invested in a diversified portfolio of fixed income securities of varying maturities with an approximate portfolio duration of 1 to 3 years. The account is benchmarked versus the Merrill Lynch 1-5 year Treasury and Agency Index, and is structured to outperform both the Short-Term Account and LAIF over a 5-7 year investment horizon. As of June 30, 2007, the net asset value of the account was \$155 million.

Consistent with the CSU investment policy, the Medium-Term Account portfolio is restricted to US Treasury securities, mortgage-backed securities, government agency securities, and highly rated money market and corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Medium-Term account are as follows:

**California State University Medium-Term Account
 Sector Breakdown as of
 June 30, 2007**

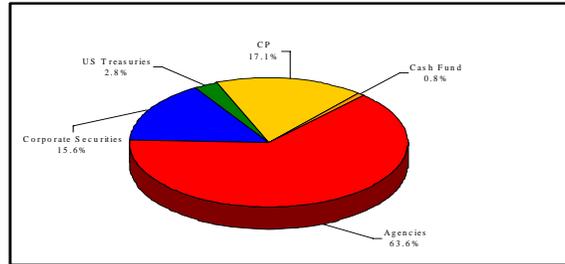
| | |
|------------------------|-------|
| US Treasuries | 2.8% |
| Corporate Securities | 15.6% |
| US Government Agencies | 63.7% |
| Cash Fund | 0.8% |
| Commercial Paper | 17.1% |

The Medium-Term Account provided a return of 5.65% during the 12 months ended June 30, 2007. This return was greater than the 12-month return for the Index and the Local Agency Investment Fund.

**California State University System
 CSU Medium-Term Account
 6/30/2007**

| | <u>Portfolio</u> | <u>Merrill 1-5</u> |
|-----------------------------------|------------------|--------------------|
| Trailing 3 Month Return: | 0.77% | 0.46% |
| Trailing 12 Month Return: | 5.65% | 5.32% |
| Fiscal Year to Date: | 5.65% | 5.32% |
| Annualized Return Since Inception | 5.57% | 5.95% |
| Return for June: | 0.32% | 0.34% |

Sector Breakdown



The above chart depicts the performance of one account managed by Wachovia Portfolio Services. The performance reflects the reinvestment of dividends and other earnings. Performance was calculated net of investment advisory fees. The Merrill 1-5 Year Index is an unmanaged index consisting of the compounded result of the cumulative daily returns of US Treasuries and agency securities with maturities between 1 and 5 years. The Local Agency Investment Fund (LAIF) is a diversified managed portfolio administered by the State of California for local governments and special districts. Past performance is no guarantee of future results.

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, 2007, the amount of CSU funds invested in SMIF was \$58.1 Million.

SMIF Performance Report Apportionment Yield Rate

| | |
|-------------|--------|
| 06/30/2007: | 5.235% |
| 06/30/2006: | 4.529% |

SMIF Past Performance 1997-2007

| | |
|----------|--------|
| Average: | 3.984% |
| High: | 6.493% |
| Low: | 1.441% |

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. As of June 30, 2007, the amount of CSU funds invested in LAIF was \$3.4 Million.

LAIF Performance Report Apportionment Yield Rate

| | |
|-------------|--------|
| 06/30/2007: | 5.241% |
| 06/30/2006: | 4.533% |

LAIF Past Performance 1997-2007

| | |
|----------|--------|
| Average: | 4.193% |
| High: | 6.530% |
| Low: | 1.446% |

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 (CSU) 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.

(Approved by the CSU Board of Trustees in January, 1997)

COMMITTEE ON FINANCE

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

Presentation By

Colleen Nickles
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 \$18,445,000 to provide funds for a project at the Stanislaus campus. The Board is being asked to approve a set of resolutions relating to this 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:

Stanislaus Student Recreation Complex Project

In November 2006, the Board of Trustees approved the Amendment of the Non-State Capital Outlay Program and the schematics for the Stanislaus Student Recreation Complex project in its Committee on Campus Planning, Buildings, and Grounds. The project will be located north of the existing athletic facilities and will have several components: a new soccer and track stadium, a restroom building, a student fitness center and an adjacent parking lot accommodating 44 spaces. The stadium, with seating for 2,200, will have a running track and a regulation-size soccer field. The student fitness center will be a single story facility (of approximately 18,600 gross square feet) that will contain an entrance lounge, a multipurpose court, a fitness equipment room, an aerobics studio, and restroom/lockers. In the spring 2006, the California State University, Stanislaus students voted to support a new student recreation complex fee to construct and operate the facility.

The not-to-exceed par value of the proposed bonds is \$18,445,000 and is based on an estimated project cost of \$17,363,000, of which \$351,000 will be funded from parking reserves. At the time this agenda item was written the campus was awaiting receipt of bids for the design-bid-

build project. The project is expected to start construction in October 2007 and be completed in November 2008.

The following table provides information about this financing transaction.

| | |
|--|-----------------------------------|
| Not-to-exceed amount | \$18,445,000 |
| Amortization | Approximately level over 30 years |
| Pro-forma maximum annual debt service | \$1,248,336 |
| Projected debt service coverage including the new project: ¹ | |
| Net revenue – All Stanislaus pledged revenue programs: | 1.78 |
| Net revenue – Projected for the campus student recreation complex program: | 1.12 |

1. Projected information – Combines 2006-07 unaudited information for the campus-pledged revenue programs and 2009-10 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$18,445,000, the maximum annual debt service, and the ratios above are based on an expected debt service at the current interest rate plus 50 basis points (computed average coupon of 5.45%, as of August 29, 2007), 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 financial plan includes level amortization of debt service, which is the CSU program standard. The campus has submitted a financial plan that has a 1.12 times projected program net revenue debt service coverage, which exceeds the CSU benchmark of 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs for the campus is projected at 1.78 which exceeds the CSU's 1.35 times debt service campus benchmark.

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 \$18,445,000 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 projects as described in this Agenda Item 6 of the Finance Committee at the September 18-19, 2007 meeting of the CSU Board of Trustees is recommended for:

Stanislaus Student Recreation Complex Project

COMMITTEE ON FINANCE

Auxiliary Organization Financing at California State University, Fullerton

Presentation By:

Colleen Nickles
Assistant Vice Chancellor
Financial Services

Summary

This agenda item requests approval of a proposed borrowing by a recognized auxiliary organization of California State University, Fullerton (University), the CSU Fullerton Housing Authority (Authority), to finance the cost of acquiring faculty-staff housing in the City of La Habra. The intended purchase consists of 22 newly-refurbished condominiums. The Authority will retain deed restrictions on the acquired units to maintain below-market pricing for faculty and staff.

The Authority's governing board approved the financing plan on August 30, 2007. The debt will be an obligation of the Authority, a special-purpose auxiliary, secured by the resale of the condominiums to faculty and staff as well as a mortgage on the properties. The financing transaction will not create any obligation of the State of California or the Trustees.

Auxiliary Organization Financing at California State University, Fullerton

This seeks approval of a proposed short-term borrowing from a commercial bank by a recognized auxiliary organization. The CSU Fullerton Housing Authority, a recognized CSU auxiliary organization in good standing, is proposing a borrowing in an amount not to exceed \$5.6 million to finance the acquisition of 22 newly-refurbished condominiums at Creekside in La Habra.

The homes will be marketed to University employees. Homebuyers will purchase the homes from the Authority with deed restrictions that function much the same way as the long-term ground lease programs used in other faculty-staff housing projects of the CSU. The purchase price paid for the condominiums will be applied to retire the Authority's debt obligation, as well as pay the carrying costs of the short-term loan and other modest administrative costs incurred by the Authority.

Background

CSU Fullerton has a critical need for affordable faculty-staff housing. The current “slump” in the southern California housing market has created unprecedented opportunities for the Authority to acquire completed units from area developers and home builders. As the largest CSU campus with a headcount of over 36,000 students, the university anticipates a significant increase in hiring of new faculty over the next few years. In addition, a significant portion of the existing faculty is nearing retirement age and those vacancies also will need to be filled. Home prices in Orange County, California are in the top 5% nationwide. The lack of affordable housing in the area surrounding the campus presents a significant deterrent to recruitment and retention.

The University Gables faculty-staff housing project, approved by the Board of Trustees in March of 2001 and completed in 2002, created 86 units of faculty-staff housing in the nearby city of Buena Park. This income-restricted project maintains a waiting list of more than 170 faculty and staff and provides high quality housing located conveniently to the campus.

University Heights, the second Authority housing project, consists of 42-paired homes and associated infrastructure and recreational amenities in Fullerton on a ridgeline three miles to the west of the campus. Sales at University Heights have been slowed by the overall downturn in the housing market, but the Authority expects the remainder to sell in the next few months now that construction is nearly completed.

Project Descriptions

Creekside is a 252-unit condominium complex built in the mid 1970’s and located approximately seven miles from the campus, at 1400-1490 W. Lambert Road, La Habra. Creekside has recently been totally refurbished, including new flooring, cabinetry, appliances and granite countertops. The final 22 units are available for bulk purchase from the developer (Pacifica Creekside LP) by the Authority for approximately \$5.5 million, or about 25% below market.

Auxiliary Organization Financing

The bank loan will be a general obligation of the Authority and additionally secured by pledged project revenues as well as a mortgage on the properties acquired. The financing is short-term financing (no more than 12 months) and will be retired through the sale of the units. If the Authority does not sell all 22 units within the period of the financing, then the Authority will lease any remaining units at a rate sufficient to cover the debt service and refinance the short-term bank loan for a longer term.

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of the California State University that the Trustees approve the short-term auxiliary financing by the CSU Fullerton Housing Authority at California State University, Fullerton, as described in Agenda Item 6 of the Committee on Finance at the September 18-19, 2007 meeting.