

AGENDA

COMMITTEE ON FINANCE

Meeting: 12:45 p.m., Tuesday, March 24, 2009
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Henry Mendoza
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of January 27, 2009
Approval of Revised Minutes of Meeting of November 18, 2008

Discussion Items

1. Report on the 2008-2009 and 2009-2010 Support Budgets, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *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**

January 27, 2009

Members Present

William Hauck, Chair
Jeffrey L. Bleich, Chair of the Board
Roberta Achtenberg
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Henry Mendoza
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of November 18, 2008 were approved by consent as submitted.

Report on the 2008-2009 Support Budget

Robert Turnage, assistant vice chancellor, budget presented for information a brief recap of the 08-09 history for the CSU Support Budget, noting that at this point in the year, the current budget normally would have been finalized and Committee on Finance would be considering the upcoming year's budget. Mr. Turnage explained that in order to address the emerging current year budget deficit, the governor called three special sessions (one in November and two in December). Mr. Turnage proceeded to explain that for the current year, the CSU is facing a \$97.6 million cut below the level of state funding that the CSU had in the 07-08 fiscal year—all the way back to what the governor had proposed over a year ago (1/10/08). He explained that this means we are \$313 million below our workload needs. Mr. Turnage concluded by saying that this current fiscal year has been marked by a rolling series of uncertainties that has made it quite difficult for everyone involved.

Report on the 2009-2010 Support Budget

Mr. Turnage presented for information a report of the 2009-2010 Support Budget; explaining how by circumstances the two budget years (2008-09 and 2009-10) have been pushed together in many unprecedented ways. Mr. Turnage provided a snapshot of the current California economy.

Highlights characterizing the state's recession included nine consecutive months of job loss in the state, rapidly rising unemployment (9.3 percent vs. 5.7 percent one year ago), median price of single family homes (40 percent below same time last year), and record low new home construction. A review of the worsening budget deficit included a current fiscal year estimated budget deficit at \$14.8 billion. Moving forward into the next fiscal year and taking a look at the numbers on an 18 month basis, the Governor's Budget unveiled on December 31 proposed a combination of temporary and permanent measures and the creation of a \$2 billion reserve, in order to close a budget gap of \$41.6 billion. This comprehensive 18-month solution is being driven by need to reassure credit markets that California has a credible budget plan through 2009-10 so state can again borrow for short-term cash flow and issue construction bonds. Mr. Turnage explained that added to this, the state is in the midst of an unprecedented cash flow crisis. The dimensions of this cash flow crisis he described as a "double whammy" of weak revenues and limited credit market access, which has hurt state's cash flow to crisis point. Without a budget resolution this cash flow crisis is compounded with each passing week. Fortunately for our system, according to Mr. Turnage, the state constitution assigns a priority in making timely payments to the schools and the public systems of higher education. At least in the short run, the CSU system is well positioned in terms of cash payments for basic operations from the state controller. If this impasse continues indefinitely, the ability of the state to make payments even to high priority programs would be jeopardized. Without a resolution by June, the Legislative Analyst's Office forecasts a "cash abyss" that would constitute a "fiscal disaster." Mr. Turnage noted that the Governor's proposal—for second year in a row does not fund the Compact. The amount of foregone revenue is \$304 million of state general fund. That includes \$87 million requested in the November approved Trustees' budget as a general fund buyout of a fee increase. The Governor's budget assumes Trustees will approve a 10% fee increase for the 2009-10 fiscal year. Chair Hauck asked how the CSU system was treating, in particular, needy students compared to the UC system during this budget crisis. Chancellor Reed explained that the UC system is proposing to provide that dependent children who attend UC (if the combined household income of 60K or less), would not have to pay the University of California fee. Chancellor Reed continued to explain that the CSU Board of Trustees adopted a policy several years ago that pays all state university fees for virtually all dependent students with family income of 75K. That amounts to nearly 170,000 students of the roughly 450,000 CSU students. These same students also qualified for and received Pell Grants. CSU has the lowest average debt load of any university system in the United States. Approximately 47% of CSU graduating students have debt of about \$13,000. With regards to the budget challenges and proposal, Chair Hauck stated that with respect to what the Governor has proposed, the Committee on Finance has no idea at the moment whether that will hold up during the deliberations between the legislative leadership and the Governor. Once discussions have concluded, he advised that all numbers are revisited and verified. Mr. Turnage pointed out that even with the assumption of an increase in fee revenues, the governor' plan will leave the CSU \$15.8 million short of fundamental needs due to \$33.5 million in unavoidable mandatory cost increases in various areas (health, dental, new space, energy), plus spending as the nursing program expands by 340 students. The CSU will need to increase the amount of money that is returned into financial aid in order to protect

the financially neediest students. Considerations presented by Mr. Turnage to the Committee for a state budget deal:

- Getting two-thirds compromise vote may involve deeper cuts, including to higher education.
- Over \$10 billion of lottery “securitization” depends on voter approval in special election.
- Compromise could involve placing tax increases before voters in the special election.
- Compromise could also involve asking voters to approve constitutional spending cap.

Mr. Turnage provided details on the Federal Economic Recovery Act—a major stimulus package under expedited review by The President and Congress including three elements in the House of Representatives bill proposal that have particular importance for CSU:

- 1) Funds for higher education facility renovation, maintenance, and repair
- 2) Increased student financial aid
- 3) Education Fund to restore state cuts to K-12 and higher education

The Committee on Finance briefly adjourned to enable the Board to address Institutional Advancement Item 2.

When the Committee on Finance reconvened following Institutional Advancement Item 2, Trustee Hauck adjourned the Committee on Finance.

REVISED

**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**

November 18, 2008

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Glen O. Toney

Approval of Minutes

The minutes of September 16, 2008 were approved by consent as submitted.

Chair Hauck noted that Item 5: Meeting Quality Standards in State-Supported Professional Business Graduate Programs with Revenue Support Derived from a Per-Unit Fee was deferred to a later meeting of the Board of Trustees.

Report on the 2008-2009 Support Budget

Robert Turnage, assistant vice chancellor, budget noted that after a record long impasse in the legislature this summer, lasting 85 days, the current state budget was adopted and signed by the Governor on September 23. Mr. Turnage described how difficulties experienced over the last several months in the national and state economies could not have been anticipated. Stock market and housing downturn “shocks” could not have been predicted. Nationally, the unemployment rate is 6.1 percent. In California, it stands at 7.7 percent, up from 5.6 percent earlier in the year. In addition, there have been seven consecutive months of job loss in the state.

Assistant Vice Chancellor Turnage explained that even when the economy has been strong, the state of California has had trouble balancing its budget. California has a tax-structure that is hyper-sensitive to swings in the economy. When the state goes into a recession, the problems compound even further.

Since the last Board meeting, an official estimate, from the Department of Finance, of the state treasury revenue shortfall for the current fiscal year now stands at \$11.2 billion. This is more than 10 percent of the state general fund budget.

Looking ahead towards the next year, starting July 1, the Department of Finance is forecasting that the revenue shortfall will be \$13 billion; across the two fiscal years over \$24 billion of problem need to be solved.

The Governor has called the Legislature into special session during the first week of November and proposed a number of serious steps to try to bring balance to the current year's situation as well as rough balance to the following year. The Governor proposes allowing the \$1.7 billion reserve to shrink to zero in addition to spending cuts and revenue increases to solve the \$11.2 billion problem.

The Legislative Analysts' Office recently released an overview of the Governor's proposals for the special session and it serves as an excellent document in terms of explaining the magnitude of state's fiscal problems and contributing factors. According to the LAO, across the next twenty months, the state needs to come up with solutions that total \$28 billion.

The Governor, as part of his proposed solutions, is recommending that CSU's budget be reduced back to where he originally proposed it be in the budget that he released last January 10. Meanwhile, the state could run out of cash as early as February, marking an unprecedented situation for the state.

Lieutenant Governor Garamendi remarked how serious cuts took place in the current operating budget. Additional cuts, that the Governor is discussing, added on top of the current cuts are unprecedented, he continued. This is very serious for California's present and future.

Approval of the 2009-2010 Support Budget Request

As Robert Turnage, assistant vice chancellor, budget explained how this item was brought to the Board in preliminary form in September; the Committee was directed to two books (mailed along with the agenda) that contained further detail on the proposed budget for the CSU.

In an effort to set the stage for discussion of the 2009-2010 budgets, Mr. Turnage provided a brief recap of some of the current state and CSU budget numbers. With the assistance of a media presentation, Mr. Turnage presented a comprehensive overview of the final recommendations on

the overall state budget as well as a number of issues related to the development of the 2009-2010 CSU budget.

Various points of interest in the report included revenue assumptions associated with the compact and components of compact spending, the CSU's budget augmentation request, and additional budget challenges. In addition, the Committee reviewed mandatory costs including health and dental benefits, new space, energy, and financial aid.

Mr. Turnage continued to explain to the committee how a number of steps, already taken by the legislature and the Governor, are limited in duration. Lieutenant Governor Garamendi commented that the "Budget Solution" will require that the first \$3.5 billion in revenue be automatically assigned to the reserve in 2010-11.

The California State University is the biggest contributor to the development to the work force of the state and it is essential that we maintain our investment in higher education.

The document, considered in this agenda item, lays out what it is that the state should be investing in 2009-10, while acknowledging the extreme difficulty in securing everything requested.

In addition to a \$341.2 million budget increase of compact revenue, there is a need to recover—on a going-forward basis—a core element of the compact for 2008-09 that was not received in the amount 116.7 million. The entire requested budget increase equals \$611.4 million. Of that amount, \$38.7 million would be fee revenue associated with a higher number of students and \$572.7 million would be coming from the state general fund.

Long term needs including library acquisitions, deferred maintenance, and academic technology also were presented to the committee.

Lieutenant Governor Garamendi extended his congratulations to the Chancellor and staff for proposing a realistic budget for the university based on the university's needs rather than accepting the limitations portrayed by the Department of Finance. Trustees discussed critical shortages in nursing, teaching and engineering and suggested using this message to make the CSU budget crisis personal to legislators. The committee unanimously recommended approval by the board of the proposed resolution to approve the 2009-2010 Support Budget Request (RFIN 11-08-10).

2009-2010 Lottery Revenue Budget

Prior to the presentation on this action item, Chair Hauck asked Robert Turnage, assistant vice chancellor, budget to speak specifically to the Lottery Modernization Act, which has to be submitted to voters and to clarify the "hold harmless" provision included in the measure, which

requires that state, through the general fund, reimburse the CSU and other institutions for what was received in the previous year. Assistant Vice Chancellor Turnage noted that a first reading of the proposed lottery budget was presented to the Board in September. Since then, the projections have fallen for the amount of revenue the lottery is expected to generate next year. The committee considered a proposed budget revised downward from \$46 million presented in September to \$44 million presented today. Similar to last year, September's reading has a \$5 million reserve built-in for contingencies. This proposed budget now is the same level of funding as the year before.

Mr. Turnage continued to explain that the Lottery Modernization Act, as part of the overall budget package adopted last September, included proposed changes to the lottery intended to enhance the appeal of the games and produce more revenue for the state. The measure, which would require approval by voters in a special election expected to be called by the Governor in the spring, would "securitize" future lottery revenue streams. Securitizing the lottery is a form of borrowing, meaning that the rights to the future lottery revenue stream are sold to private investors. In exchange, they give the state of California approximately \$10-11 billion, which would help address state general fund gaps in 2009-10 and 2010-11.

If passed by the voters in the special election, the "hold harmless" provision is not just a statement that the legislature promises to pay general fund money to the CSU and the other educational segments. It is an annual appropriation that is part of the measure that is to be ratified by the voters.

Lieutenant Governor Garamendi noted that this is the last place that the CSU could borrow money for ongoing operations.

The committee unanimously recommended approval by the board of the proposed resolution to approve the 2009-2010 Lottery Revenue Budget (RFIN 11-08-11).

2008-2009 Student Fee Report

Robert Turnage, assistant vice chancellor, budget presented the required annual report of student fees for information. Mr. Turnage reported on the 10% increase in student university fees this year. In addition, campus based fees were up almost 7% over last year; averaging \$801 from \$749 last year. Mr. Turnage pointed out that charts in the report provided further detail, in particular, the chart on page 3, which present a breakdown for the different campuses and the different campus mandatory fees. CSU fees remain the lowest of all 15 comparison universities.

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

This action item requested 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 \$104,910,000, to provide funds for a campus project and two auxiliary projects. In addition, the Board was asked to approve a set of resolutions relating to these projects. Colleen Nickles, assistant vice chancellor, financial services presented this item and explained that the long-term bonds would be part of a future Systemwide Revenue Bond sale and were expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue Bonds. The Committee reviewed the Long Beach Student Recreation and Wellness Center project, Fullerton Auxiliary Service Corporation requests to refinance two bank loans and to finance other costs associated with two faculty/staff housing projects and the CSU Long Beach Residential Learning College Renovation project.

The committee unanimously recommended approval by the board of the proposed resolution for approval to issue Trustees of the California State University, systemwide revenue bonds and related debt instruments for various projects (RFIN 11-08-12).

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2008-2009 and 2009-2010 Support Budgets

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

On February 19, the legislature passed a large set of bills and constitutional amendments in what amounted to a 17-month “budget package” covering the remainder of the 2008-09 fiscal year as well as the entire 2009-10 fiscal year. The Governor signed the budget bills the next day. The enacted budget package “solved” the \$41.6 billion shortfall with an estimated \$15.7 billion of spending reductions, \$12.5 billion of tax and other revenue increases, \$5.4 billion of borrowing and an estimated \$8 billion of federal “stimulus” funds.

The two-year fiscal impact to the CSU support budget totals \$600 million, including consideration of revenues that would have been forthcoming under the Compact for Higher Education. Moreover, the CSU faces continuing fiscal uncertainty. The underlying themes of the state’s budget package are complexity and contingency. The balance of the overall package, as well as the condition of the CSU support budget, are affected by interactions between the federal stimulus bill and the state budget, most of the propositions on the May 19, 2009 ballot, and continuing uncertainty about state General Fund revenues caused by the precarious nature of California’s current economy.

State Budget Overview

The Governor released his formal 2009-10 budget proposal to the legislature on January 9, 2009. Previously, in November, the Governor released his “Special Session” proposal to make mid-year reductions to the 2008-09 state budget. The Governor’s budget identified a \$41.6 billion General Fund budget shortfall covering the two fiscal years 2008-09 and 2009-10, absent corrective actions.

Unlike prior budget cycles, the Governor proposed that the legislature enact, as soon as possible, a package of legislation that would simultaneously solve the state's budget problem for **both** fiscal years. The Governor's budget proposal for this 18-month period identified \$14.3 billion in revenue adjustments, \$17.4 billion in spending cuts, and \$10 billion in warrants and borrowing to achieve a balanced budget, including a \$2 billion reserve, through June 30, 2010.

On February 19, the Legislature passed a large set of bills and constitutional amendments in what amounted to a 17-month "budget package." The Governor signed the budget bills the next day. The enacted budget package "solved" the \$41.6 billion shortfall with an estimated \$15.7 billion of spending reductions, \$12.5 billion of tax and other revenue increases, \$5.4 billion of borrowing and an estimated \$8 billion of federal "stimulus" funds. As will be discussed further below, the budget package has an unusually high level of complexity and contingency. These elements include complex interactions between the state budget and the federal stimulus bill, continuing uncertainty about state revenues in a precarious economy, and uncertainties about voter approval at a statewide election set for May 19 of several measures that would generate revenues on which the budget depends.

2008-09 CSU Support Budget Revisions

The Legislature adopted the Governor's "Special Session" proposal to reduce the CSU's state General Fund base by \$66.3 million. The Legislature further approved the "reversion" of \$31.3 million of one-time savings that are occurring during the 2008-09 fiscal year. The combination of these two reductions places state General Fund spending authority for the CSU \$97.6 million below the 2007-08 fiscal year.

As shown in Attachment 1, the only source of new revenue comes from the 10 percent increase in the State University Fee approved by the Trustees last May. However, after accounting for the diversion of one-third of these revenues for additional student financial aid, the General Fund reductions and various new cost obligations, we estimate that the CSU support budget will be \$96.2 million short of its basic operating needs for 2008-09. This shortfall is being "bridged" through a variety of short-term and expedient steps throughout the system, none of which are sustainable on a long-run basis. As shown in attachment 1, this shortfall represents a "structural deficit" with which the CSU begins the 2009-10 fiscal year.

In addition to this structural deficit, the 2008-09 state budget denies the \$216.2 million of General Fund revenue increase that would have come to the CSU under the Compact for Higher Education.

2009-10 CSU Support Budget

For 2009-10, the Governor's budget calculated the CSU "workload" budget increase necessary to fulfill the Compact with Higher Education as \$217.3 million, but proposed **not** to provide any increase due to the state's dire fiscal condition. The final budget package adopted this approach. Thus, for the second fiscal year in a row, the Compact is not funded.

The final budget package enacts the following budget changes for the CSU in 2009-10:

- Makes permanent the \$66.3 million in budget reduction proposed for 2008-09.
- Restores the \$31.3 million amount associated with budget savings that the administration requested that CSU achieve in 2008-09. This means the impact of this reduction is one-time only, felt in the current year, as requested by the Chancellor.
- Assumes the CSU Trustees will increase student fee rates by 10 percent, for a projected increase in gross revenue of \$130.4 million. The budget also assumes one-third of this increase will be set aside for student financial aid (\$43.8 million).
- Reduces the General Fund by an additional \$50 million. However, the 2009-10 budget Act includes a \$50 million restoration from the General Fund that would be "triggered" if the State Treasurer and the Director of the Department of Finance (DOF) make specified findings regarding the receipt of federal stimulus funds by the State. The University of California (UC) faces an identical situation. (As explained further below.)

As shown in Attachment 1, the net result of these budget changes, combined with additional new mandatory costs, means that the CSU faces an operating shortfall of \$70.4 million for the 2009-10 fiscal year. In addition, the 2009-10 Budget Act denies \$217.3 million of Compact revenue to the CSU.

Governor's Line-Item Veto Represents a One-time Funding "Swap"

The Governor used his "blue pencil" authority to line-item veto \$255 million from the CSU and an equal amount from the University of California. His veto message states that "this unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act." The message also states that the reduction is being made on a one-time basis. Thus, the veto represents a one-time funding "swap" that does not affect the overall level of resources for 2009-10. We understand further that the Governor's 2010-11 budget will propose a General Fund restoration of this amount in order to preserve our funding base on an ongoing basis. Nevertheless, this funding swap is one more manifestation of the contingent nature of the current budget.

Contingent \$50 Million Reduction

As mentioned above, the budget package reduces the CSU (and UC) by an additional \$50 million, but also creates a scenario for restoration of this General Fund amount under a specified set of conditions. Specifically, the budget package directs the State Treasurer and the Director of the Department of Finance (DOF) to determine, on or before April 1, 2009, whether the State will receive at least \$10 billion of federal stimulus funds *by June 30, 2010 that can be used to offset state General Fund expenditures*. A positive determination that at least this amount meets these conditions would “trigger” a \$50 million General Fund restoration to CSU (and UC). A negative determination would leave the \$50 million cut in place. The DOF’s initial estimates included in its summary of the budget package indicate that the amount of federal stimulus funds meeting these conditions may total only \$8 billion. It is possible that further analysis by the DOF and the Treasurer may result in a higher final determination. However, this initial estimate indicates that the \$50 million reduction could remain a feature of our 2009-10 budget.

Some Issues Deferred to Upcoming Budget Hearings

Although the legislature has passed a state budget several months in advance of the start of the 2009-10 fiscal year, the legislature stated its intent to hold budget subcommittee and committee hearings this spring in order to consider various issues. For the CSU, the legislature removed the following Governor’s proposals, “without prejudice,” for further review in the subcommittees:

- Addition of \$3.6 million of state General Fund and an estimated \$1,140,000 of student fee revenue to increase bachelor of science in nursing (BSN) enrollment by 340 students. New General Fund support is proposed at the 2006-07 nursing funding rate of \$10,600 per FTES.
- \$325 million proposed from state lease-revenue bonds for six capital outlay projects.

In addition, we expect that the Legislative Analyst’s Office will present issues that they have raised regarding the CSU budget, including a recommendation that the legislature increase its formal “target” of resident FTES to be served by the CSU by about 2 percent—notwithstanding the various budget cuts already visited upon us.

Finally, although the legislature rejected the various spending reductions proposed for the Cal Grant program by the Governor, the legislature has indicated that it will consider in budget subcommittee hearings certain statutory changes proposed as part of the Governor’s Budget. These changes include proposed “Cal Grant decentralization,” under which campuses would replace the Student Aid Commission as the primary point of contact for students receiving Cal Grants. The CSU, the UC, the California Community Colleges, the California Postsecondary Education Commission and the Association of Independent California Colleges and Universities

have jointly endorsed the concept, while acknowledging that details of the Governor's proposal need modification.

Budget Package Includes Various Propositions for Statewide Special Election

The budget package includes authorization for a statewide special election on May 19 and also included various statutory and constitutional changes to be placed before the voters at that election. Most of the propositions are intertwined with and influence the budget deal, and approval or rejection of some of these measures could significantly impact the state's budget situation in 2009-10 and beyond. Further discussion about the initiatives will be reviewed during the Committee on Governmental Relations.

Conclusion

The two-year fiscal impact to the CSU support budget totals \$600 million, including consideration of revenues that would have been forthcoming under the Compact for Higher Education. Moreover, the CSU faces continuing fiscal uncertainty. The underlying themes of the state's budget package are complexity and contingency. The balance of the overall package, as well as the condition of the CSU support budget, are affected by interactions between the federal stimulus bill and the state budget, most of the propositions on the May 19 ballot, and continuing uncertainty about state General Fund revenues caused by the precarious nature of California's current economy.

2008/09 and 2009/10 Budget Act Adjustments

Fiscal Impact on CSU Budget

Budget Acts - CSU Operating Fund	2008/09	2009/10
Deficit Carryforward		(\$96,204,000)
Budget Act Revenue Adjustments		
Budget Act Reconciliation - One-time Savings	(\$31,314,000)	31,314,000
General Fund Base Budget Reduction	(66,303,000)	(50,000,000)
Projected Fee Revenue from 10% Increase in Student Fee Rates	111,519,000	130,434,000
General Fund Increase for BSN Enrollment Growth (\$3.6 million)		<i>Spring Hearings</i>
Projected Fee Revenue From BSN Enrollment Growth (\$1.1 million)		<i>Spring Hearings</i>
CSU Mandatory Cost Obligations		
Faculty Collective Bargaining Agreement - June 30th 2% Salary Increase	(30,590,000)	
Faculty Collective Bargaining Agreement - Merit Pay	(7,000,000)	(7,000,000)
Full year Service Salary Increases	(4,202,000)	
CSU Employee Health Benefits	(21,755,000)	(8,484,000)
CSU Employee Dental Benefits		(2,713,000)
New Space	(5,385,000)	(10,152,000)
Energy	(4,000,000)	(12,200,000)
BSN Enrollment Growth Expenditures		<i>Spring Hearings</i>
Financial Aid to Offset Fee Rate Increases	(37,174,000)	(42,510,000)
Fee Revenue Adjustment		(2,903,000)
Net Fiscal Impact on CSU Operating Budgets	(\$96,204,000)	(\$70,418,000)
Additional Compact Revenue Shortfall		
General Operating	(116,959,000)	(116,548,000)
Long-Term Need	(29,209,000)	(29,106,000)
Enrollment Growth	(70,059,000)	(71,615,000)
	(\$216,227,000)	(\$217,269,000)
Total CSU Fiscal Impact	(\$312,431,000)	(\$287,687,000)
Two- year Fiscal Impact		(\$600,118,000)
<i>Federal Stimulus Trigger Restoration ¹</i>		\$50,000,000

Notes:

- The Federal Stimulus Trigger Restoration is only available if the State receives \$10 billion in federal stimulus funding that can offset State expenditures, as determined on or before April 1, 2009 by the State Treasurer and the Director of Finance. It is unclear at this point which federal stimulus funds comprise the \$10 billion trigger threshold.

COMMITTEE ON FINANCE

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

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

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 \$33,070,000, to provide funds for two campus projects and one auxiliary project. The Board is being asked to approve a set of resolutions relating to these projects. 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 Bonds.

The projects are as follows:

1. Fullerton Parking Structure 4, Phase 1

In September 2008, the Board of Trustees approved the amendment of the non-state capital outlay program to include this project. The schematics of the project are being submitted to the Committee on Campus Planning, Buildings and Grounds at this same March 2009 meeting. The project will construct a six-level parking structure of approximately 458,200 gross square feet to accommodate approximately 1,500 vehicles on the east side of campus. The parking structure will be located over an existing surface parking lot and will displace 500 spaces, resulting in a net increase of 1,000 spaces. The project will also include a pedestrian plaza and walkway, along with site preparation for a visitor information center. The campus is addressing sustainability issues by incorporating LED lighting, bioswales for drainage, recycled materials, and other measures for the project.

The not-to-exceed par value of the proposed bonds is \$23,610,000 and is based on a total project cost of \$24,213,000, with a campus parking reserve contribution of \$3,841,000. Additional financing costs are to be funded from the bond proceeds. The project delivery method is design-build. The campus received good construction bids in November 2008. The campus anticipates a construction start of August 2009 with an estimated completion in September 2010.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$23,610,000
Amortization	Approximately level over 25 years
Pro-forma maximum annual debt service	\$1,822,456
Projected debt service coverage including the new project: ¹	
Net revenue – All Fullerton pledged revenue programs:	1.39
Net revenue – Projected for the campus parking program:	1.44

1. Projected information – Combines 2007/08 audited information for the campus-pledged revenue programs and 2011/12 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$23,610,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.37% (as of February 2009), reflective of market scale plus 100 basis points as a cushion 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 1.44 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 1.39, which exceeds the CSU's 1.35 times debt service campus benchmark.

2. San Bernardino Health Center Expansion and Renovation

In May 2008, the Board of Trustees approved the amendment of the non-state capital outlay program and the schematics of the project during its Committee on Campus Planning, Buildings and Grounds. The project consists of an 11,600 gross square foot addition to and renovation of the existing 11,000 gross square foot facility. The new addition will include clinical services, health education offices, fitness testing and physical therapy, counseling, administrative services areas, and building support areas, such as general storage and an ambulance port. The project has been designed to be energy efficient. In the spring of 2007, students approved a referendum to increase the health facility fee to support the construction of the project.

The not-to-exceed par value of the proposed bonds is \$6,835,000 and is based on a total project cost of \$6,886,000, with a campus health center reserve contribution of \$1,000,000. Additional financing costs are to be funded from the bond proceeds. The project delivery method is design-bid-build. The campus received good construction bids in February 2009. The campus anticipates a construction start of April 2009 with an estimated completion in August 2010.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$6,835,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$501,951
Projected debt service coverage including the new project: ¹	
Net revenue – All San Bernardino pledged revenue programs:	1.37
Net revenue – Projected for the campus health center program:	1.48

1. Projected information – Combines 2007/08 audited information for the campus-pledged revenue programs and 2011/12 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$6,835,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.58% (as of February 2009), reflective of market scale plus 100 basis points as a cushion 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 1.48 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 1.37, which exceeds the CSU's 1.35 times debt service campus benchmark.

3. Northridge, The University Corporation – Satellite Student Union Food Service Renovation

The Board of Trustees previously approved at its November 2008 meeting an amendment to the non-state capital outlay program for the Satellite Student Union Food Service Renovation (the "Project"). On January 5, 2009, the Chancellor's Office Capital Planning and Design Construction, under Trustee-delegated authority, administratively approved the schematic design for the Project.

In an effort to improve food services for students and the campus community, The University Corporation (the "Corporation"), a recognized CSU Northridge auxiliary organization in good standing, intends to upgrade the design of and install new equipment in approximately 16,500

assignable square feet of existing food service and dining space called "Geronimo's." Geronimo's is located within the Satellite Student Union Building in the northern section of campus, adjacent to campus housing. Upon its completion, the Project should restore student interest in the dining facility and enhance the meal plan capacity and food service support that the Corporation provides for existing and future campus student housing, thereby resulting in greater financial viability going forward.

Total Project construction cost is \$2,446,000 to be financed by Systemwide Revenue Bonds at a not-to-exceed par amount of \$2,625,000. The delivery method is Construction Manager at Risk. The Corporation received an acceptable Guaranteed Maximum Price on February 25, 2009. Construction is scheduled to begin in May 2009 and to be completed in August 2009.

The bonds are structured as a tax-exempt issue secured by a general obligation pledge of the Corporation's unrestricted revenues, including food service sales generated by the Project. The bonds will be amortized over 10 years, with a level debt service schedule and a maximum annual debt service of \$327,765. Based on the financial plan, the Corporation demonstrates strong debt service coverage of 2.17, while the Project itself provides coverage of 1.26 in fiscal 2010-11, both which exceed the CSU benchmarks. The par amount of the bonds is based on an all-in interest cost of 4.92% (as of February, 2009), reflective of market scale plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

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 projects 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 \$33,070,000 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 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 2 of the Committee on Finance at the March 24-25, 2009, meeting of the CSU Board of Trustees is recommended for:

Fullerton Parking Structure 4, Phase 1

San Bernardino Health Center Expansion and Renovation

Northridge, The University Corporation – Satellite Student Union Food Service Renovation