

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:15 p.m., Tuesday, January 26, 2010
Glenn S. Dumke Auditorium

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

Consent Item

Approval of Minutes of Meeting of November 17, 2009

Discussion Items

1. Report on the 2010-2011 Support Budget, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
3. State Bond Financing Update, *Information*

**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 17, 2009

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter, Chair of the Board
Margaret Fortune
Linda A. Lang
A. Robert Linscheid
Henry Mendoza
Charles B. Reed, Chancellor
Russel Statham
Glen O. Toney

Approval of Minutes

The minutes of September 22, 2009 were approved by consent as submitted.

Approval of the 2010-2011 Support Budget

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian noted that the fiscal condition in California is not expected to improve and may be worse next year. Therefore this agenda item details the budget plan comprised of the \$3.2 billion budget proposal for 2010-11 that includes an \$884 million state General Fund increase aimed at “recovering and reinvesting” funding in the CSU. The budget would increase the system’s General Fund support to \$3.2 billion from its current reduced level of \$2.3 billion.

The CSU’s state support has been cut by \$625 million, or 21 percent, over the last two years. The CSU is asking the state to restore funding for one-time cuts imposed in the current 2009-10 budget totaling \$305 million. The university is also asking for the revenues outlined in the Higher Education Compact of \$296 million that would provide for mandatory cost increases and compensation increases, and improvements in student services and instruction. This amount also includes an estimated \$111 million needed to "buy out" a 10 percent student fee increase (after one-third is set aside for financial aid).

The proposal also calls for \$283 million of “Core Compact Recovery” that would have funded the CSU’s collective bargaining agreements for the past two years.

The CSU has been managing a record \$564 million cut to its current budget by reducing enrollment, increasing student fees, and furloughing employees.

With the Board's approval, the CSU will submit the 2010-11 budget plan to the Governor's State Department of Finance. Chair Hauck called for any speakers to address the item. With no speakers and no further questions, the committee unanimously approved recommendation of the 2010-11 Support Budget (RFIN 11-09-07).

2010-2011 Lottery Revenue Budget

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian explained that the Lottery Revenue projection for 2010-11 totals \$44 million. Mirroring the 2009-10 budget, this projection comprises \$39 million for allocation with a \$5 million set-aside for reserves. Dr. Quillian directed the committee to the agenda item, which provides details regarding how those funds are to be used. He noted nearly all funds go to supplemental programs that support faculty and students.

Despite the fact that these are forecasted revenues, Chair Hauck noted these funds are fairly steady over a period of time and suggested to the committee that the \$5 million reserve be reduced to \$3 million or even \$2.5 million in order to gain funds to support programs that might otherwise go unfunded.

Trustee Linscheid questioned whether the reserve accumulates. Chancellor Reed clarified that while the reserve is rolled over every year, there is no accumulation. Dr. Quillian noted that all but the \$5 million is spent each year. Chancellor Reed suggested reducing the reserve to \$3 million, so that an additional \$2 million can be allocated to programs.

After brief committee discussion regarding potential lottery revenue estimates and possible reserve reduction, the committee recommended that the 2010-11 Lottery Revenue budget totaling \$44 million be approved for implementation by the Chancellor, with the planned reserve reduced from \$5 million to \$3 million with the authorization to make transfers between components of the Lottery Revenue budget and to phase expenditures in accordance with receipt of lottery funds, and that the Chancellor be granted authority to adjust the 2010-11 Lottery Revenue budget approved by the Board of Trustees to the extent that receipts are greater or lesser than budgeted revenue to respond to opportunities or exigencies, and that a report of the 2010-11 Lottery Revenue budget receipts and expenditures be made to the Board of Trustees (RFIN 11-09-08).

2009-2010 Student Fee Report

As outlined by CSU policy, Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian presented the annual student fee report for 2009-2010. He directed committee members to agenda materials and called their attention to the systemwide and campus-based fees average

of \$4,893. He explained that while the Board has found it necessary to raise fees during this fiscal year, the CSU continues to maintain one of the lowest undergraduate fees among the 15 comparison public institutions. In addition, Dr. Quillian noted that the system continues to set aside one-third of state university fees for financial aid.

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

Interim Assistant Vice Chancellor, Financial Services George Ashkar presented the item requesting the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the commercial paper program of the California State University in an aggregate amount not-to-exceed \$136,495,000. These funds provide for three campus projects: Northridge Student Recreation Center, San Luis Obispo Recreation Center Expansion, and San Marcos Public Safety Building. 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.

Regarding the not-to-exceed par value of the proposed bonds for the Northridge Student Recreation Center, Chair Hauck questioned the campus student union reserve contribution of \$19 million. CSU Northridge President Jolene Koester explained that the reserve is due to a concerted effort to build a sizeable fund for this specific project. This size reserve would not be maintained under a normal operating budget.

With no further questions, the Board was asked to approve a set of resolutions relating to these projects. The committee recommended approval to issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects (RFIN 11-09-09).

In light of today's briefer presentations given at his prior request, Chair Hauck then reiterated the need for committee members to read agenda items prior to the presentations, not only to expedite committee meetings, but also to enable members to raise informed questions on any particular agenda item.

In addition, Chair Hauck recognized Chancellor Reed and Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian and the entire Finance staff for their ability to get rating agency approvals in the current operating environment—resulting in significant savings to the California State University system.

Bond Financing Update

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian presented an update on the CSU's Systemwide Revenue Bond (SRB) program bond rating, and the Lease Revenue

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Bond program used on occasion to fund the State Funded Capital Outlay Program. He explained that the Board adopted the SRB program as the University's primary mechanism to finance long-term, non-state capital projects. In a recent meeting with Moody's Investor Service, Chancellor Reed and Dr. Quillian explained the challenges encountered due to the deteriorating fiscal condition of the state and how the CSU plans to meet those challenges.

Dr. Quillian spoke of the current SRB Aa3 rating, with a stable outlook, from Moody's and the A+ rating, with a stable outlook, from Standard & Poor's Rating Service (S&P). In affirming the SRB program debt rating, Moody's cited as key factors, the CSU's ability to manage cuts in State funding, the CSU's liquidity position, and the strength of the pledged revenue sources of the SRB. Chancellor Reed and Dr. Quillian plan to meet with Standard & Poor's to achieve a similar outcome.

Next, the committee heard public remarks from Carol Shubin, CSUN Professor of Mathematics, who earlier wanted to address the Board with regards to the CSU's recent stimulus money reporting.

Chancellor Reed reported to the Board that Assistant Vice Chancellor for Budget Robert Turnage and his staff filled out the federal reports exactly as instructed by the Department of Finance. Further, these forms did not allow for certain detailed reporting. Mr. Turnage added that the basic problem was the one-size-fits-all form. The form did not accommodate for reporting different ways in which the stimulus might be deployed. Another problem was that the form required quarterly reporting rather than annual reporting. Further, he explained that no institution makes budgeting and personnel decisions, based on receipt of federal money, in a single quarter.

Finally, Assistant Vice Chancellor, Capital Planning, Design and Construction Elvyra San Juan outlined lease revenue bond financing for state funded capital outlay projects. She explained how in December 2008, the CSU shut down most of its State-funded construction projects as a result of the State's fiscal and cash shortage crisis. The State's process to provide interim financing via the State Pooled Money Investment Account (PMIA) prior to the sale of general obligation bonds and/or lease revenue bonds has changed since last year's unprecedented event. As a result of the cash shortage to pay design and construction invoices, the State has moved to minimize the use of interim loans from the PMIA to a preference of selling bonds to generate the upfront cash to pay vendor invoices. As a result of this change, the Department of Finance indicated that five projects approved by the Governor and Legislature in the 2008-2009 budget are not scheduled for bond sale until 2013. The five projects are:

- | | | | |
|---------------------|--|-----|--------------|
| 1) Bakersfield | Art Center and Satellite Plant | WC | \$17,681,000 |
| 2) Channel Islands | Classroom/Faculty Office Reno/Addition | C | \$29,686,000 |
| 3) Maritime Academy | Physical Education Replacement | PWC | \$34,751,000 |

4) Monterey Bay	Academic II	PWC	\$40,599,000
5) San Luis Obispo Center for Science		C	\$101,071,000

Efforts are ongoing to secure funding for these projects earlier than currently scheduled. Since the beginning of the year, the CSU has received \$501 million in bond proceeds from various general obligation bond sales. Approval to proceed will generate economic stimulus for the California economy and provide much needed campus facilities. In addition, a lease revenue bond sale is scheduled November 19 for the San Francisco State Joint Library: a combination of the J. Paul Leonard Library and Sutro State Library.

Assistant Vice Chancellor San Juan clarified that with respect to the projects that had to shut down in December 2008, they have all been restarted. However, a backlog in the State Controller's office with regards to requests for re-appropriations has slowed down the process. Ms. San Juan estimated total shut down costs at \$6 million down from the original \$29 million.

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2010-2011 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor
Administration and Finance

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The 2010-11 Governor's Budget identifies a \$19.9 billion budget shortfall over the next 18 months. The Governor proposes solving this gap with a heavy emphasis on expenditure reductions and assumed new federal funds. Expenditure reductions are concentrated in health, welfare and transportation programs, as well as state employee compensation and, to some extent in adult and youth corrections programs. It is clear that many of the Governor's proposals will face a difficult reception in the Legislature. It is also clear that there are no easy alternatives. Easy options for addressing the state's fiscal problems were exhausted two years ago.

Despite the State's fiscal condition, the governor has made higher education a central priority of his 2010-11 budget. The Governor's Budget provides similar treatment to the CSU and the University of California (UC). For each system, the budget (1) restores \$305 million of one-time cuts made in 2009-10 and (2) provides 2.5 percent enrollment growth. For each system, the enrollment growth funds are made contingent on the receipt of specified new federal funds for programs outside higher education.

State Budget Overview

Between January and July 2009 the Governor and Legislature closed an 18-month budget gap of about \$60 billion, as the state faced the effects of the worst recession since the Great Depression. When the Governor signed the amended 2009-10 Budget Act last July, the Department of Finance projected that the State would begin the subsequent fiscal year facing a renewed gap of \$6.9 billion, due to the one-time nature of many of the "solutions" employed to get through 2009-10. With the introduction of the Governor's proposed budget for 2010-11, the estimate has grown to \$19.9 billion. This revised amount consists of a current-year (2009-10) shortfall of \$6.6 billion, a budget-year (2010-11) shortfall of \$12.3 billion and a proposal to restore a

minimal budget reserve of \$1.0 billion. The budget gap has grown for various reasons. Revenue estimates have declined by \$3.4 billion, adverse court decisions have invalidated various budget solutions for added cost of almost \$5 billion, the value of other solutions has “eroded” by over \$2 billion, and new population and caseload growth has added \$1.4 billion of cost.

Overall, state General Fund revenues are estimated to total \$89 billion, a year-to-year increase of only 1.4 percent. More revealing of the extent of the state’s fiscal bind is the Department of Finance’s estimate that baseline revenues are about 30 percent below projections that were made two years ago (when the fiscal outlook was relatively “normal”) and that the department expects this depressed revenue picture to last for several more years.

When the Governor unveiled his 2010-11 budget proposal on January 8, he also declared a fiscal emergency and called the Legislature into another special session, with the intent of addressing \$8.9 billion of the \$19.9 billion budget gap by late February. (The Governor’s special session proposals call for no change in the current CSU support budget.) The budget projects that cash flow problems will again become acute in July, and indicates that the Department of Finance will be working with the State Controller and State Treasurer to identify additional cash flow solutions for legislative consideration in the special session.

The Governor proposes solving the \$19.9 billion gap as follows:

- Expenditure reductions--\$8.5 billion
- Federal funds--\$6.9 billion
- Alternative funding--\$3.9 billion (examples include replacing General Fund budget for state parks with proceeds of a proposed oil lease)
- Fund shifts and other revenues--\$572 million

2010-11 CSU Support Budget

Despite the State’s fiscal condition, the governor has made higher education a central priority of his 2010-11 budget. The Governor’s Budget provides similar treatment to the CSU and the University of California (UC). For each system, the budget (1) restores \$305 million of one-time cuts made in 2009-10 and (2) provides 2.5 percent enrollment growth. For each system, the enrollment growth funds are made contingent on the receipt of specified new federal funds for programs outside higher education.

The \$305 million restoration is related to the following two cuts made in 2009-10:

- \$255 million line-item veto. The Governor’s veto message described this as a one-time cut, to be replaced with state General Fund in 2010-11.

- \$50 million cut by the Legislature as part of the original 2009-10 budget act adopted last February. The Legislature included language in the budget act that indicated its intent to restore these funds when possible.

Restoring these two cuts was the initial foundation of the budget request for 2010-11 that the board approved last November. The other items in the board-approved CSU support budget request, a total of \$579 million of General Fund request, are not included in the Governor's Budget. However, as mentioned, the Governor has proposed an augmentation for 2.5 percent enrollment growth (\$60.6 million), linked on a contingent basis to an optimistic assumption of \$6.9 billion of federal funds for various programs outside higher education.

The Governor did not make restoration of the \$305 million contingent on federal funds or any other assumptions. This distinction between the contingent nature of the enrollment growth funds and the non-contingent nature of the \$305 million should be seen as significant.

The Governor's Budget did not identify federal stabilization funds for the CSU in 2010-11. At the time this report was prepared, our discussions with the Department of Finance indicated that the amount that the CSU might receive in 2010-11 from this source—authorized by the American Recovery and Reinvestment Act (ARRA)—probably would not be significant. (California already has received 90 percent of its eligible funding from this one-time source.) It may sound counter-intuitive, but the lack of one-time stabilization funds does not create a hole in the CSU 2010-11 budget. The CSU's 2009-10 support budget was far less dependent on this one-time resource than meets the eye. This is because the one-time positive inflow of \$716.5 million that the CSU received was almost entirely cancelled out by the one-time "retroactive" reversion of \$715.5 million from the CSU's state appropriation. These actions of almost equal amount, one positive, the other negative, were one-time actions that will not be repeated in 2010-11. As a consequence, the Governor's budget proposal, including restoration of \$305 million and provision of \$60.6 million for enrollment growth, represents a true year-to-year increase in overall CSU resources.

The Governor reinforced his commitment to restoring funding to the CSU and the UC by proposing a state constitutional amendment that would redress the imbalance in state priorities that has arisen over the last couple decades between the universities and the state's prisons. The amendment proposes to reduce prison funding, starting in 2011-12, with the objective of bringing the combined UC/CSU share of General Fund spending from its current 7.5 percent (approximate) to a guaranteed minimum of 10 percent by the 2014-15 fiscal year and each fiscal year thereafter. Constitutional amendments require majority vote of the state electorate. The presentation of constitutional amendments to the voters first requires either (1) passage of the amendment by two-thirds vote of the Legislature or (2) securing enough valid signatures to be placed on the ballot as an initiative.

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Conclusion

The Governor's 2010-11 budget makes higher education a central priority, notwithstanding the state's extremely challenging fiscal circumstances. This budget proposal, if approved by the Legislature, would allow the CSU to substantially restore student access and program quality. The board will be provided with additional information and analysis of the 2010-11 budget at its meeting.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Interim Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds of the California State University in an aggregate amount not-to-exceed \$13,535,000 to provide funds for two auxiliary refundings. The Board is being asked to approve a resolution relating to these refundings. 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. San Diego State University Research Foundation – Student Housing Refunding

The San Diego State University Research Foundation, a recognized auxiliary organization in good standing at San Diego State University, seeks Board of Trustees approval for the refunding of an existing stand-alone auxiliary organization bond issue. At the time this report was prepared, the Foundation's board of directors is expected to adopt a resolution authorizing the refunding at a special meeting to be held on January 19, 2010.

The project will be the current refunding of \$6,605,000 in outstanding principal amount of stand-alone bonds, which were originally issued in 1998 at a par amount of \$8,225,000, to fund the acquisition of a student housing facility and related improvement costs, also known as the Piedra del Sol apartment project. The refunding is proposed to be in a not-to-exceed par amount of \$6,920,000 and is estimated to generate a net present value savings of approximately \$330,000 or about 5% of the refunded bonds. The not-to-exceed amount and the net present value savings are based on a current all-in true interest cost of 4.35%, which is reflective of market conditions as of mid-December 2009, and an average remaining bond maturity of slightly under 11 years.

The loan agreement for the refunding of the stand-alone 1998 bonds will be secured by a lien on the pledged revenues of the project on an equal basis with the Foundation's existing 2001 bonds,

which were previously issued to finance another student housing project, and will remain outstanding because the bonds are currently not subject to call. This refunding will have a minimal impact on systemwide debt capacity, as this auxiliary debt is already included in overall CSU debt capacity calculations.

2. San Diego State University Research Foundation – Office Building Refunding

The San Diego State University Research Foundation, a recognized auxiliary organization in good standing at San Diego State University, seeks Board of Trustees approval for the refunding of an existing stand-alone auxiliary organization bond issue. At the time of this writing, the Foundation's board of directors is expected to adopt a resolution authorizing the refunding at a special meeting to be held on January 19, 2010.

The project will be the current refunding of \$6,485,000 in outstanding principal amount of stand-alone bonds, which were originally issued in 1999 at a par amount of \$9,555,000, to refund bonds issued during 1993 to pay for the cost of construction of the Gateway Center project, comprised of a building of approximately 160,000 square feet and related improvements on the campus of San Diego State University. The refunding is proposed to be in a not-to-exceed par amount of \$6,615,000 and is estimated to generate a net present value savings of approximately \$790,000 or about 12% of the refunded bonds. The not-to-exceed amount and the net present value savings are based on a current all-in true interest cost of 3.79%, which reflects market conditions as of mid-December 2009, and an average remaining bond maturity of approximately 7 years.

The loan agreement for the refunding of the stand-alone 1999 bonds will be secured by a lien on pledged revenues on the project on an equal basis with the Foundation's existing 2002 bonds, which were previously issued to finance another office building project, and will remain outstanding because the bonds are currently not subject to call. This refunding will have a minimal impact on systemwide debt capacity, as this auxiliary debt is already included in overall CSU debt capacity calculations.

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 refundings described in this agenda item. The proposed resolutions will be distributed at the meeting and will achieve the following:

1. Authorize the sale and issuance of Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$13,535,000 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 revenue bonds.

Approval of the financing resolutions for the projects as described in this Agenda Item 2 of the Committee on Finance at the January 26-27, 2010, meeting of the CSU Board of Trustees is recommended for:

San Diego State University Research Foundation – Student Housing Refunding

San Diego State University Research Foundation – Office Building Refunding

COMMITTEE ON FINANCE

State Bond Financing Update

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

George V. Ashkar
Interim Assistant Vice Chancellor
Financial Services

Summary

This item presents an update on efforts to secure financing for five State Public Works Bond (PWB) funded projects approved in the 2008-09 budget act.

Status Update

At the November Board meeting, it was reported that five PWB projects remained on hold due to the State's suspension of projects. Department of Finance (DOF) had indicated earlier that five projects approved by the Governor and Legislature in the 2008-2009 budget were not scheduled for PWB bond sale until 2013. The five projects are:

1) Bakersfield	Art Center and Satellite Plant	WC	\$17,681,000
2) Channel Islands	Classroom/Faculty Office Reno/Addition	C	\$29,686,000
3) Maritime Academy	Physical Education Replacement	PWC	\$34,751,000
4) Monterey Bay	Academic II	PWC	\$40,599,000
5) San Luis Obispo	Center for Science	C	\$101,071,000

The Board asked staff to explore available financing options for these projects earlier than scheduled. Staff looked at using existing financial resources, such as the commercial paper program or investment funds, by which the CSU might purchase bond anticipation notes issued by the PWB. Unfortunately, the CSU is legally precluded from using these financial resources for such a purpose.

At present, our best option for two projects nearing bid phase is to prepare the projects for a Spring PWB bond sale currently planned by DOF and the State Treasurer's Office. While the

timing of the sale could be delayed pending state budget deliberations, the sale is being considered. DOF has indicated the remaining three projects would be more closely considered for a future bond sale providing the completion of design documents.. The staff is assessing the use of available resources to fund the design phase in order to move these projects forward. DOF has agreed to reimburse CSU expenditures once bonds are issued.