

AGENDA

COMMITTEE ON FINANCE

Meeting: 12:30 p.m., Tuesday, March 16, 2010
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
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 January 26, 2010

Discussion Items

1. Report on the 2010-2011 Support Budget, *Information*
2. Bond Rating 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**

January 26, 2010

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter, Chair of the Board
Kenneth Fong
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 November 17, 2009 were approved by consent as submitted.

Report on the 2010-2011 Support Budget

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian noted that at the November meeting, the Board of Trustees approved the 2010-2011 support budget submitted to the Governor. He explained that the budget request sought the restoration of \$305 million, which was promised to be a one-time reduction in the university's budget. The budget request also sought to replace some compact funds, some funds to restore and improve student services, funds to cover some of the increases in mandatory costs and a 10% fee buyout for the state university fee. All total, that was an approximate \$884 million increase over the support budget for 2009-2010 or \$776 million net of the revenue lost from the planned enrollment reduction.

Assistant Vice Chancellor for Budget, Robert Turnage provided further detail on the budget proposal as it impacts the CSU. He explained that a new budget gap of nearly \$20 billion has emerged for the state. The governor's budget addresses this gap in three main ways: \$8.5 billion in spending cuts concentrated in health and welfare programs, but also cuts in areas of state employee compensation and prisons. Also there is an assumption in the budget that \$6.9 billion of new federal revenues are going to be available. Mr. Turnage explained how observers like the Legislative Analyst's Office are questioning this key assumption. Despite this, he noted that the

governor is proposing a very significant restoration of funding to the CSU and the University of California. In the case of the CSU, the budget proposes a general fund increase of \$377 million, which has three parts: \$305 million to restore a pair of specific one-time cuts from the current cycle; enrollment growth funding of \$60.6 million – contingent on the \$6.9 billion federal revenue assumption; and technical adjustments (depending on how much is needed to pay lease revenue bonds, for example). Mr. Turnage pointed out the significant uptick in general fund appropriations, per the governor's proposal, as compared to the decline experienced over the last dozen years. He acknowledged a list of triggered cuts included in the governor's proposal. Finally, Mr. Turnage recognized that having a governor make higher education his front and center priority is a welcome message. In addition, Mr. Turnage encouraged a sustained and focused advocacy message.

In response to Trustee Fortune's request for additional information on the constitutional amendment, Mr. Turnage explained that the governor proposed, in his state-of-the-state address, a constitutional amendment that would gradually, by 2014-15, change the allocation to higher education. Currently, the governor's proposed budget allocates approximately 7% of the general fund. In five years, the governor is proposing a constitutional guaranty of at least 10%. This constitutional amendment also proposes that one of the primary means by which resources will be diverted to higher education would be by finding more efficient ways of operating the prison system and reducing spending on prisons. However, the amendment also says that to the extent that those savings do not materialize, the legislature would have to find resources elsewhere in order to ensure that 10% is reached. He acknowledged that similar to Proposition 98, there are provisions in the proposal for a suspension of the guarantee during emergencies requiring a two-thirds vote in a separate bill from the annual budget act. The amendments have been submitted to the legislative counsel to be drafted and ultimately will require either a two-thirds vote in the legislature or a signature campaign in order to put the initiative on the statewide ballot. An author to carry both provisions has yet to be named.

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

Prior to the formal presentation of this action item, Chair Hauck asked Interim Assistant Vice Chancellor George Ashkar to briefly clarify the bond refunding program. Mr. Ashkar explained that the systemwide revenue bond program is offered to all campuses and auxiliaries. If a situation is cost-effective and, after a review of the numbers, it is determined that a campus or auxiliary would benefit from significant savings, then a refunding is considered for future systemwide revenue bonds. Mr. Ashkar further commented on the request to the Board 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 refunding: (1) San Diego State University Research Foundation – Student Housing Refunding and (2) San Diego University Research Foundation – Office Building Refunding. During the remaining eleven year average life of the 1998 bonds for the San Diego State University Research Foundation – Student Housing, the refunding is expected to reduce bond debt service, providing for a cumulative savings

of \$485,000. In present terms, the value of such savings is projected at approximately \$330,000 based on the discounting of future cash flows. The second project, a four-story building comprised of classrooms, office space, broadcast facilities, and a 60-foot transmission tower, houses KBAC radio and television, the College of Extended Studies, and the San Diego State University Research Foundation. This refunding of 1999 bonds is expected to reduce bond debt service, providing for cumulative savings of \$1,060,000 during the remaining years of the bond. The present value of such savings is projected at approximately \$790,000 based on the discounting of future cash flows.

The Board unanimously gave approval to issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects (RFIN 01-10-01)

Orrick, Herrington & Sutcliffe LLP, as bond counsel, prepared resolutions for projects described in Agenda Item 4 of the Committee on Finance at the January 26-27, 2010 meeting of the Board of Trustees that authorize interim and permanent financing for San Diego State University Research Foundation (Student Housing Refunding); San Diego State University Research Foundation (Office Building Refunding)

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 \$13,535,000 and certain actions relating thereto.

2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Interim 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.

The resolutions will be implemented subject to receipt of good bids consistent with the projects' financing plans.

The committee heard comments from public speaker Carol Shubin, Professor of Mathematics, CSU, Northridge, who earlier wanted to address the Board with regards to bonds.

State Bond Financing Update

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian presented an update on the CSU's efforts to secure financing for five State Public Works Bond (PWB) funded projects approved in the 2008-09 budget act. He indicated that the Department of Finance might not sell public works bonds until the year 2013. Such a delay would impact significantly the progress of the following five important capital projects:

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

Dr. Quillian explained that the best option for two of the projects nearing bid phase is to prepare the projects for a spring PWB bond sale currently planned by Finance and the State Treasurer's Office. While a sale is being considered, the timing of the sale could be delayed pending state budget deliberations. Further, Dr. Quillian spoke of the state's recent credit rating downgrade by Standard & Poor's. Then he noted how staff is trying to determine if there is an opportunity to front-load these projects, but that no decision had been made. Interim Assistant Vice Chancellor George Ashkar spoke briefly of the option to assess the use of investment earnings for the design phase in order to move projects forward.

Chancellor Reed 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). Chancellor Reed and Dr. Quillian plan to meet with Standard & Poor's in an effort to maintain the rating.

Chancellor Reed reported to the Board that Finance has indicated that if CSU funds are used, it will enter into an agreement to reimburse the CSU. If they do not issue a bond sale until 2013, the CSU will lose a large amount of interest. The State of California and the Treasurer's Office has sold \$38 billion worth of bonds so far this year. Generally, they sell about \$7 or \$8 billion in the market. The spring sale is an accumulation of "small projects." The CSU has \$138 billion in that list. While the Treasurer's Office is doing everything they can, Wall Street has to see California making progress on its own budget.

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 and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The 2010-11 Governor's budget identifies a \$19.9 billion budget shortfall over the next 16 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.

Budget subcommittee hearings will be scheduled during March for an overview of the Governor's proposed budget for the CSU, and additional subcommittee hearings are expected during the spring.

Conclusion

The Board will be provided with a further and more detailed update on budget developments at its March meeting.

COMMITTEE ON FINANCE

Bond Rating Update

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

George V. Ashkar
Assistant Vice Chancellor / Controller
Financial Services

Summary

This item presents an update on recent actions by the bond rating agencies regarding the University's Systemwide Revenue Bond (SRB) debt ratings.

Status Update

On February 12, 2010, Chancellor Reed and Executive Vice Chancellor Quillian visited with representatives of Standard and Poor's and Moody's Investor Services regarding the outlook for the SRB program. This visit was scheduled in anticipation of the University's planned sale of approximately \$355 million of SRB's in mid-March 2010.

The rating agencies responded positively to the information shared with them and reaffirmed the existing ratings for the SRB program: Standard and Poor's at A+ and Moody's at Aa3, both with a stable outlook. These ratings contrast with the ratings given to State of California general obligation bonds at A- and Baa1, respectively.

Also in conjunction with the planned SRB sale, the CSU successfully participated in a due diligence conference call on February 24, 2010. The call was conducted by the underwriting syndicate for the bonds and provided the CSU with the opportunity to present additional information to the investment banks that will be responsible for marketing the bonds to potential investors. The syndicate was satisfied with the CSU presentation.