

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:15 p.m., Tuesday, March 20, 2012
Glenn S. Dumke Auditorium

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Linda A. Lang
Bob Linscheid
Henry Mendoza
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of January 24, 2012

Discussion Items

1. Report on the Support Budget 2012-2013 and 2013-2014 Fiscal Years, *Information*
2. Report on Governor's 2012-2013 Cal-Grant Budget Proposals, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project, *Action*
4. Proposed Title 5 Revision: Dissolution of Auxiliary Organizations, *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 24, 2012

Members Present

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Linda A. Lang
Bob Linscheid
Henry Mendoza
Glen O. Toney
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of November 16, 2011 were approved by consent as submitted.

Report on the Support Budget 2011-2012 and 2012-2013 Fiscal Years

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, pointed out that the governor's 2012-13 budget proposal fails to restore any of the \$750 million that has been cut out of the CSU's 2011-12 budget. The governor is proposing an initiative that would increase income tax rates for five years and would increase the state sales tax rate by 0.5 percent. If the proposed tax initiative fails passage in the November 2012 election, there could be a mid-year trigger cut of \$200 million to the CSU 2012-13 budget. If the full \$200 million "trigger" cut takes place, the two-year loss of state support to the university would be \$950 million, or almost 35% of state funding to the CSU. If additional cuts are made, access, affordability and quality could be threatened like never before. Campuses have created structural deficits by employing one-time funds to get through the year, but going into next year there will be serious consequences as those funds are being depleted. The CSU has been forced to reduce enrollment, limit the number of new hires and leave positions vacant, and downsize the administrative organization. Administrative units have been reorganized to create greater efficiencies,

technology has been employed in creative ways to reduce costs. Furloughs were implemented, which reduced pay to all employees by 10%. Employees have not received pay increases, despite heavier workloads since vacant positions were left unfilled. Student tuition fees were increased, shifting more of the responsibility from the state to students and their families.

CSU's primary concerns are the potential \$200 million "trigger" cut, the proposed changes to the Cal-Grant program and the long-term implications of some of the components of the governor's plan for higher education, including:

- The plan would curtail tuition fee increases with the expressed intent that this would lessen the pressure for students to take out loans; how this intent would be accomplished is not clear. Since the CSU depends on the state for approximately half its resources, the balance comes from student tuition fees.
- The plan would make annual increases to the general fund base of four percent per year, starting in 2013-14 through 2015-16 contingent upon achieving administration priorities including improvements in graduation rates, time-to-degree completion, transfer student enrollment and faculty teaching workload. However, at an annual rate of four percent it will take more than a decade to return funding to the university to its 2007 level and is entirely dependent on successful passage of the governor's tax initiatives on the November ballot.
- The plan would shift retirement program contributions and debt service on capital outlay bonds into the university budget. The expectation is that this would incentivize the universities to factor these costs into their overall fiscal outlook and decision-making processes. Annual fluctuations in these two programs would actually work as an incentive to reduce the resources devoted to the academic program and student support services.

Robert Turnage, assistant vice chancellor for budget, stated that in December 2011, the Director of the Department of Finance, pursuant to authority in the budget act, approved a "trigger cut" of \$100 million to the CSU's 2011-12 support budget; bringing the total state support to the CSU to \$2 billion. The annual state support to the CSU has fallen by \$968 million with tuition revenue up by \$593 million. Our campuses are already among the most efficient in the nation in terms of expenditures per student. San Francisco State University recently streamlined its administrative structure by collapsing 8 colleges into 6, and is estimated to save about \$1 million a year once fully implemented.

The governor's proposal to raise Cal-Grant minimum grade point averages would save the state an estimated \$131 million in the first year. The governor is also proposing to fold costs into the university that historically have been the state's responsibility. This includes general obligation bond debt service and adjustments to CSU's budget to offset changes in employer contribution rates that are due to decisions by the CalPERS board. In the last decade, the PERS contribution has been on an upward trend so there is much more risk of the rates continuing to go up, which would leave the CSU fully exposed.

Trustee Hauck asked Mr. Turnage to provide information in terms of the CSU's exposure over the next three years.

Mr. Turnage responded that they are working on different scenarios but will need further discussions with CalPERS on their rates of return. Every percentage point increase in the rate represents a \$22 million cost to the CSU. He stated that, under the proposal, the state would fold in debt service on lease revenue bonds and general obligation bonds with a one-time adjustment to the CSU budget in 2012-13, but thereafter it would be the CSU's responsibility. The intent of this proposal is to force the CSU to concentrate on tradeoffs between all the demands of funding the capital and support budget.

Trustee Hauck asked for staff to calculate the impact the debt service would have made on the CSU's operating budget if this proposal had been effect over the past three years. He also asked if there was any expectation that the governor's proposal would be changed or modified.

Mr. Turnage responded that staff will work on those calculations and that based on past conversations, there may be a possibility for improvements to be made on the proposal.

Gavin Newsom, lieutenant governor, inquired if another tuition fee increase would be considered if there's an additional \$200 million reduction.

Chancellor Reed expressed that, unfortunately, a tuition fee increase will need to be an option.

Trustee Guzman asked if the students affected by the Cal-Grant GPA requirement changes are evenly distributed between Cal-Grant A and Cal-Grant B recipients. She further asked if there was any information on what other states are doing for their similar programs in terms of GPA eligibility requirements.

Dean Kulju, director of student financial aid services and programs, explained that the main distinction between Cal-Grant A and Cal-Grant B, besides the GPA requirements, is the income threshold qualifications. He stated that about 75% of CSU students are Cal-Grant B recipients. He indicated that he has heard of a few states restricting requirements, making it tougher for students to qualify for that state's particular program. Cal-Grants are fairly unique nation-wide as far as having a merit component with the GPA requirement and focusing more on the financial need. The other states stress the academic component.

Trustee Guzman stated that when CSU increases tuition fees, that financial aid will cover the students who are eligible. She asked if that statement was true for students who are no longer eligible for Cal-Grants?

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Mr. Turnage responded that there is a finite amount of state university grants. Any student that gets displaced on the Cal-Grant side could qualify for a state university grant, but only at the expense of other potential state university grant recipients.

Trustee Mendoza asked if the debt service on the bonds will be added to the CSU balance sheet, expressing concern that this could affect the university's ability to borrow funds.

Trustee Hauck stated affirmatively that the CSU's ability to borrow funds will go down. The CSU has never had to look at the operating budget and capital facilities budget together because they were funded separately.

Trustee Mendoza asked if the CSU was the only entity that was asked to do this.

Mr. Turnage responded that the University of California (UC) system is also affected. Under the proposal, the general obligation bonds would not enter the CSU's balance sheet as a debt, it would remain with the state. The state controller still will be drawing out of state-wide continuous appropriation to actually pay the debt service on those bonds. When the state controller pays the bond holders each year, the state will require reimbursement out of the CSU appropriation.

Trustee Cheyne asked if it is possible to challenge the governor's proposed budget.

Chancellor Reed affirmed that it is being challenged through conversations and discussions with the Department of Finance.

Gregory Washington, president of California State Student Association, offered a student perspective on the Cal-Grant changes stating that it will affect a lot of students and will only augment the problem of access and affordability.

Trustee Glazer encouraged the chancellor in preparing for a worst-case scenario. It is important to look for options and consider the consequences they may bring.

Trustee Hauck addressed an audience member who wanted to comment.

Carol Shubin, faculty at California State University, Northridge, opposed the resolution approving a five-year capital outlay plan.

With no further questions, Trustee Hauck proceeded to the next item on the agenda.

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

George Ashkar, assistant vice chancellor for financial services, requested board approval to authorize systemwide revenue bonds and the issuance of bond anticipation notes (BANS) to provide financing for the Maritime Dining Center replacement. The campus anticipates construction to start April 2012 with completion in August 2013. The projected debt service coverage is expected to meet the CSU benchmark. The campus forecasts took into account expected enrollment targets in the current budget environment.

Trustee Hauck affirmed that this is a proposed project and it will ultimately be in the systemwide revenue bond program, not the general obligation bond program.

Mr. Ashkar confirmed that this was correct.

With no questions, Trustee Hauck called for a motion on the resolution, which was approved.

Dr. William Eisenhardt, president of California Maritime Academy, stated that the dining center has been in operation for 57 straight years with a capacity of 111 students. There are now 900 students using the facility, who are forced to eat in shifts.

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the Support Budget, 2012-2013 and 2013-2014 Fiscal Years

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

State Budget Overview

The 2012-13 governor's budget identifies a \$10.3 billion state budget problem (including the need to provide a \$1.1 billion reserve). The governor proposes to resolve this 18-month shortfall with \$4.2 billion of spending reductions, \$4.7 billion of new revenues and \$1.4 billion derived from various other steps. The linchpin of this budget proposal, however, is an initiative that is currently being circulated for signatures for placement on the November ballot. The proposed initiative would increase income tax rates on higher income taxpayers for five years, starting with the 2012 tax year, and would increase the state sales tax rate by 0.5 percent. The increased sales tax rate would be in effect for four years, from January 1, 2013 through the end of calendar 2016. The Governor's Budget estimates that the measure, if passed by the voters, would generate \$6.9 billion of revenue in the 2012-13 fiscal year. However, because the added revenues would have an indirect effect of increasing the Proposition 98 funding guarantee for K-14 education, and thereby increase state spending for that purpose, the net relief to the state's fiscal problem is estimated to be \$4.4 billion.

At this point the Legislative Analyst's Office (LAO) is taking a more pessimistic view of the state's revenue prospects. In an update issued in late February, the LAO projects that state revenues will fall short of the governor's budget estimate by \$3 billion in the 2011-12 fiscal year and by \$3.5 billion in the 2012-13 fiscal year, for a total difference of \$6.5 billion across the two fiscal years. This LAO projection assumes that the governor's November tax measure is passed by the voters and also assumes that the state would realize an extra \$2 billion in revenue from an anticipated initial public offering (IPO) by Facebook.

CSU Support Budget

In mid-December 2011, the Director of the Department of Finance, pursuant to authority in the 2011-12 budget act, approved a “trigger cut” of \$100 million to the CSU’s 2011-12 support budget. This brought the total reduction in state support to the CSU for the fiscal year to \$750 million, or 27.5 percent. At its peak in the 2007-08 fiscal year, the state provided almost \$3.0 billion of support to the CSU. The \$100 million trigger cut brings state support for the current fiscal year to \$2.0 billion.

Assuming the voters pass the initiative, the budget would maintain the current sharply reduced level of state support for the CSU, but would avoid further direct cuts. However, the budget proposes a new mid-year “trigger cut” of \$200 million to the CSU if the tax initiative fails. If the full “trigger” reduction takes place, the two-year loss of state support would be \$950 million, or almost 35 percent, and total state support to the CSU would be at its lowest point since 1996, despite inflation and despite the fact that the CSU is serving about 95,000 more students.

Given the reductions that have already taken place, the timing of a trigger cut in the middle of the academic year, and the long lead times needed to reduce spending further, the system and its campuses must begin planning now on an assumption that the trigger reductions take place. The chancellor has been holding ongoing discussions with the campus presidents about the difficult choices involved and will share with the board at the March meeting the latest available information about feasible options and potential impacts.

Long-term Budget Plan for Higher Education

In its higher education chapter, the *Governor’s Budget Summary* outlines a long-term plan for higher education that would provide “stable and increasing state funding” beginning in the 2013-14 fiscal year, provided the voters pass the tax initiative. The budget summary identifies significant plan components as follows:

- **Affordability**—the plan would “curtail” tuition and fee increases in order to lessen the pressure for students to take out loans.
- **Student Success**—the plan would make annual General Fund augmentations contingent upon each institution achieving the administration’s priorities, including improvements in specific accountability metrics such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload.
- **State Funding**—Under the proposed plan the state would increase its General Fund support to each university’s prior-year *General Fund* base by a minimum of 4 percent per year, starting in 2013-14 and continuing through 2015-16. Including some proposed adjustments to what constitutes the “base” that would be grown each year, a 4 percent increase would translate into an estimated General Fund increase of \$88 million in 2013-14.

- **Fiscal Incentives**—the state currently budgets separately for, and annually adjusts, retirement program contributions and debt service on state bonds for higher education capital outlay. The 2012-13 budget proposes to shift these appropriations into the university budgets. According to the budget summary, this would incentivize the universities to factor these costs into their overall fiscal outlook and decision-making processes.

In its February 8 analysis of the governor’s higher education proposals, the LAO recommends that the legislature, in effect, approach higher education budgets one year at a time. The LAO recommends against the proposed 4 percent annual increases of the long-term plan as a form of “automatic augmentations.” The LAO also recommends that the legislature reject (a) the incorporation of state debt service into university budgets and (b) the proposed change in the treatment of CalPERS payments in CSU’s budget. The governor’s long-term plan, along with the budget itself, raises major short-term and long-run issues for the CSU that will require further discussion with the administration and the legislature during the coming months.

Upcoming Budget Hearings

The Senate has scheduled its first budget subcommittee hearing for the CSU support budget on March 15. The Assembly has scheduled its first budget subcommittee hearing for the CSU support budget on April 11. Both houses have scheduled additional hearings pertaining to Cal-Grants. These hearings will be important. However, it is likely that the budget subcommittees will postpone major decisions until the governor’s May Revision is available, including the administration’s updated revenue and cost projections. Under law, the May Revision is due to the legislature by May 14.

CSU Faces Increasingly Difficult Choices

The governor’s budget presents the CSU with increasingly difficult choices. In particular, the \$200 million “trigger” reduction presents the possibility of a loss of annual state support in the course of two years of \$950 million, or almost 35 percent. Under this scenario total state support to the CSU would be at its lowest point since 1996, despite inflation and despite the fact that the CSU is serving about 95,000 more students. Given the reductions that have already taken place, the timing of a trigger cut in the middle of the academic year, and the long lead times needed to reduce spending further, the system and its campuses must begin planning now on an assumption that the trigger reductions take place. The Chancellor’s Office has already made budget allocations to each campus on that assumption. Moreover, budget and enrollment planning must be based on the assumption that the reduced level of state support continues at least through the 2013-14 fiscal year, if not longer. The chancellor has been holding ongoing discussions with the campus presidents about the difficult choices involved and will share with the board at the March meeting the latest available information about feasible options and potential impacts.

COMMITTEE ON FINANCE

Report on Governor's 2012-2013 Cal-Grant Budget Proposals

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

Proposed Cal-Grant Changes

The governor's budget proposes various changes in the Cal-Grant program that would save the state General Fund over \$300 million. One proposal—which would save an estimated \$131 million in 2012-2013—has important implications for students who are bound for the CSU. The budget proposes raising grade point average (GPA) requirements for new recipients of three types of Cal-Grants, as follows:

- Raise minimum GPA for Cal-Grant A from 3.0 to 3.25.
- Raise minimum GPA for the “high school entitlement” portion of Cal-Grant B from 2.0 to 2.75.
- Raise minimum GPA for the “transfer entitlement” portion of Cal-Grant B from 2.4 to 2.75.

Staff will report at the March meeting on the status of these proposals in the legislative budget hearings.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the board to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of \$36,355,000 to provide financing for a campus project. The board is being asked to approve resolutions related to the project. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue Bonds.

The project is as follows:

Bakersfield Student Housing

In November 2008, the board approved the amendment of the non-state capital outlay program for a Bakersfield student housing project. The project that is currently being presented to the board for consideration at this time is a variation of the prior described project scaled down from 648 beds to 512 beds. It has also been value engineered to be more affordable and to meet the campus's needs for replacing their existing student housing facilities, which are close to forty years old.

The not-to-exceed par value of the proposed bonds is \$36,355,000 and is based on a maximum total project cost of \$41,311,000 with program reserve contributions of \$500,000 and an \$8 million internal loan from the Affordable Student Housing Revolving Fund (ASHRF) loan program. Additional net financing costs (estimated at \$3,544,000) are to be funded from bond proceeds. At the time this agenda item was written, the campus was developing a guaranteed not-to-exceed price for the project budget with bids expected to be finalized in July 2012. The campus anticipates a construction start of September 2013 with construction completion in February 2015.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount:	\$36,355,000
Amortization:	Approximately level over 30 years
Projected maximum annual debt service: ¹	\$2,722,746
Projected debt service coverage including the new project:	
Net revenue – All Bakersfield pledged revenue programs: ^{1,2}	1.36
Net revenue – Projected for the campus housing program: ¹	1.10

1. Projected maximum annual debt service and debt service coverage ratios include estimated debt service of \$222,500 per year on the \$8,000,000 loan from the ASHRF.
2. Combines 2010-11 information for all campus pledged revenue programs and projected 2015-16 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.64%, reflective of adjusted market conditions 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 financial plan projects a program net revenue debt service coverage of 1.10 in the first full year of operations in 2015-16, which meets the CSU benchmark of 1.10, with improving coverages thereafter. When combining the project with 2010-11 information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.36, which exceeds the CSU benchmark of 1.35.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing 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 a not-to-exceed amount of \$36,355,000 and certain actions relating thereto.

2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 3 of the Committee on Finance at the March 19-20, 2012, meeting of the CSU Board of Trustees is recommended for:

Bakersfield Student Housing

COMMITTEE ON FINANCE

Proposed Title 5 Revision: Dissolution of Auxiliary Organizations

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Background

Auxiliary organizations at the California State University (CSU) are non-profit organizations which are separate legal entities that operate pursuant to written operating agreement with the CSU Board of Trustees, have separate governing boards with close campus linkages and follow all legal and policy rules established by the CSU system and the respective campus administration. Auxiliary organizations were created to perform essential functions associated with a postsecondary educational institution, which under California law were difficult, cumbersome, or legally restricted for the university and were not supported by state funding. The CSU established a network of supplemental services that complement the core academic programs at each campus and provide the full range of educational experiences expected by its students.

The campus presidents have responsibility for ensuring auxiliary organizations operate as an integral part of the overall campus program and operate in conformity with policies of the Trustees and the campus. The Trustees have delegated authority to the chancellor to approve the establishment of auxiliary organizations (completed via addition to list of auxiliary organizations in good standing); to administer procedures for probation, suspension or removal of good standing status; and to review auxiliary organization operations.

Approval of the successor to whom the net assets, other than trust funds, of an auxiliary organization shall be distributed upon dissolution of the auxiliary is the only aspect of auxiliary organization oversight that has not been delegated and therefore requires approval by the Board of Trustees. This proposal seeks to add this one outstanding aspect of auxiliary operations to the delegations already provided to the chancellor.

Proposed Revision

The following resolution is presented for information, with action proposed for the May 2012 meeting of the Trustees:

RESOLVED by the Board of Trustees of the California State University that under Section 89030.1 of the Education Code, that Article 3, Section 42600 of Title 5 of the California Code of Regulations be amended as follows:

Title 5. Education
Division 5. Board of Trustees of the California State Universities
Chapter 1. California State University
Subchapter 6. Auxiliary Organizations
Article 3. Organization and Operation
§ 42600. Organization

- (a) An auxiliary organization which is not a corporation shall adopt a constitution and file a copy thereof with the Chancellor.
- (b) By ~~July~~ December 31, 1982-2012, the articles of incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the ~~Board of Trustees~~ Chancellor.

A resolution proposing this amendment will be presented for action at the May 2012 meeting of the CSU Trustees.