

AGENDA

COMMITTEE ON FINANCE

Meeting: **8:00 a.m., Wednesday , November 14, 2012**
 Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville
Jillian Ruddell
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of September 18, 2012

Discussion Items

1. Report on the 2012-2013 Support Budget and Related Contingencies, *Information*
2. Approval of the 2013-2014 Support Budget Request, *Action*
3. 2013-2014 Lottery Revenue Budget, *Action*
4. 2012-2013 Student Fee Report, *Information*
5. California State University Annual Investment Report, *Information*
6. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments, *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**

September 18, 2012

Members Present

William Hauck, Chair
Roberta Achtenberg
Steven M. Glazer
Henry Mendoza
Lou Monville
Bob Linscheid, Chair of the Board
Jillian Ruddell
Glen O. Toney
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of July 17, 2012, were approved by consent as submitted.

Contingency Strategy to Address the Possibility of a \$250 Million Budget Reduction and the Possibility of a Tuition Fee Rollback

Chancellor Reed stated that the legislature made a last minute decision about tuition rollback, which affected the CSU contingency strategy. The chancellor reminded the board that the reason for having a contingency strategy is, not only for operational reasons, but also to make students, parents and the public aware of what may happen to the CSU should the Governor's tax initiative fails to pass and the CSU's budget is cut by an additional \$250 million, which could trigger a proposed 5 percent tuition increase. If the Governor's initiative passes and the 2012-2013 tuition fee is rolled back to 2011-2012 levels, this would result in a \$132 million revenue loss and would require the processing of thousands of fee refunds and grant over payments. The CSU is proposing three resolutions, consistent with the contingency plan, for the board's approval.

Proposed Resolution No. 1—Budget Contingency Plan

The committee discussed the budget contingency plan presented in Finance Committee agenda item No. 1 of September 2012 to address the \$250 million trigger reduction included in the state 2012-2013 Budget Act and to address the tuition fee rollback provision included in Assembly Bill 1502 of the 2011-2012 regular session.

The committee recommended approval by the board of the proposed resolution 1.

Proposed Resolution No. 2—Contingent Tuition Fee Actions

The committee discussed the schedule of contingent tuition fees presented in Finance Committee agenda item No. 1 of September 2012. This resolution is procedural to resolution number 1.

The committee recommended approval by the board of the proposed resolution number 2.

Proposed Resolution No. 3—Modification to the Schedule of Fees

The committee discussed the modification to the schedule of fees presented in Finance Committee agenda item No. 1 of September 2012 which included the follow proposed fees:

- Graduation Incentive Fee for resident undergraduates, to be assessed at the same per-unit rate as supplemental nonresident tuition, for each unit in excess of total earned units of 150 semester units and 225 quarter units.
- Course Repeat Fee for resident undergraduates, to be assessed per unit of each course repeat at a rate of one-sixtieth of the basic academic year tuition fee rate for semester calendar campuses and one-ninetieth for quarter calendar campuses.
- Added Units Fee for resident undergraduates, to be assessed per unit at a rate of one-thirtieth of the basic academic year tuition fee rate for semester calendar campuses and one-forty-fifth for quarter calendar campuses, for each unit in excess of 16 units per term, provided that the student is enrolled in at least 17 units.

In response to a query from Trustee Glazer, Chancellor Reed noted that there could be a report back to the board in the Spring of 2014 to see if there is a change in behavior. The committee moved to amend the resolution to require the chancellor to provide a report to the board on the impact of the fees in the spring of 2014.

Trustee Morales asked why there is a threshold on each of the fees. Chancellor Reed answered that the thresholds are very liberal compared to other institutions and that the resolutions allow for exceptions and will address unforeseen circumstances.

Trustee Hauck inquired on timing and why this needs to be done now? Mr. Eric Forbes, assistant vice chancellor for student academic services, responded that in order to impose and collect these fees for Fall 2013, everything needs to be functional in the March 2013 period. No student shall be assessed more than one of the three fees for the same course.

Trustee Garcia inquired if the goal of implementing these fees is to change behavior or to increase revenue. Chancellor Reed responded that it is about making it possible for more students to take the classes that they need. Chancellor Reed added that at least 15 other states have implemented a graduation incentive fee.

Trustee Achtenberg questioned if a decision can be postponed until November 2012 to consider the potential impact on student behavior and budget savings. Mr. Forbes responded that tuition calculations occur when students enroll and fees are assessed. Calculations would need to be ready in March 2013 when campuses begin to register continuing students for fall classes. Chancellor Reed expressed belief that it would be possible to postpone a decision to November and still implement in 2013-2014.

Trustee Achtenberg moved to postpone a decision on Resolution No. 3 until November 2012. Trustee Hauck moved on the amendment, which was approved.

Planning for the 2013-2014 Support Budget Request

Mr. Robert Turnage, assistant vice chancellor for budget, reported that the CSU is basically facing the same fundamental needs in terms of not being able to provide general salary increases for employees and unfulfilled enrollment demands.

Trustee Monville noted a change in language from “deferred” to “urgent” maintenance needs. He suggested defining what the urgent needs are. Mr. Turnage will provide an inventory of urgent needs by campus at the November meeting.

Ms. Elvyra San Juan, assistant vice chancellor for capital planning, design and construction, reported that the CSU’s deferred maintenance backlog is \$1.7 billion.

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

2013-2014 Lottery Revenue Budget

Mr. Turnage, assistant vice chancellor for budget, reported that the 2013-2014 lottery budget request does not reflect an increase in projected support.

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

Mr. George Ashkar, assistant vice chancellor for financial services, requested board approval 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 CSU. The total cost is \$17,855,000 to provide financing for two auxiliary projects. The board is being asked to approve resolutions relating to these financings.

CSU Fullerton, through CSU Fullerton Auxiliary Services Corporation (the “Corporation”), has the opportunity to purchase real property, commonly known as Western State University College

of Law (the “Project”), adjacent to the campus, for a purchase price of \$18,250,000. San Diego Aztec Shops, Ltd. (the “Corporation”) purchased a privately-owned, four-story apartment building, constructed in 1962, with parking spaces adjacent to the northwestern portion of the campus, currently known as College West Apartment (the “Project”). The Corporation utilized its own reserves to fund \$4,980,000 in total project costs, comprised of the \$4,750,000 purchase price plus \$230,000 in transaction costs. The Corporation is seeking to refinance \$3,530,000 of the total project costs through commercial paper and Systemwide Revenue Bonds with the \$1,450,000 balance as a Corporation contribution. The bonds will be issued on a tax-exempt basis at a not-to-exceed par value of \$3,850,000 with additional net financing costs of \$320,000.

Trustee Hauck asked why the purchase price was higher than the appraised amount for the San Diego property. Ms. Sally F. Roush, vice president of business and financial affairs at San Diego State University, responded that it is common to pay more than the appraised value for properties near the campus. The campus felt the premium was appropriate, given the facility location and the high demand for student housing.

Trustee Cheyne inquired on the rationale of the Fullerton property purchase. Dr. Mildred Garcia, president of California State University, Fullerton, reported that the campus is running out of space and this purchase would allow larger classrooms and class sizes.

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

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2012-2013 Support Budget and Related Contingencies

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor
and Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The possibility of an additional \$250 million reduction in state support this fiscal year has been discussed with the Board of Trustees at previous meetings. At its meeting of September 18-19, 2012, the board approved a budget contingency plan, which included changes in tuition fee rates, up or down, depending on the outcome of Proposition 30 at the November election. This agenda item was necessarily prepared prior to the election. At the November meeting, the board will be given an update on the implementation of the contingency plan in the wake of the election and its results.

COMMITTEE ON FINANCE

Approval of the 2013-2014 Support Budget Request

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

At its meeting of September 18-19, 2012, the board was provided an overview of the state's fiscal condition and budget challenges for the 2013-2014 fiscal year. The board also was presented with preliminary revenue and expenditures assumptions for purposes of crafting the CSU's support budget request for the Governor's 2013-2014 Budget. This item presents for the board's review and approval a recommended support budget request for 2013-2014.

2013-2014 State Budget Overview

The state may continue to experience fiscal challenges in 2013-2014, even with the possibility of voter enactment of Proposition 30. National and state economic recovery remain stubbornly sluggish. Moreover, there are growing concerns among many economists that political impasse in the nation's capital could result in a federal "fiscal cliff" in January that could shock the national economy back into recession. However, there is also the possibility that economic recovery—however slow—continues. This, combined with the significant tax revenues that could be produced by Proposition 30, raises the possibility that the state could begin to reinvest in public higher education.

2013-2014 CSU Support Budget

The university's budget plan for the 2013-2014 fiscal year focuses on the need to address critical unmet needs to fulfill the CSU's mission to educate Californians under the state's higher education master plan, and, to this end, to seek necessary reinvestment from the state. The planning approach is tempered by a recognition of the state's ongoing fiscal challenge, yet represents a credible statement of the university's key funding needs. The planning approach is consistent with direction given by the Department of Finance that all state entities should formulate budgets for the 2013-2014 fiscal year assuming enactment of Proposition 30. If Proposition 30 is not enacted, certain assumptions and dollar amounts would require revision, but the basic outline of the university's unmet needs would remain the same.

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Our planning approach also assumes the “roll-back” of tuition fee rates to the 2011-2012 academic year levels that the board approved contingent on enactment of Proposition 30. The legislature and governor already have enacted a General Fund appropriation of \$125 million to the CSU (in AB 1502). That appropriation, also contingent on enactment of Proposition 30, would become effective in the 2013-2014 fiscal year, and would almost offset the ongoing revenue loss starting in that fiscal year. Our planning approach treats this already enacted appropriation as part of the budget “baseline.” This is appropriate since the appropriation merely replaces lost university revenue and does not add to the university’s capacity to serve students or carry out programs and operations. Therefore, the amounts discussed below as elements of the budget request are assumed to be in addition to the \$125 million appropriation in AB 1502.

Expenditure Plan. The recommended expenditure plan, shown as increases to the CSU’s current baseline from state funds, tuition and systemwide fees, is summarized below. These recommended items will require new ongoing revenues, in some combination from the state and from tuition fee revenues. The enrollment demand item would accommodate not only growth in the number of students admitted and served, but would also help accommodate demand by current students for additional courses (allowing improved time-to-degree). The amount allocated for urgent facility maintenance needs has been increased from the \$30 million included in the preliminary presentation in September, based on expressions of concern from the board on that issue. Specific justifications for each item are included in the 2013-2014 Support Budget book that is included in the board members’ mail-out as a supplemental document and can be accessed also through the following link: <http://www.calstate.edu/budget/fybudget/2013-2014/executive-summary/documents/2013-14-Support-Budget.pdf>

• Mandatory costs (health benefits, new space, energy)	\$48.2 million
• Compensation increase (3 percent “pool”)	\$86.3 million
• Graduation Initiative/Student Success	\$58.0 million
• 5 % enrollment demand	\$155.8 million
• Urgent maintenance needs	\$50.0 million
• Information technology infrastructure upgrade/renewal	\$20.0 million
• Instructional equipment replacement	\$23.0 million
• Center for California Studies	\$0.5 million
Total ongoing expenditure change	\$441.8 million

This expenditure plan would bring annual spending for support of the CSU to approximately \$4.5 billion, including student fee revenues.

Revenue Plan. The following recommended plan for increased revenue is intended to provide the resources needed to meet the expenditure plan.

Total State General Fund Increase **\$371.9 million**

Tuition Fees Revenue Adjustments:

- Net tuition fee revenue from enrollment growth \$81.0 million
- Negative adjustment for change in enrollment patterns (\$11.1 million)

Total Tuition Fee Revenue Adjustment **\$69.9 million**

Total Revenue Increase **\$441.8 million**

A much larger increase in resources could be justified for the CSU to fully meet the expectations placed upon it by the state's higher education master plan. However, this revenue plan strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition fee revenues generated by enrollment growth. Development of a 2013-2014 budget request on these lines would provide the governor and legislature with an achievable plan for reinvestment in the CSU for the sake of California's economic and social future. Failure of Proposition 30 at the November election would affect what is achievable, particularly in terms of what the state can contribute. Even under that circumstance, however, this document would constitute a legitimate statement of the CSU's key funding needs.

The following resolution is recommended for adoption.

RESOLVED, by the Board of Trustees of the California State University that the 2013-14 support budget request is approved as submitted by the chancellor; and be it further

RESOLVED, that the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that any changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, that the chancellor is authorized to comply with requests of the Department of Finance and the legislature regarding establishment of priorities within this budget; and be it further

RESOLVED, that copies of this resolution be transmitted to the governor, to the director of the Department of Finance and to the legislature.

COMMITTEE ON FINANCE

2013-2014 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for fiscal year 2013-2014, which was presented as an information item in September, is now recommended for action. The lottery revenue projection for 2013-2014 is \$42 million. After setting aside \$3 million for CSU's systemwide reserve, \$39 million is available for allocation. The 2013-2014 Lottery Revenue Budget request does not reflect an increase in projected support from fiscal year 2012-2013.

Beginning CSU lottery reserves are \$3 million. CSU does not anticipate any additional carry forward funds in 2013-2014 above the planned \$3 million budget reserve. The \$3 million beginning reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. Campuses' interest earnings from lottery allocations are incorporated in the total revenue earnings achieved under the CSU Revenue Management Program.

2013-2014 Lottery Budget Proposal

After setting aside the \$3 million beginning reserve, the \$39 million 2013-2014 lottery budget proposal remains primarily designated for campus-based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral Program and CSU Summer Arts Program. Of this amount, \$3.9 million funds: the Chancellor's Doctoral Incentive Program (\$2 million) for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program (\$714,000) to support CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; and the CSU Summer Arts Program (\$1.2 million) for academic credit courses in the visual, performing, and literary arts.

The remaining \$35.1 million in 2013-2014 lottery funds will continue to be used for campus-based programs (\$29.6 million), financial aid for the trustee-approved Early Start program (\$5 million) and system program administration (\$531,000). Campus-based program funding is the most concentrated fund distribution and allows presidents considerable flexibility

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in meeting unique campus needs. Traditionally, projects receiving campus-based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships. In addition to campus-based program funding, Early Start program funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need. Campuses will receive funding based on actual student enrollment following the end of the summer program.

In fiscal year 2011-2012, ninety-one percent of lottery allocations were spent on supplemental programs and services for students and faculty (Academic, Student Services, Library Service, and Financial Aid). The following table summarizes how lottery funds allocated for the 2011-2012 fiscal year were expended.

2011-2012 Lottery Expenditure Report

Program Support Area	Expenditures	Percent of Total Expenditures
Academic	\$ 17,430,552	45.8%
Library Services	\$ 11,288,192	29.7%
Student Services	\$ 3,893,789	10.2%
Administrative	\$ 2,887,325	7.6%
Financial Aid	\$ 2,172,662	5.7%
Classroom Maintenance	\$ 242,282	0.6%
Community Relations	\$ 149,449	0.4%
Total Expenditures	\$ 38,064,250	100.0%

The CSU lottery revenue budget proposed for 2013-2014 is as follows:

2013-2014 Proposed Lottery Revenue Budget

	2012-2013 Adopted Budget	2013-2014 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 3,000,000	\$ 3,000,000
Receipts	<u>39,000,000</u>	<u>39,000,000</u>
Total Revenues	\$ 42,000,000	\$ 42,000,000
<i>Less Systemwide Reserve</i>	<u>(3,000,000)</u>	<u>(3,000,000)</u>
Total Available for Allocation	<u>\$ 39,000,000</u>	<u>\$ 39,000,000</u>
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	2,000,000	2,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Program Administration	<u>503,000</u>	<u>531,000</u>
	\$ 4,417,000	\$ 4,445,000
<i>Campus Based Programs</i>		
Campus Programs	\$ 29,583,000	\$ 29,555,000
Campus Early Start Financial Aid	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
	\$ 34,583,000	\$ 34,555,000
Total Uses of Funds	<u>\$ 39,000,000</u>	<u>\$ 39,000,000</u>

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This item is an action item and the following resolution is recommended for adoption:

RESOLVED, by the Board of Trustees of the California State University, that the 2013-2014 lottery revenue budget totaling \$42 million be approved for implementation by the chancellor, 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 be it further

RESOLVED, that a portion of campus-based program allocations will continue to be used to support student financial aid for the trustee-approved Early Start program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2013-2014 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 be it further

RESOLVED, that a report of the 2013-2014 lottery revenue budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

2012-2013 Student Fee Report

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As required by California State University student fee policy, the Board of Trustees is presented with an annual campus student fee report to consider the level and range of campus-based mandatory fees charged to CSU students.

2012-2013 CSU Student Fee Report

Campus-based mandatory fees are charged to all students in order to enroll at a particular university campus. In addition, campuses charge miscellaneous course fees for some courses in order to add materials or experiences that enhance the basic course offerings. Campuses also charge fees for self-support programs, such as parking, housing and extended education. As required by the CSU student fee policy, this annual report focuses on the campus-based mandatory fees.

The following table displays the 2012-2013 academic year campus-based mandatory fee rates by campus and by fee category.

2012-2013 California State University Campus-Based Fee Rates							
	Health Facilities	Health Services	Instructionally Related Activities	Materials Services & Facilities	Student Body Association	Student Body Center	Total Campus Fees
Bakersfield	\$6	\$264	\$160	\$12	\$333	\$435	\$1,210
Channel Islands	6	120	200	70	124	324	844
Chico	6	258	266	66	126	746	1,468
Dominguez Hills	6	150	10	0	135	322	623
East Bay	6	225	129	244	129	345	1,078
Fresno	6	186	264	46	69	220	791
Fullerton	6	140	72	89	148	268	723
Humboldt	6	396	674	296	101	185	1,658
Long Beach	6	90	50	198	88	336	768
Los Angeles	6	165	129	270	54	275	899
Maritime Academy	14	680	130	30	210	0	1,064
Monterey Bay	0	126	60	165	96	44	491
Northridge	6	114	30	208	168	506	1,032
Pomona	6	230	40	5	102	256	639
Sacramento	31	226	341	0	124	408	1,130
San Bernardino	39	221	146	162	123	372	1,063
San Diego	50	300	350	50	70	286	1,106
San Francisco	6	272	100	320	106	164	968
San Jose	109	252	0	500	147	648	1,656
San Luis Obispo	9	285	278	1,544	292	627	3,035
San Marcos	50	207	80	378	100	580	1,395
Sonoma	30	352	424	30	188	402	1,426
Stanislaus	14	336	271	267	116	150	1,154
Systemwide Average	\$18	\$243	\$183	\$215	\$137	\$343	\$1,140

The following table shows total campus-based mandatory fees by campus for the 2011-2012 and 2012-2013 academic years. As shown in the table, the systemwide average of campus-based mandatory fees increased by \$93, or 8.9 percent, from \$1,047 in the 2011-2012 academic year to \$1,140 in 2012-2013. Increases in campus-based mandatory fees occurred for various reasons; including the construction/expansion of new/existing student recreation centers or student union

buildings, the consolidation of miscellaneous course fees into a campus-wide mandatory fee, the implementation of a mental health services fee (per Executive Order 1053) at some campuses, or at some campuses the establishment of enhanced programs to improve student success. The establishment of a Student Success Fee at San Luis Obispo, through a combined process of student referendum and advisory consultation, for example, accounts for most of the increase at that campus. In addition, some campuses have authorized annual incremental increases for certain mandatory fees that are tied to either the California Consumer Price Index or Higher Education Price Index.

2011-2012 and 2012-2013 Campus-Based Fee Rates			
Campus	2011-2012	2012-2013	Increase
Bakersfield	\$1,210	\$1,210	\$0
Channel Islands	844	844	0
Chico	1,418	1,468	50
Dominguez Hills	623	623	0
East Bay	942	1,078	136
Fresno	791	791	0
Fullerton	648	723	75
Humboldt	1,590	1,658	68
Long Beach	768	768	0
Los Angeles	623	899	276
Maritime Academy	1,064	1,064	0
Monterey Bay	491	491	0
Northridge	1,016	1,032	16
Pomona	634	639	5
Sacramento	1,101	1,130	29
San Bernardino	981	1,063	82
San Diego	1,106	1,106	0
San Francisco	804	968	164
San Jose	1,356	1,656	300
San Luis Obispo	2,439	3,035	596
San Marcos	1,124	1,395	271
Sonoma	1,390	1,426	36
Stanislaus	1,110	1,154	44
Average	\$1,047	\$1,140	\$93

2012-2013 CSU Tuition Fees

Although not required by the CSU student fee policy, prior annual student fee reports have included comparisons of CSU tuition fee rates with other institutions, based on a list of institutions developed over twenty years ago by the former California Postsecondary Education Commission. At the time this agenda item was prepared the 2012-2013 tuition fee rates for the

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various categories of students were about to be changed, either up or down, based on the outcome of Proposition 30 at the November election. At the time of the board meeting, the revised tuition fee rates will be known with certainty, and comparison tables will be available for review at the board meeting.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2011-2012 for funds managed under the California State University Investment policy.

Background

The bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash, from the Chancellor's Office and campus-controlled bank depository and disbursement accounts, is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT, and for investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, US Bancorp Asset Management and Wells Capital Management.

The state treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the state treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. Pursuant to an agreement with the state, CSU maintains a minimum balance of \$310 million in the SMIF to assist in the funding of payroll. The Local Agency Investment Fund (LAIF) is used by the state treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment A.

In July 2011, the state legislature created a new investment vehicle at the state level in which CSU may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. Pursuant to a memorandum of understanding dated July 20, 2011, between CSU and the Department of Finance, CSU deposited \$700 million in the SAIF in late September 2011. The deposit of \$700 million will remain in SAIF through April 2013 and earns an annual rate of 2.0 percent.

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Pursuant to a second memorandum of understanding dated February 8, 2012, between CSU and the Department of Finance, CSU deposited \$250 million in the SAIF in February 2012 which was returned to CSU in April 2012. The deposit of \$250 million earned an annual rate of 2.0 percent. The year-end results for this fund are reported in Attachment A.

The California State University Investment Policy in effect during fiscal year 2011-2012 is included as Attachment B.

Market Summary

The fiscal year ending June 30, 2012, was marked by continued volatility in the financial markets. Financial market movements appeared to be linked to the ongoing stress in the European Union (EU) as member banks and sovereigns struggled with funding and solvency concerns. During the year, investors also dealt with a contentious battle over the United States federal debt ceiling which ultimately led to a downgrade of the U.S. credit rating from AAA to AA+ by Standard & Poor's. Rating agencies also lowered the ratings of the largest global banks due to methodology revisions and downgrades to various global sovereigns upon which bank ratings are more closely tied. U.S. GDP grew 2.2 percent in the fiscal year but clearly slowed in the last quarter of the fiscal year advancing only 1.5 percent. The unemployment rate improved from 9.1 percent at the end of June 2011 to 8.2 percent at the end of June 2012.

In response to the challenging market environment, the Federal Reserve (Fed) and global central banks took significant steps to ease financial conditions. During the year, the Fed maintained the federal funds target rate in the 0.0 percent to 0.25 percent range while extending its target date for keeping the federal funds rate at "exceptionally low" levels at least through late 2014. In addition, the Fed attempted to flatten the yield curve and lower long-term rates by selling shorter-dated U.S. Treasuries and purchasing longer-dated notes. For its part, the European Central Bank (ECB) took several steps to address deteriorating financial conditions in the EU, the most important of which was supplying over \$1 trillion of three-year funding to member banks that lowered the tail-risk of a bank funding crisis and sparked a strong credit market rally in early 2012. U.S. fiscal policy has been primarily focused on resolving the 2013 "fiscal cliff," where a combination of expiring payroll and Bush-era tax cuts along with mandatory reductions in government spending would be large enough to push the U.S. economy into recession.

Investment Account Performance

As of June 30, 2012, the asset balance in the SWIFT portfolio totaled \$1.77 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the Investment Policy and State law, the portfolio is restricted to high-quality, fixed income securities.

As of June 30, 2012, the SWIFT portfolio's holdings by asset type were as follows:
 Asset Breakdown as of
 June 30, 2012

Cash	0.32 %
US Treasuries	19.25 %
US Government Agencies	39.08 %
Corporate Securities—Long Term	31.98 %
Corporate Securities—Short Term	<u>9.37 %</u>
	100.00 %

The SWIFT portfolio provided a return of 0.76 percent during the 12 months ended June 30, 2012. This return was greater than the benchmark for the portfolio, which is a treasury based index.

	<u>SWIFT Portfolio</u>	<u>SWIFT Benchmark¹</u>	<u>LAIF</u>
1 Month Return	0.05 %	- 0.04 %	N/A
3 Month Return	0.18 %	0.15 %	0.09 %
12 Month Return	0.76 %	0.59 %	0.38 %
Annualized Return since SWIFT Inception	1.80 %	2.66 %	1.62 %

(1) Merrill Lynch 0-3 Year Treasury Index

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used and managed by the State Treasurer to invest State funds, or funds held by the state on behalf of state agencies, in a short-term pool. Cash in this account is available on a daily basis. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2012, the amount of CSU funds invested in SMIF was approximately \$347 million.

SMIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/03 - FYE 06/30/12	
FYE 06/30/12	0.37%	Average	2.33%
FYE 06/30/11	0.49%	High	5.24%
		Low	0.36%

State Agency Investment Fund (SAIF)

The State Agency Investment Fund (SAIF), created in July 2011, is a vehicle used and managed by the State Treasurer which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. CSU funds in SAIF earn an annual rate of 2.0 percent. As of June 30, 2012, the amount of CSU funds invested in SAIF was \$700 million.

SAIF Performance

Annualized Return		Quarterly Yield Rate	
FYE 06/30/12	2.00%	FYE 06/30/12	0.50%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used and managed by the State Treasurer to invest local agency funds. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2012, there were no CSU funds invested in LAIF.

LAIF Performance

Apportionment Annualized Return		Quarterly Apportionment Yield Rate FYE 06/30/03 - FYE 06/30/12	
FYE 06/30/12	0.38%	Average	2.33%
FYE 06/30/11	0.49%	High	5.25%
		Low	0.36%

The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Sections 16330 and 16430 and Education Code Section 89724 listed in Section A, subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)
- State Agency Investment Fund (SAIF)

Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;

- Bonds or warrants of any county, city, water district, utility district or school district;
 - California State bonds, notes, or warrants, or bonds, notes, or warrants, with principal and interest guaranteed by the full faith and credit of the State of California;
 - Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
 - Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
 - Bankers’ acceptances eligible for purchase by the Federal Reserve System;
 - Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
 - Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
 - Student loan notes insured by the Guaranteed Student Loan Program;
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;
- B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio.

Furthermore, the CSU:

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;
- Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

- A. Annually, the chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor's Office, including market values.
- B. Each campus will provide no less than quarterly to the chancellor a report containing a detailed description of the campus's investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:
 - to be submitted to the chancellor within 30 days of the quarter's end
 - to contain a statement with respect to compliance with the written statement of investment policy; and
 - to be made available to taxpayers upon request for a nominal charge.

(Approved by the CSU Board of Trustees in January 1997 and amended in September 2011)

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
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 Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate amount not-to-exceed \$34,015,000 to provide financing for two campus projects. The board is being asked to approve resolutions related to the 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 as the existing Systemwide Revenue Bonds.

The projects are as follows:

1. San José Student Health and Counseling Center

The San José Student Health and Counseling Center project was approved by the board for the amendment of the Nonstate Capital Outlay program in March 2009 and is also being presented to the board for schematic approval during its Committee on Campus Planning, Buildings and Grounds. The project will construct a new facility of approximately 52,700 gross square feet and will improve efficiency of patient care by replacing the current facility built in 1959. The project will provide additional space for new services to address acute, preventative and ancillary health care needs.

The not-to-exceed par value of the proposed bonds is \$27,960,000 and is based on a total project budget of \$34,243,000 with a health center program reserve contribution of \$9,389,000. Additional net financing costs (estimated at \$3,106,000) are to be funded from bond proceeds. The project is being supported by an increase in health facilities fees from \$46 in 2008-2009 to \$110 in 2012-2013 and continuing annual increases thereafter based on the California Consumer Price Index. This design-build project is scheduled to start construction in September 2013 with completion in December 2014.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$27,960,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$1,831,701
Projected debt service coverage including the new project:	
Net revenueSan José pledged revenue programs: ¹	1.67
Net revenue – Projected for the campus health center program:	1.53

1. Combines 2011/12 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 approximately 5.35 percent, 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 1.53 in the first full year of operations in 2015-2016, which exceeds the CSU benchmark of 1.10. When combining the project with 2011-2012 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 1.67, which exceeds the CSU benchmark of 1.35.

2. San Marcos Student Health and Counseling Services Building

The San Marcos Student Health and Counseling Services project was approved by the board in March 2012 for the amendment of the Nonstate Capital Outlay program and is also being presented to the board for schematic approval during its Committee on Campus Planning, Buildings and Grounds. The project will replace an existing off campus facility that is currently being leased, in an effort to be closer to student activity on campus. The facility will be approximately 19,200 gross square feet and will provide examination rooms, medical offices, and counseling space.

The not-to-exceed par value of the proposed bonds is \$6,055,000 and is based on a total project cost of \$9,936,000 with a health center program reserve contribution of \$4,484,000. Additional net financing costs (estimated at \$603,000) are to be funded from bond proceeds. The campus anticipates a construction start of June 2013 with construction completion in October 2014. The health facility fee was increased in 2004-2005 from \$6 to \$50 per year to support the project.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$6,055,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$398,206
Projected debt service coverage including the new project: Net revenue – All San Marcos pledged revenue programs: ¹	1.59
Net revenue–Projected for the campus health center program ¹ :	1.34

1. Combines 2011/12 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 approximately 5.35 percent, 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 1.34 in the first full year of debt service in 2015-2016, which exceeds the CSU benchmark of 1.10. When combining the project with 2011-2012 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 1.59, 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 that authorize interim and permanent financing for the projects 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 Systemwide Revenue Bond Anticipation Notes and the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$34,015,000 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

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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 agenda item 6 of the Committee on Finance at the November 13-14, 2012 meeting of the CSU Board of Trustees is recommended for:

San Jose Student Health and Counseling Center

San Marcos Student Health and Counseling Services Building