

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:45 p.m., Tuesday, September 18, 2012
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of July 17, 2012

Discussion Items

1. Contingency Strategy to Address the Possibility of a \$250 Million Budget Reduction and the Possibility of a Tuition Fee Rollback, *Action*
2. Planning for the 2013-2014 Support Budget Request, *Information*
3. 2013-2014 Lottery Revenue Budget, *Information*
4. 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**

July 17, 2012

Members Present

William Hauck, Chair
Kenneth Fong
Margaret Fortune
Bob Linscheid, Chair of the Board
Henry Mendoza
Lou Monville
Jillian Ruddell
Glen O. Toney
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of May 8, 2012 were approved by consent as submitted.

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

Mr. George Ashkar, assistant vice chancellor for financial services, requested board approval to authorize the issuance of systemwide revenue bonds in the amount of \$106,960,000 to provide financing for two campus projects and refinancing of outstanding auxiliary bonds at one campus.

The Channel Islands North Campus Parking Lot Phase 1 project is supported by a two-step parking fee increase of \$50 per year for 2012-13 and \$40 for 2013-14. The total project cost is \$2,211,000 with additional net financing costs of \$129,000 to be funded from bond proceeds. The campus financial plan projects program net revenue debt service coverage of 1.45 in 2013-14, which exceeds the CSU benchmark of 1.10. The campus' overall net revenue debt service coverage for the first full year of operations of the Project is projected to be 1.40, which exceeds the CSU benchmark of 1.35.

The Pomona Recreation Center project is funded through the student body center fee that will increase by \$420 per year effective 2014-15. The total project cost is \$65,890,000 with additional net financing costs of \$9,290,000 to be funded from bond proceeds. The campus

financial plan projects program net revenue debt service coverage of 1.25 for 2015-16, which exceeds the CSU benchmark of 1.10. The campus' overall net revenue debt service coverage for the first full year of operations is projected to be 2.04, which exceeds the CSU benchmark of 1.35.

San Diego State University Research Foundation – Student Housing refunding project will be the current refunding of \$9,035,000 in outstanding principal on the Foundation's Auxiliary Organization Student Residence Revenue Bonds, Series 2001 (tax exempt), originally issued at \$11,000,000 to fund the acquisition and improvement of the student apartment complex, known as the Fraternity Project. The loan agreement for the refunding of the stand-alone 2001 bonds will be secured by a general obligation pledge of the Foundation's unrestricted revenues. This refunding will have a minimal impact on systemwide debt capacity since it is already included in the overall CSU calculations.

San Diego State University Research Foundation – Office Building refunding project will be the current refunding of \$32,080,000 in total outstanding principal on the Foundation's Auxiliary Organization Revenue Bonds, Series 2002A (tax exempt) and 2002B (taxable). The loan agreement for the refunding of the stand-alone 2002 A & B bonds will be secured by a general obligation pledge of the Foundation's unrestricted revenues. This refunding will have a minimal impact on systemwide debt capacity since it is already included in the overall CSU calculations.

Trustee Cheyne requested clarification on the source of funds for refunding the bonds. Dr. Benjamin F. Quillian confirmed that the funds come from revenues produced by the projects.

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

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

Mr. Robert Turnage, assistant vice chancellor for budget, reported that the budget package passed by the legislature and signed by the governor on June 27, 2012, is consistent with the governor's May revision. As a result, the size of the trigger cut increased to \$250 million. The state will continue to adjust the CSU budget to cover increased employer rates for pension contributions. CSU health care premiums for 2013 will increase by \$36 million. The legislature passed budget bill language that authorizes the chancellor to do a one-time balance transfer from the CSU's Continuing Education Revenue Fund (CERF) in 2012-13 to mitigate reductions if the governor's tax initiatives are not enacted.

Trustee Hauck reaffirmed that the transfer of CERF funds would be a one-time application and not a source of continuing revenue.

Proposed in the state budget \$125 million appropriation to the CSU for 2013-14, provided the tax initiative passes and the CSU resets tuition fee rates for 2012-13 back

to 2011-12 levels. This proposal would create a \$132 million deficit in the CSU's 2012-13 budget.

Trustee Hauck added that the \$132 million deficit would be in addition to the \$250 million trigger cut.

Chancellor Reed commented that most students have paid their 2012-13 fall tuition and financial aid awards have already been calculated on that tuition.

Trustee Fong inquired about health care costs for CSU increasing to \$400 million annually. Mr. Turnage confirmed that is the annual amount for 2012-13.

Trustee Monville asked if an analysis was done on how the tax initiative impacts California state and federal income. Mr. Turnage responded that he is not aware of any analysis being done. Trustee Hauck commented that this would be an increase in both state and federal income.

Chancellor Reed reminded the board that the CSU still has a \$130 million structural deficit to address.

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

Strategies to Address the Structural Deficit in the California State University Support Budget, the Contingency of a \$250 Million Trigger Cut, and a Possible Tuition Fee Roll-Back

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, presented strategies that can be put into place and have a significant fiscal impact. The primary objective is to meld the CSU's mission of providing quality education with resources available. He described a consultation process with the university community that included meetings with the campus presidents, provosts, chief financial officers, student affairs professionals, the statewide Academic Senate and small groups of faculty members. Two webcasts were conducted that allowed the sharing of ideas under consideration and allowed the participants to make suggestions and ask questions. All constituent groups were invited to join the webcasts. Finally, Dr. Quillian pointed out the communication efforts that have surrounded the consultation process including development of a website that contains the presentations, video of both webcasts and frequently asked questions.

Mr. Turnage provided more detail on two alternative strategies to address the possible \$250 million trigger cut. He described a shared responsibility strategy, which proposes a mid-year tuition fee increase triggered by the \$250 million trigger cut, a systemwide reduction in pay and benefits, reducing faculty time and sabbaticals, adding a third tier to the tuition fee structure, increasing non-resident tuition fee in fall 2013, and a one-time fund transfer from CERF along with other one-time resources. The second strategy uses the same components as the first, but

without a tuition fee increase, and adds a reduction to 2013-14 enrollment and faculty and staff positions.

Dr. Ephraim P. Smith, executive vice chancellor and chief academic officer, added that the CSU has been reducing faculty time and sabbaticals. He also noted that adding a third tier to the tuition fee plan would give seniors an incentive to graduate and would allow access to incoming eligible students.

Trustee Monville inquired if the higher third tier tuition fee would be factored into the financial aid package or into Cal and Pell grants. Dr. Smith responded that it is not factored into financial aid since they are already at the limit. Mr. Dean Kulju, director of student financial aid services and program, noted for Cal grants to be increased, it would take state or legislative action and that Pell grants has a set maximum.

Trustee Cheyne expressed concern on further reducing faculty time and sabbaticals and on a salary reduction across the board.

Chancellor Reed commented that timing is critical in addressing labor contracts as some require one year's notice.

Trustee Glazer shared that it's important to understand the worst case scenarios and prepare for those.

Public Speakers

Trustee Hauck then called upon the members of the public who had requested to speak at the Committee on Finance.

With no questions, Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

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

Presentation By

Charles B. Reed
Chancellor
California State University

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. Staff has presented the impact such a reduction would have on the CSU and proffered strategies that have been considered to manage the possible reduction. At the Board of Trustees meeting, the Chancellor will explain and recommend a multi-faceted plan to be implemented if the Governor's tax initiative fails to pass and the \$250 million "trigger" is pulled.

Background

As previously discussed with the Board of Trustees, the CSU's State allocation was reduced \$750 million in Fiscal Year 2011-2012. The Fiscal Year 2012-2013 budget runs the risk of an additional \$250 million reduction. Staff has explained the steps campuses are taking to reduce costs and plan for the possibility of a \$250 million trigger if the Governor's tax initiative fails to pass in the November election.

Campuses have started limiting student unit loads, reducing library acquisitions, postponing larger projects and deferring non-essential maintenance. Several belt-tightening practices are in place, such as minimizing travel, reducing the purchases of goods and services and eliminating many professional development opportunities for employees. Vacant tenure track faculty positions are going unfilled. Numerous temporary and part-time employees are not being renewed. The number of employees in the Management Personnel Plan (MPP) is being reduced. Vacant staff positions are often not filled, and the work is redistributed among other employees. In some cases functions not critical to the mission are eliminated. Often administrative and academic units are combined or reorganized to reduce costs. Enrollment management strategies are in place to align the numbers of students with the amount of support received from the State.

The efforts to reduce costs have already had a significant negative impact on operations, our students, faculty and staff. Staff has not received a general salary increase since 2007; faculty has not received a general salary increase since 2008. Many of our valued employees, such as

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those specializing in information technology, accounting, finance and public safety, are leaving for better opportunities. Although campuses have used available cash balances to maintain mission critical operations, avoid massive layoffs and prevent even larger reductions in the number of students, the present state of affairs is not sustainable. If the Governor's tax initiative fails in November additional revenues will be sorely needed. It will also be necessary to take more cost cutting measures – none of which are desirable. Even if the initiative passes, steps must be taken to maintain the environment necessary to support a quality teaching and learning enterprise.

Strategies to Address the Possible “Trigger” and a Possible Fee Rollback

Tuition Fee Rollback

At its November 2011 meeting, the Board of Trustees approved a 9.1 percent tuition fee increase for Fiscal Year 2012-2013. If the Governor's initiative passes, the Board may choose to rescind this tuition fee increase. This would result in a \$132 million revenue loss this year and require the processing of thousands of fee refunds and grant over-payments. Roughly \$50 million of this one-time revenue loss can be mitigated using budget act authority granted to the Chancellor to transfer balances from the Continuing Education Revenue Fund (CERF). If the tuition fee is rescinded, the trailer bill appropriates a \$125 million supplement for the CSU in 2013-2014.

Trigger on the Trigger

If the Governor's tax proposal fails and the CSU State allocation is reduced by \$250 million, a modest increase in tuition will be needed, effective January 2013. This “trigger on the trigger” would yield approximately \$58 million in Fiscal Year 2012-2013 and \$116 million in Fiscal Year 2013-2014 without an incremental set aside for the State University Grant. Given the magnitude of the recent budget cuts, an additional \$250 million reduction without additional revenue would place the CSU on a course that jeopardizes necessary student support services and the quality of academic offerings.

Increase of Non-resident Tuition Fee Supplement

Currently the CSU collects approximately \$135 million annually from out-of-state and international students. These students represent approximately four percent of the total enrollment. Full-time nonresident students pay a tuition supplement of \$11,160 per academic year in addition to the standard tuition fee. They also pay an additional per-unit tuition fee if they take more than 30 semester units (or 45 quarter units) per year. This plan recommends a 7 percent increase in the tuition supplement (\$810 per academic year), effective fall 2013, which would produce about \$9 million in additional revenue in 2013-2014 and annually thereafter. This recommendation not only produces needed revenue in the event of a further loss of state funding, it further assures that the state and California students are not subsidizing out-of-state

students. If the Governor's tax initiative fails, the fee increase would go into effect in the fall of 2013.

Modifications to the Schedule of Fees

As discussed at the July meeting of the Finance Committee, three new resident undergraduate fees are recommended. The fees are intended to increase student access to classes and reduce time to graduation and are recommended even if the Governor's tax initiative passes. In addition, it is anticipated that these fees would generate about \$35 million annually, starting in 2013-2014.

Graduation Incentive Fee. Commencing in fall 2013, this recommended fee would require resident seniors who have earned 150 semester/225 quarter units or more to pay an additional fee on a per unit basis at a rate equal to the non-resident tuition excess unit rate (currently \$372 per semester unit). The fee is intended to encourage the "super seniors" to graduate and thereby increase graduation rates and free admission slots for other eligible CSU applicants. After denying admission to tens of thousands of eligible applicants in recent years, this adjustment to increase access is a high priority.

Course Repeat Fee. It is estimated that there are 10 course repeats per 100 CSU undergraduates each term, with over 40,000 seats in state-supported classes taken by students who already have taken the course. Students who choose to repeat a course would be required to pay the proposed Course Repeat Fee, which would be set at \$100 per semester unit. In addition, students choosing to repeat courses will not be permitted to enroll in more than 15 units in the term. The fee is intended to lead students to make careful decisions with regards to repeating a course. This will free up space for students who have not had an opportunity to take the course, speeding their time to graduation.

Third-tier Tuition Fee. As previously explained to the Finance Committee, tuition fees are currently assessed according to unit loads, with the charges falling into two tiers. Students with six units or less are charged at one rate, and students who take more than six units are charged a second rate. This recommendation proposes adding a third tier in which students enrolled in 17 or more units would be charged for each unit taken above 16 units at a rate of \$200 per semester unit. Adding a "third tier" to the CSU resident student tuition fee structure would improve the fair distribution of needed classes to each undergraduate student. The third-tier would also dissuade students from signing up for extra course loads (and then often dropping courses later in the term) and avail additional course sections and "seats" to be available for all students and give every undergraduate a better opportunity to carry a full course load.

Change to Health Care Benefits Cost-sharing

A modification of the employer/employee health care contributions is recommended. This recommended strategy avoids the need to consider a systemwide reduction in payroll costs, by focusing on the need to control rapidly growing CSU costs for health care benefit premiums. Currently, the CSU share of premium cost is capped at a high level based on a statutory formula. On average, the CSU pays for 95 percent of total premium costs. By contrast, the state pays less than 80 percent on behalf of its employees for the exact same health benefit plans. Annual spending by the CSU on health benefits has climbed by \$60 million since 2007-2008 to an estimated total of \$356 million in 2011-2012, despite the fact that there are about 3,000 fewer CSU employees. The premium rates recently announced by CalPERS for calendar 2013 will increase CSU annual costs by another \$36 million, bringing annual spending close to \$400 million. The state long ago negotiated premium cost shares with its unions that are about 20 percent less expensive. For example, negotiating a cost-share similar to the state's could avoid \$70 million of CSU expenditure in 2013-2014 and beyond. This modification is recommended even if the Governor's tax initiative passes.

One-time Transfer of CERF

Recognizing the need to provide greater latitude to the CSU in using its resources, the legislature recently passed AB 1477, which amended the Budget Act of 2012 and gave the chancellor the one-time authority to transfer balances from the State University Continuing Education Fund (CERF) or any other revenues received from extension programs and other self-supporting instructional programs to the California State University Trust Fund, or other trust accounts pursuant to applicable law for expenditure in order to mitigate the impact of the budget reductions on state-supported instructional programs. The proposed plan calls for the one-time transfer of \$50 million from CERF to the campus Operating Funds, regardless of the outcome of the Governor's tax initiative.

Increase in Systemwide Administrative Efficiencies

As previously explained to the Board, the system and campuses are launching numerous initiatives to increase the efficiency and effectiveness of their administrative operations such as: the Common Financial System; the Common Human Resources System; a Systemwide Shared Services Center for purchasing and accounts payable; the Virtual Information Security Center; the Virtual Network Operations Center; the spend analysis; shared police call centers; shared construction management; shared Chief Information Officers; just to name a few. It is anticipated that the systemwide initiatives will generate approximately \$10 million in avoided

costs in 2012-2013 and \$20 million in 2013-2014. The efficiencies shall be pursued even if the Governor's tax initiative passes.

Campus Specific Strategies

The Chancellor is directing the campuses to develop and implement strategies to generate cost reductions to total \$132 million in this fiscal year. The strategies may vary from campus to campus and will be implemented without regard to the passage of the Governor's tax initiative. Some campuses may reduce faculty assigned time/release time. Sabbaticals will be carefully reviewed in the context of budgetary considerations. Additional reductions in the workforce through attrition, non-renewals of contracts and layoffs may be necessary. Additional restructuring of administrative and academic units will be required. Some campuses may find it necessary to call on additional one-time cash balances to meet expenses. However, it will be necessary to maintain cash balances sufficient to meet emergent needs, comply with unanticipated State requirements, and be able to demonstrate adequate liquidity to credit rating agencies. The Presidents will work in close consultation with the Chancellor to develop the campus strategies. In compliance with the applicable labor agreements the labor organizations will be appropriately notified.

The Contingency Plan Summary

The recommended plan is intended to place responsibility for access and quality across the various CSU constituents. The plan is presented in the context of the University's mission to provide quality academic offerings and access to qualified students. The plan is a contingency plan, which if approved by the Board of Trustees will require no further action. If the Governor's initiative passes, there will be no tuition increase in Fiscal Year 2012-2013. The already approved increase will be rescinded. If the Governor's initiative fails, the already approved tuition fee increase will remain in effect, and the recommended contingency increase will become effective in January 2013.

The following chart provides a summary of the contingency plan (dollars are in millions and are approximate).

	2012- 2013	2013- 2014
"Trigger on trigger": \$150/semester tuition increase (eff. January 2013) ^a	\$58	\$116
Increase of Non-resident Tuition Fee Supplement (7% eff. fall 2013)	\$0	\$9
Modifications to the Schedule of Fees	\$0	\$35
Change to Health Care Benefits Cost-sharing (eff. July 2013)	\$0	\$70
One-time Transfer of CERF	\$50	\$0
Increase in Systemwide Administrative Efficiencies ^b	\$10	\$20
Campus Specific Strategies	\$132	\$0
Totals	\$250	\$250

^a This represents an approximate 5% increase and assumes no incremental "set-aside" for State University Grant

^b New savings starting in 2012-2013 and/or 2013-2014. Campuses are implementing additional administrative efficiencies to address structural deficits

Trustee Resolutions and Recommended Action

Consistent with the contingency plan, the following three resolutions are proposed for board approval at the September meeting:

RESOLUTION No. 1—Budget Contingency Plan

RESOLVED, By the Board of Trustees, that the board endorses 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; that the Chancellor shall take such actions as necessary to implement the plan; that the Chancellor may amend the plan as necessary to respond to subsequent actions by the state, and shall report to the board in a timely manner regarding necessary plan amendments.

RESOLUTION No. 2—Contingent Tuition Fee Actions

RESOLVED, By the Board of Trustees, that the following schedule of tuition fees is approved effective winter/spring terms 2013, and until further amended, *contingent on Proposition 30 failing enactment by the voters at the November 2012 general election*:

Basic Tuition Fees—Spring Semester 2013

<u>Units Per Term</u>	<u>Undergraduate</u>	<u>Credential Program Participants</u>	<u>Graduate and Other Post-Bac Students</u>
6.1 or more	\$3,135	\$3,639	\$3,864
0 to 6.0	\$1,818	\$2,112	\$2,241

The applicable per term tuition fee schedules consistent with this resolution for campuses on semester, quarter and other calendars, and for summer terms, are provided on the Budget Office website: <http://www.calstate.edu/budget/student-fees/fee-rates/>

RESOLVED, further, that the following academic year schedule of tuition fees is approved effective fall 2013, and until further amended, *contingent on Proposition 30 failing enactment by the voters at the November 2012 general election*:

Basic Tuition Fees—Academic Year Starting 2013-2014

<u>Units Per Term</u>	<u>Undergraduate</u>	<u>Credential Program Participants</u>	<u>Graduate and Other Post-Bac Students</u>
6.1 or more	\$6,270	\$7,278	\$7,728
0 to 6.0	\$3,636	\$4,224	\$4,482

The fees provided in the above table are for an academic year. The applicable per term fee schedules consistent with these academic year fees for campuses on semester, quarter and other calendars, and for summer terms are provided on the Budget Office website: <http://www.calstate.edu/budget/student-fees/fee-rates/>

RESOLVED, further, that the following academic year schedule of tuition fees is approved, retroactive in effect to fall 2012, and until further amended, *contingent on approval by the voters of Proposition 30 at the November 2012 general election*:

Revised Basic Tuition Fees—Academic Year Starting 2012-2013

<u>Units Per Term</u>	<u>Undergraduate</u>	<u>Credential Program Participants</u>	<u>Graduate and Other Post-Bac Students</u>
6.1 or more	\$5,472	\$6,348	\$6,738
0 to 6.0	\$3,174	\$3,684	\$3,906

The fees provided in the above table are for an academic year. The applicable per term fee schedules consistent with these academic year fees for campuses on

semester, quarter and other calendars, and for summer terms are provided on the Budget Office website: <http://www.calstate.edu/budget/student-fees/fee-rates/>

RESOLVED, further, that the following supplemental Nonresident Tuition schedule is approved effective fall 2013, and until further amended, *contingent on Proposition 30 failing enactment by the voters at the November 2012 general election*:

Non-resident Tuition—Academic Year Starting 2013-2014

	Quarter Term	Semester Term
Nonresident Tuition Per Unit Charge:	\$266	\$399

The supplemental tuition paid per term shall be determined by multiplying the number of units taken by the charge per unit in accordance with this schedule. There is no academic year maximum for the amount of supplemental nonresident tuition.

RESOLUTION No. 3—Modification to the Schedule of Fees

RESOLVED, By the Board of Trustees, that the following student fees are approved effective fall 2013, and until further amended:

- 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.

The Chancellor shall take such actions as deemed necessary to implement the above fees for fall 2013, including communications to students, the establishment of appropriate rules and exceptions, and the establishment by campuses of appropriate appeals processes to address unforeseen individual circumstances. No student shall be assessed more than one of the three above fees for the same course.

COMMITTEE ON FINANCE

Planning for the 2013-14 Support Budget Request

Presentation By

Benjamin F Quillian
Executive Vice Chancellor & Chief Financial Officer
Business & Finance

Robert Turnage
Assistant Vice Chancellor for Budget

Summary

As part of the preparation of the CSU support budget request for the governor's 2013-14 budget, the Board of Trustees will be provided with an overview of the state's fiscal condition and budget challenges for the upcoming fiscal year. The board will be presented with preliminary assumptions for purposes of crafting a budget request to the governor that will come back to the board for review and approval in November.

2013-14 State Budget Overview

The State Constitution requires the submittal of the Governor's budget proposal each year by January 10, and in order to meet the consequent deadlines for the submittal of budget requests to the Department of Finance, it is necessary to commence planning for the requested CSU 2013-14 support budget.

The state may continue to experience fiscal challenges in 2013-14, even with the possibility of voter enactment of Proposition 30, the Governor's tax initiative. National and state economic recovery remains stubbornly sluggish. Moreover, there are growing concerns among many economists that the 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.

2013-14 CSU Support Budget—Preliminary Planning Approach

In this agenda item we share with the board a preliminary plan for the crafting of a support budget request for 2013-14 for the university. 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. Our planning approach is consistent with the instruction given by the Department of Finance that all state agencies should formulate budgets for the 2013-14 fiscal year with the assumption that Proposition 30 will be enacted by the voters. The opposite assumption is addressed in another Finance Committee agenda item. Our planning approach also assumes that the board will "roll back" tuition fee rates to the 2011-12 academic year levels, 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 would become effective in the 2013-14 fiscal year, if the board takes this action. Our planning approach treats this already enacted appropriation as part of the budget "baseline." 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.

Preliminary Expenditure Plan. The preliminary 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, either from the state or 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). Together, this would equal increased funding for 16,585 full-time equivalent students (FTES).

• Mandatory costs (health benefits, new space, energy)	\$50 million
• Compensation increase (3 percent "pool")	\$85 million
• Graduation Initiative/Student Success	\$58 million
• 5 % Enrollment Demand	\$155 million
• Urgent maintenance needs	\$30 million
• Information technology infrastructure upgrade/renewal	\$20 million
• Instructional equipment replacement	\$23 million
 Total ongoing expenditure change	 \$421 million

This preliminary expenditure plan would bring annual spending for support of the CSU to almost \$4.4 billion, including student fee revenues.

Preliminary Revenue Plan. The following preliminary plan for increased revenue would provide the resources needed to meet the preliminary expenditure plan.

Total State General Fund Increase **\$336 million**

Tuition Fees Revenue Adjustments:

- Net tuition fee revenue from enrollment growth **\$85 million**
- Change in enrollment mix (full-time and part-time, graduate and undergraduate, etc.) **(to be determined)**

Total Tuition Fee Revenue Increase **\$85 million**

Total Revenue Increase **\$421 million**

This preliminary 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 2013-14 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.

Estimated amounts for each item on the above lists may be revised, based on updated information, in the course of preparing the budget for the board's review and approval in November.

Conclusion

This is an information item, presenting a preliminary framework for the 2013-14 support budget request to the Department of Finance and governor. The board will be presented with an updated and detailed budget recommendation in November as an action item.

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 2013-14 is presented as an information item. The lottery revenue projection for 2013-14 is \$42 million. After setting aside \$3 million for CSU's systemwide reserve, \$39 million is available for allocation. The 2013-14 Lottery Revenue Budget request does not reflect an increase in projected support from fiscal year 2012-13.

Beginning CSU lottery reserves are \$3 million. CSU does not anticipate any additional carry forward funds in 2013-14 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.

2013-14 Lottery Budget Proposal

After setting aside the \$3 million beginning reserve, the \$39 million 2013-14 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 2013-14 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 in meeting special 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 2011-12, ninety-one percent of lottery allocations were spent on supplemental programs and services for students and faculty (Academic, Student Services, Library Services, and Financial Aid). The following table summarizes how lottery funds allocated for the 2011-12 fiscal year were expended.

2011-12 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	\$ 38,064,251	100.0%

The CSU lottery revenue budget proposed for 2013-14 is as follows:

2013-14 Proposed Lottery Revenue Budget

	2012-13 Adopted Budget	2013-14 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 3,000,000	\$ 3,000,000
Receipts	39,000,000	39,000,000
Total Revenues	\$ 42,000,000	\$ 42,000,000
<i>Less Systemwide Reserve</i>	<i>(3,000,000)</i>	<i>(3,000,000)</i>
Total Available for Allocation	\$ 39,000,000	\$ 39,000,000
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	503,000	531,000
	\$ 4,417,000	\$ 4,445,000
<i>Campus Based Programs</i>		
Campus Programs	\$ 29,583,000	\$ 29,555,000
Campus Early Start Financial Aid	\$ 5,000,000	\$ 5,000,000
	\$ 34,583,000	\$ 34,555,000
Total Uses of Funds	\$ 39,000,000	\$ 39,000,000

This item is for information only and an action item will be presented at the November 2012 meeting to adopt the 2013-14 lottery revenue budget.

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 \$17,855,000 in order to provide financing for two auxiliary projects. The board is also being asked to approve resolutions relating to these financings. 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 & Poor's as the existing Systemwide Revenue Bonds.

The projects are as follows:

1. CSU Fullerton Auxiliary Services Corporation—Western State University College of Law Acquisition Project

California State University, Fullerton, through CSU Fullerton Auxiliary Services Corporation (the "Corporation"), a recognized auxiliary organization in good standing at the campus, has the opportunity to purchase real property, commonly known as Western State University College of Law (the "Project"), adjacent to the campus. The purchase price will be \$18,250,000.

The Project was constructed in 1974 and is comprised of two office buildings of approximately 86,500 rentable square feet, together with related on-site parking of 290 spaces, on approximately 3.6 acres of land. The purchase price is supported by an appraised market value of \$18,250,000 as of August 2012. At the time of this write-up, the campus was conducting due diligence on the Project in compliance with the California State University requirements for real property acquisition. Final determinations on the Project's property condition inspection, seismic condition, ADA, etc., are expected to be completed by the time this item is presented to the board.

Under the terms of the transaction, the owner and seller of the Project, Education Management Corporation (EDMC) will continue to occupy and lease the Project from the Corporation for up to three years. Once the EDMC lease ends, the Corporation will then complete code upgrades and lease the Project to the campus and its college extension program, University Extended Education (UEE), for academic purposes, and will lease the Project parking to the campus parking program.

The financing plan calls for UEE to contribute \$5,000,000 from reserves as a down payment to partially fund the total purchase price. The remaining \$13,250,000 of the purchase price along with approximately \$200,000 in related acquisition costs will be financed through taxable commercial paper and Systemwide Revenue Bonds. Costs associated with bringing the Project up to CSU code standards are currently estimated at \$4 million and will be covered by corporation reserves. Because EDMC will continue to lease the Project for three years, the plan of finance calls for the Project to be financed with taxable commercial paper during that time. Once the Project is leased to the campus and UEE, tax-exempt bonds will be issued to refinance the Project on a long term basis. The bonds will be issued at a not-to-exceed par amount of \$14,005,000 to fund the remaining purchase price (\$13,250,000), related acquisition costs (estimated at \$200,000), and additional net financing costs (estimated at \$555,000). The bonds will be amortized on a level debt service schedule over 30 years, with maximum annual debt service of \$979,270. The bonds will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including rental and parking revenues generated by the Project. On July 19, 2012, the board of directors of the Corporation adopted a resolution authorizing the acquisition and financing of the Project.

Based on the financial plan, debt service coverage is projected at 1.53 for the Project and 1.38 for the auxiliary debt program in 2016-2017, the first full year of debt service repayment for the Project, compared to the CSU benchmark of 1.25. When combining the Project with 2010-2011 information for all campus pledged revenue programs and the campus' existing auxiliary debt program, the campus' overall debt service coverage is projected at 1.41 in 2016-2017, which exceeds the CSU benchmark of 1.35. The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 5.97%, reflective of adjusted market conditions as of August 2012 plus 150 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

2. San Diego Aztec Shops, Ltd. — College West Apartments Acquisition Project

On July 18, 2012, San Diego Aztec Shops, Ltd. (the "Corporation"), a recognized auxiliary organization at San Diego State University, closed escrow on the purchase of a privately-owned, four-story apartment building located on a 0.71-acre parcel of land adjacent to the northwestern portion of the campus, currently known as College West Apartments (the "Project"). The Project

acquisition supports the goal of the university's master plan by expanding the current portfolio of affordable student housing apartments owned and operated by the Corporation.

The Project was appraised at a market value of \$4,450,000 as of June 6, 2012. The building was constructed in 1962, and includes 25 apartment units (23,214 rentable square feet) along with 28 parking spaces. On August 9, 2012, Capital Planning Design and Construction administratively approved a due diligence summary report prepared by the university which satisfactorily addressed California State University requirements for real property acquisition.

The Corporation utilized its own reserves to initially fund \$4,980,000 in total project costs, comprised of the \$4,750,000 purchase price plus \$230,000 in related 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 remaining 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 to fund the \$3,530,000 plus additional net financing costs estimated at \$320,000. The bonds will be amortized on a level debt service schedule over 30 years, with maximum annual debt service of \$254,600. The bonds will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including rental receipts generated by the Project. On April 27, 2012, the board of directors of the Corporation adopted a resolution authorizing the acquisition and financing of the Project.

Based on the financial plan, debt service coverage is projected at 1.17 for the Project and 1.26 for the auxiliary debt program in 2014-2015, the first full year of debt service repayment for the Project, compared to the CSU benchmark of 1.25. In 2016-2017, the Project's debt service coverage is projected to reach 1.25 and meet the benchmark, with improving coverages thereafter. When combining the Project with 2010-2011 information for all campus pledged revenue programs and the campus' two existing auxiliary debt programs, including the Corporation and San Diego State University Foundation, the campus' overall debt service coverage is projected at 1.87 in 2014-2015, which exceeds the CSU benchmark of 1.35. The not-to-exceed amount and debt service on the bonds is based on an all-in true interest cost of 5.30%, reflective of adjusted market conditions as of August 2012 plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting for the projects described in this agenda item that authorize interim and permanent financing. The proposed resolutions will be distributed at the meeting and will achieve the following:

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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 \$17,855,000 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 projects as described in this Agenda Item 4 of the Committee on Finance at the September 18-19, 2012, meeting of the CSU Board of Trustees is recommended for:

CSU Fullerton Auxiliary Services Corporation—Western State University College of Law Acquisition Project

San Diego Aztec Shops, Ltd. — College West Apartments Acquisition Project