

AGENDA

COMMITTEE ON FINANCE

Meeting: **11:15 a.m., Tuesday, September 20, 2016**
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of July 19, 2016

1. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Project at California State University, Sacramento, *Action*
2. 2017-2018 Lottery Budget, *Information*

Discussion Items

3. Planning for the 2017-2018 Support Budget, *Information*
4. Final Approval of a Public-Public Partnership Project for the Development of a Public Charter School at California State University, Monterey Bay, *Action*
5. California State University Annual Investment Report, *Information*
6. Presentation on Debt Management at the California State University, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE**

**Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

July 19, 2016

Members Present

Peter Taylor, Chair
Debra Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Lupe C. Garcia
Hugo N. Morales
John Nilon
Lateefah Simon
Rebecca Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order, noting that there were no public speaker requests.

Approval of Minutes

The minutes of the March 8, 2016 and May 24, 2016 were approved as submitted.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for projects at California State Polytechnic University, Pomona, California State University, San Bernardino, San Diego State University, and California State University, Monterey Bay

Trustee Taylor presented agenda item 1 as a consent action item. The committee recommended approval of the proposed resolution (RFIN 07-16-08).

Conceptual Approval of a Public-Private Partnership to Develop a Sports Complex Project at California State University, Monterey Bay

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, introduced the item. President Eduardo Ochoa provided an overview on the multi-purpose sports and events facility and described the benefits to the campus and its students. Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management provided key details of the project.

In response to Trustee John Nilon's inquiry, Mr. Eaton replied the developer is responsible for all financing costs, and, in the event the developer failed to complete the project, the financing entities may find a replacement developer or they may foreclose the project at their cost.

Trustee Lupe Garcia requested additional information about the developer's incentive in building and operating the project. Mr. Eaton replied that the developer will be able to bring in third-party events to generate revenue as part of their management plan. President Ochoa added that the developer sees a need for an event facility in the area and is willing to negotiate with the campus on favorable terms as long as it makes financial sense for them.

Trustee Lillian Kimbell inquired if there would be any additional fees for students to use the facilities and Mr. Eaton replied that there will not be any additional fees.

Chancellor White pointed out that this project is a good example of public-private partnerships and aligns with the recommendations of the Task Force for a Sustainable Financial Model.

The committee recommended Conceptual Approval of a Public-Private Partnership to Develop a Sports Complex Project at California State University, Monterey Bay (RFIN 07-16-09).

Report on Banking and Investments at the California State University

Mr. Relyea introduced an item on how the CSU's banking operations are structured and managed, and how funds are invested. Mr. Eaton described how the university's financial resources are managed centrally by Treasury Operations in the Chancellor's Office to ensure optimal utilization and effective stewardship of available funds and explained the benefits of that centralized cash management approach.

In addition, Mr. Eaton provided an update on the investment legislation that will allow the CSU to modestly increase earnings and how to utilize those additional funds for capital needs. He reported that the proposed legislation received support from the State Treasurer in April and then passed unanimously in the Senate in late May. The bill is currently in the Assembly and if passed there it would be signed by the Governor, perhaps in September.

Trustee Garcia requested more information on the competitive bidding process in selecting the investment firms. Mr. Eaton replied that the regular process is to issue a request for proposals (RFP) approximately every five years. If the legislation is passed, an RFP will be issued to select key partners to help manage the new portfolio that takes advantage of these new investment authorities. In addition, there would still be funds in the SWIFT portfolios and additional RFPs will be issued for its management. Trustee Taylor pointed out that if the legislation is passed, there will be two simultaneous paths – one to select managers with different talents, skills, and experience through the RFP process to administer and manage the funds, while the Board will make policy decisions on such matters as asset allocation, risk tolerance and conflicts of interest issues.

Trustee Adam Day inquired about the current rate of return versus year one, two, and three that the new portfolio might return. Mr. Eaton responded that the target rate of return for the new portfolio would be between three and five percent, while the existing portfolio last year earned 0.86 percent. The expected additional earnings in the first year of the new portfolio would be in the \$2 million to \$4 million range for every \$100 million of funds invested.

Trustee Jane Carney inquired on the process for selecting members of the independent advisory committee. Trustee Taylor proposed that he along with Mr. Relyea and Mr. Eaton draft a proposal for the committee formation, membership, and responsibilities for board discussion in November.

Report on the 2016-2017 Support Budget

Mr. Ryan Storm, Assistant Vice Chancellor for Budget, provided information on the Trustees' support budget request for the 2016-2017 fiscal year and the state's final budget decisions related to that request.

Chancellor White shared his perspective on this year's budget allocation and the need for resources to fully fund the CSU.

Trustee Douglas Faigin asked why some segments of the state rose this year, while the CSU's allocation went down. Mr. Storm explained that there are some statutory and constitutional requirements that drive funding in certain areas and higher education is a discretionary investment for the state. Chancellor White responded that some analytical work must be done to explain the subtle difference, while fairly small, in the funding between the CSU and UC.

Chair Rebecca Eisen expressed interest in the amount allocated to Student Success initiatives. Chancellor White replied that over the last three years, the CSU has made progress and permanently added \$47.4 million to the base budget for student success programs but it is still underfunded.

Trustee John Nilon shared his thoughts about using one-time funds for on-going costs related to the employee compensation pool.

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

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

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long-term Systemwide Revenue Bond (SRB) financing and the issuance of bond anticipation notes (BANs) to support interim financing under the commercial paper (CP) program in an aggregate amount not-to-exceed \$45,900,000 to provide financing for the California State University, Sacramento University Union Renovation and Expansion, Phase I project.

The board is being asked to approve resolutions related to this financing. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

Background

The SRB program provides capital financing for projects of the California State University – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

Prior to issuance of bonds, some projects are funded through BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than would be available with long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

California State University, Sacramento University Union Renovation and Expansion, Phase I

The California State University, Sacramento University Union Renovation and Expansion, Phase I project was approved by the board for amendment of the Non-State Capital Outlay program in September 2015 and is being presented for schematics approval at the September 2016 meeting of the Committee on Campus Planning, Buildings and Grounds. The approximately 71,800 gross square foot project involves the renovation of the existing University Union, a partial demolition of the structure, and construction of a three-story addition. In addition to creating a main entrance on the northeast corner, the project will provide informal recreation space, student offices, group meeting rooms, special event space, food service, and casual seating to accommodate the growing campus population. The project will be funded from student body center fees, under the student union program.

The not-to-exceed par amount of the proposed bonds is \$45,900,000 and is based on a total budget of \$53,181,000 with a student union reserve contribution of \$11,850,000. Additional net financing costs, such as capitalized interest and cost of issuance estimated at \$4,569,000 are expected to be funded from bond proceeds. The project is scheduled to start construction in March 2017 with completion expected in August 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$45,900,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$2,997,906
Projected debt service coverage including the new project: Net revenue – Sacramento pledged revenue programs: ¹	1.67
Net revenue – Projected for the campus student union program:	1.46

1. Combines 2014-2015 information for all campus' pledged revenue programs and projected 2019-2020 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.25 percent, reflective of adjusted market conditions plus 1.00 percent 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 student union program net revenue debt service coverage of 1.46 in 2019-2020, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 for a campus.

Trustee Resolutions and Recommendation

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. 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/or 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 \$45,900,000 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 assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 1 of the Committee on Finance at the September 20-21, 2016, meeting of the CSU Board of Trustees is recommended for:

California State University, Sacramento University Union Renovation and Expansion, Phase I

COMMITTEE ON FINANCE

2017-2018 Lottery Budget

Presentation By

Ryan Storm
Assistant Vice Chancellor
Budget

Background

On November 6, 1984, California voters approved Proposition 37, known as the California Lottery Act. The Lottery Act allows for the expenditure of lottery receipts for public education. To date, the California State University (CSU) has received \$1.13 billion from the state on the basis of total full-time equivalent students, which equals approximately 3.7 percent of all lottery funds distributed for educational purposes. Over the past five years, annual CSU Lottery Fund receipts have averaged \$45 million.

The Lottery Act states that funds are “exclusively for the education of pupils and students” and that no funds be used for non-instructional purposes, such as the acquisition of real property, construction of facilities, or financing research. To that end, the CSU has adopted guidelines to ensure that lottery funds are used only in support of instruction or instructionally-related purposes.

Each year, the CSU Board of Trustees adopts a systemwide lottery budget that incorporates CSU guidelines and adheres to Lottery Act provisions. The plan includes estimates CSU lottery receipts for the budget year and the program areas for allocation of those receipts, including an expenditure allowance for the general management of lottery fund operations and reporting requirements. Approximately 90 percent of anticipated lottery receipts are allocated directly to campuses for instructionally-related programs and activities. Remaining funds are allocated for CSU programs that assist student education across the system, such as the Summer Arts, Pre-Doctoral, Doctoral Incentive, and DREAM Loan programs. The Chancellor’s Office uses only about 1.5 percent of lottery resources to centrally manage lottery fund operations and meet reporting requirements.

The board has delegated to the chancellor oversight of the lottery budget, including the deposit, control, investment, and expenditure of lottery funds. The CSU prepares a formal report on lottery fund revenues and expenditures each May for the Governor and Legislature.

Summary

This agenda item reports actual lottery fund expenditures for 2015-2016 and provides a preliminary lottery budget for 2017-2018 in advance of the final lottery budget proposal in November 2016.

2017-2018 Lottery Budget Proposal

Total lottery receipts available to the CSU in 2017-2018 are estimated to be \$50.5 million. After setting aside \$5 million as a reserve to assist with cash-flow variations in quarterly lottery receipts and other economic uncertainties, the \$45.6 million 2017-2018 lottery budget proposal remains principally designated for campus-based programs and three systemwide programs that have traditionally received annual lottery funding support. A fourth systemwide program, the newly-created DREAM Loan program, was initially funded with \$1 million in 2016-2017 and \$1 million is again proposed for 2017-2018. The proposed budget also increases funding for the CSU Summer Arts Program by \$300,000 for additional operating expenses and program expansion, as it relocates from CSU Monterey Bay back to CSU Fresno. The proposed budget also includes a \$92,000 increase for administration of the Lottery Fund and administration of systemwide programs.

Systemwide Programs

Approximately \$6 million is allocated to the four systemwide programs and administration costs:

- DREAM Loan Program (\$1.0 million) provides loans to students who satisfy specified academic, enrollment, and high school graduation requirements.
- Chancellor's Doctoral Incentive Program (\$2.0 million) provides financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU.
- California Pre-Doctoral Program (\$814,000) supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages.
- CSU Summer Arts Program (\$1.5 million) offers academic credit courses in the visual, performing, and literary arts.
- Administration of Lottery Fund & System Programs (\$699,000) provides Lottery Fund and program administration functions.

Campus-Based Programs

The remaining \$39.6 million in 2017-2018 lottery receipts will continue to be used for campus-based programs (\$31.6 million) and for Early Start Program fee waivers (\$8.0 million). Campus-based program funding is undesignated and allows presidents flexibility in meeting unique campus needs. Traditionally, projects receiving lottery funds have included the replacement and purchase of new instructional equipment, curriculum development, and scholarships. Early Start Program

funds provide campus-based financial aid as need-based fee waivers to ensure that student financial hardship is not a barrier to enrollment in the Early Start summer curriculum. The program serves first-time freshmen students who need additional college preparation in math and/or English and take courses during the summer term prior to matriculation at any of the CSU campuses.

The CSU Lottery Budget proposed for 2017-2018 is as follows:

2016-2017 Adopted and 2017-2018 Proposed Lottery Budget			
	2016-17 Adopted Budget	2017-18 Proposed Budget	
Sources of Funds			
Beginning Reserve	\$ 5,000,000	\$ 5,000,000	
Receipts	44,163,000	45,565,000	
Total Revenues	\$ 49,163,000	\$ 50,565,000	
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>	
Total Available for Allocation	\$ 44,163,000	\$ 45,565,000	
Uses of Funds			
<i>System Programs</i>			
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000	
California Pre-Doctoral Program	814,000	814,000	
CSU Summer Arts Program	1,200,000	1,500,000	
DREAM Loan Program	-	1,000,000	
	\$ 4,014,000	\$ 5,314,000	
<i>Campus-Based Programs</i>			
Campus Programs	\$ 31,542,000	\$ 31,552,000	
Campus Early Start Financial Aid	8,000,000	8,000,000	
	\$ 39,542,000	\$ 39,552,000	
<i>Lottery Fund & System Programs Administration</i>	<i>\$ 607,000</i>	<i>\$ 699,000</i>	
Total Uses of Funds	\$ 44,163,000	\$ 45,565,000	

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In 2015-2016, similar to prior years, the vast majority of lottery funds were spent on instructional and instructionally-related programs and services to supplement the CSU operating budget. The following table summarizes how lottery revenues were spent in 2015-2016, which also includes funds available from prior years:

2015-2016 Lottery Expenditure Report		
Program Support Area	Expenditures	Percentage of Total Expenditures
Academic Programs and Support	\$20,956,326	38.8%
Library Services	12,731,224	23.7%
Student Services	7,455,596	13.9%
Administration & Reporting	2,523,006	4.7%
Financial Aid	10,157,146	18.9%
Total	\$53,823,298	100.0%

Note: The amount included in the table for lottery administration in 2015-16 includes both Chancellor's Office and campus costs.

Carry forward balances in 2015-2016 were used to fund several systemwide and campus programs, such as library services, early assessment program support, and technology initiatives.

Conclusion

The lottery budget proposal for 2017-2018 is an information item. An action item will follow at the board's November 2016 meeting.

COMMITTEE ON FINANCE

Planning for the 2017-2018 Support Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Summary

The California State Constitution requires the submittal of the governor's budget proposal each year by January 10. In order to meet consequent deadlines of the Department of Finance, it is necessary to commence planning for the 2017-2018 California State University Support Budget. The CSU Board of Trustees will be provided preliminary assumptions for purposes of crafting the 2017-2018 budget request to the governor. The final budget request will be presented to the board for review and approval in November 2016.

State Budget Overview

Significant tax revenues produced by Proposition 30 and ongoing economic recovery have allowed the state to continue to invest in public higher education. Specifically, it is estimated that state tax revenues will have increased by \$33.2 billion (or 38 percent) between the recession low point in 2011-2012 and the current fiscal year 2016-2017. Also, the economic recovery allowed the state to set aside \$8.5 billion in operating reserves and retire \$1.3 billion of operating debt in 2016-2017. The CSU has benefited from the state's recovery with permanent, unallocated general fund increases of \$637.8 million over the last four years. Had the state chosen to invest more in the CSU during this period, the state could have reaped greater civic and economic benefits than experienced over the past several years.

While the state has made significant strides on the path to economic recovery, significant expenditure obligations and risks persist. The state is challenged by long term debts, deferrals, and budgetary obligations in excess of \$200 billion, according to estimates by the Department of Finance. Examples of these obligations include health and pension costs for state employees and teachers and state property deferred maintenance. While the state's economy is growing, capital gains taxes make up a significant portion of the state budget revenue picture and because this revenue source is highly volatile it causes dramatic swings in state revenue from one year to the next.

The message on the near term economy is mixed. If the state's economic expansion continues, revenues could grow by five percent in 2017-2018 but slow to two percent in 2018-2019 and 2019-2020, according to projections by the Legislative Analyst's Office. Separately, the Department of Finance estimates more modest revenue growth of three percent in 2017-2018, one percent in 2018-2019, and three percent in 2019-2020. Under these assumptions, the outlook over the next three fiscal years ranges from continued modest investment in higher education to the potential for additional growth. However, it is widely recognized by economists that the average length of an economic expansion is five years with the longest expansion being ten years. The current period has seen expansion over seven years. The expectation of a downturn in economic growth sometime in the next one to three years would have a negative impact on the state general fund and the state's ability to continue to invest in CSU students.

The Governor's Funding Plan for CSU

In January 2013, Governor Brown's budget proposal included a four-year plan to provide funding stability to CSU and the University of California (UC). This multi-year plan called for state funding increases totaling \$511 million to each university system and required no tuition increases between 2013-2014 and 2016-2017. Recognizing that both CSU and UC endured state funding reductions in equal dollar amounts during the recent fiscal crisis and that an ongoing investment in higher education is important to the vitality of the state's economy, the governor's administration has since added additional years and new permanent funding commitments. The cumulative, potential increase to CSU occurs in annual increments as follows (actual funding provided by the state noted in parenthesis):

- \$125.1 million in 2013-2014 (provided by the state)
- \$142.2 million in 2014-2015 (provided by the state)
- \$119.5 million in 2015-2016 (\$216.5 million provided by the state)
- \$139.4 million in 2016-2017 (\$154 million provided by the state)
- \$157.2 million in 2017-2018
- \$136.5 million in 2018-2019
- \$142.0 million in 2019-2020
- Cumulative, potential increase in CSU funding = \$961.9 million

Although the legislature never formally adopted this multi-year plan, it did approve the first and second year increases of \$125.1 million and \$142.2 million, and, with the governor's agreement, went above and beyond in the third year to fully fund the CSU support budget request of \$216.5 million, and provided \$154 million in 2016-2017. If the increases through 2018-2019 remain at the actual and proposed levels, the new seven-year total would be \$961.9 million.

This is very close, but still short of the cuts totaling approximately one billion dollars from 2008-2009 through 2011-2012.

Early Estimates are that CSU Support Budget Request Will Exceed State Plan for 2017-2018

The preliminary 2017-2018 budget plan would allow the CSU to dedicate funds to Graduation Initiative 2025 priorities, meet its mandatory cost obligations, fund compensation and grow full-time equivalent student (FTES) enrollment by one percent. Additionally, progress can be made on infrastructure and deferred maintenance needs.

The governor's funding plan would provide a \$157.2 million increase in 2017-2018. Under the most likely of scenarios, the governor's funding plan would only afford the CSU the opportunity to fund required current employee compensation commitments and other mandatory cost increases and would not be enough to permanently invest in Graduation Initiative 2025, infrastructure, and FTES enrollment growth.

At this early stage, the state's funding plan does not include sufficient resources to meet the CSU preliminary budget plan. As a result, additional resources above the governor's funding commitment would be required. Three potential options exist: (1) increased state funding from the governor and legislature, (2) increased tuition revenue, and (3) campus budget reductions. The Chancellor's Office will engage in continued consulting with students, faculty, staff, campus executives, the state, and other CSU stakeholders to explore alternatives for balancing budget priorities and necessary resources.

2017-2018 CSU Support Budget—Preliminary Planning Approach

This preliminary plan is to begin the discussion of a support budget request for 2017-2018. The planning approach represents a credible statement of the university's key funding needs. At this stage, it is important for the board to provide input on fiscal policy priorities for 2017-2018.

The preliminary incremental budget request and expenditure plan is summarized on the following page. These estimated recurring amounts are approximate and would add to our 2016-2017 base budget of \$5.4 billion.

Proposed Incremental Expenditures:

• Graduation Initiative 2025	\$75.0 million
• Full-Time Equivalent Student Growth: 3,600 FTES	\$40.0 million
• Compensation: Current Commitments	\$140.0 million
• Compensation: New	\$55.0 million
• Facilities and Infrastructure Needs	\$10.0 million
• Mandatory Costs	\$26.0 million
Total Incremental Expenditures	\$346.0 million

Anticipated Revenue

• General Fund Revenue from Governor's Funding Plan	\$157.2 million
• Net Tuition from Enrollment Growth	\$20.0 million
Total Anticipated Revenue	\$177.2 million

Preliminary Support Budget Request	\$168.8 million
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Graduation Initiative 2025

Under the preliminary plan, the CSU will continue to invest in people, programs, technologies, and strategies that have demonstrated success in improving graduation rates, shortening time-to-degree, and eliminating achievement gaps. Each campus has developed multi-year plans to reach their Graduation Initiative 2025 goals that will require multi-year investments across the system in: tenure track faculty hiring, increased course taking opportunities, enhanced advising and education plans, academic and student support, and leveraging data for campus decision-making. Over the course of this first year of the Graduation Initiative 2025, campuses will plan to spend at least \$75 million on their local priorities to improve student success and completion with particular focus on those efforts that improve 4-year graduation rates for first time freshmen and 2-year graduation rates for transfer students.

Full-Time Equivalent Student Enrollment Growth

Over 830,000 undergraduate applications were submitted to CSU campuses for Fall 2016, an increase of over 40,000, or nearly five percent, over the prior year. In spite of this, state budget cuts during the recession continue to have repercussions that constrain the ability of the CSU to admit and enroll every new eligible applicant. Access to education and the preparation of the state's future workforce depends on the state investing in the CSU.

The proposed expenditure plan to support enrollment represents a one percent increase in full-time equivalent students (FTES). This increase would allow for growth in the average unit load for continuing students in support of graduation rate goals, and a steady number of students admitted and served. The costs of accommodating additional enrollment are covered by additional tuition revenue from new students and state general fund. For planning purposes, a one percent increase in enrollment would cost approximately \$40 million and would allow for growth of approximately 3,600 FTES.

Employee Compensation: Current Commitments

This component has two parts. First, collective bargaining agreements and commitments to non-represented employee groups total an estimated \$107 million for 2017-2018. Second, \$33 million of collective bargaining agreement costs were covered by one-time funding in 2016-2017. The preliminary plan for 2017-2018 converts the \$33 million of one-time funding into recurring funding to cover these ongoing costs.

Employee Compensation: New

This item would conditionally commit \$55 million for collective bargain units with open contracts in 2017-2018, pending final agreements with collective bargaining units. This amount includes a commitment for non-represented employee groups.

Facilities and Infrastructure Needs

There are numerous examples on every CSU campus of academic and plant facilities that are in need of repair or replacement. The systemwide state-supported deferred maintenance backlog will be reduced to approximately \$2.0 billion once funded projects are completed. The previous support from the state of one-time and recurring funds has enabled a reduction in the backlog from \$2.6 billion to \$2.0 billion. This is good progress, but, unfortunately, the backlog will grow by approximately \$150 million per year as facilities continue to age and due to the partial funding of the support budget request in 2016-2017. Unlike 2013-2014 and 2014-2015, the CSU was not able to dedicate new permanent funding for annual debt service on longer-term bond-financed projects due to the 2016-2017 funding level. Instead, the university is utilizing \$25 million from 2015-2016 and \$35 million from 2016-2017 of one-time state funding to address the CSU's most urgent facility maintenance and infrastructure needs.

Under estimated bond market conditions, dedicating \$10 million of recurring funds in 2017-2018 would finance approximately \$150 million of needed infrastructure projects. This would roughly keep pace with the aging infrastructure, but would not reduce the backlog. Also, the CSU continues to look to other ways to fund its infrastructure needs and we will keep the board informed on ways to do so.

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Agenda item 1 of the September 20-21, 2016 joint meeting of the Committees on Finance and Campus Planning, Buildings and Grounds includes the draft priority list for the 2017-2018 Capital Outlay program. The list prioritizes critical infrastructure and utility renewal projects and facility renovation to support the academic program needs. The addition of \$10 million in recurring funds would enable the CSU to fund limited capacity student growth to complement the plan to address deficiencies in existing facilities. The CSU continues to refine the planning and financing process in light of the increased capital financing authority granted in 2014.

The CSU would separately request \$50 million from the state to further address the deferred maintenance backlog and \$25 million of cap and trade funds to implement greenhouse gas and energy reduction projects.

Mandatory Costs

Funds would be used to meet anticipated mandatory costs that the university must pay regardless of available state allocation. There is little to no discretion over these costs, which include recent increases to employee benefits, operations and maintenance of newly-constructed space, as well as new costs associated with state and federal wage laws. Without funding for mandatory cost increases, campuses would have to redirect resources from other program areas to meet obligations. Setting aside funding for mandatory costs helps preserve the integrity of CSU programs.

Preliminary Revenue Plan

The preliminary expenditure plan continues to addresses many of the CSU's educational and operational needs. But if required to do so, it would be exceedingly difficult for the CSU to operate within the confines of the governor's funding plan without receiving additional resources. Increased mandatory costs and current compensation commitment costs together would cost approximately \$166 million—more than the \$157.2 million available from the governor's funding plan. Without additional revenue, this could require strategies that include reductions to campus budgets and minimal investment in Graduation Initiative 2025 activities, FTES enrollment growth, and infrastructure. This scenario would not serve prospective and current student needs, would not address the deferred maintenance and critical infrastructure backlog, and would not sustain fiscal stability within the CSU.

At this preliminary stage, the planning effort focuses on stating the CSU's budget priorities and needs. Accounting for enrollment growth revenue and the governor's funding commitment of \$157.2 million, these recommended items would require additional new ongoing revenues from state and tuition revenue sources of roughly \$168.8 million.

A more detailed information item on revenue will be discussed at the November 2016 meeting.

Conclusion

This is an information item presenting a preliminary framework for the 2017-2018 CSU Support Budget request to the governor and the Department of Finance. Estimated amounts for each item may be revised based on updated information in the course of preparing the budget for the board's review and approval. The board will be presented with an updated and detailed support budget recommendation in November 2016 as an action item.

COMMITTEE ON FINANCE

Final Approval of a Public-Public Partnership Project for the Development of a Public Charter School at California State University, Monterey Bay

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Eduardo Ochoa
President
California State University, Monterey Bay

Summary

At its November 2015 meeting, the California State University Board of Trustees approved a conceptual plan for the development of a public charter school on the campus of California State University, Monterey Bay. This item requests final approval from the board authorizing the campus to enter into a ground lease and final development agreements with Monterey Bay Charter School (“MBCS”).

Background

MBCS is an independent charter school operating at two sites on the Monterey Peninsula, with its main campus located in the City of Pacific Grove and three kindergarten classes in the City of Seaside. As a County-authorized public school serving families from various surrounding cities, MBCS is challenged by the need for larger and newer classroom facilities located on a central site within the County.

The proposed development of a new MBCS is to be located at the southeastern corner of the CSU Monterey Bay campus. The site is surrounded by Butler Street to the north, Colonel Durham Street to the south, Seventh Avenue to the east, and Sixth Avenue to the west. Thus, the site is defined as a single discrete block covering approximately 18 acres. The northern section of the site, approximately 12 acres, will be leased by the campus to MBCS at an initial market rate of \$0.36 per square foot or \$181,500 per year.

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The southern third of the MBCS site, approximately 6 acres, was conveyed to CSU Monterey Bay by the United States Department of Education (DOE) in 2003 as an educational Public Benefit Conveyance (PBC) with a 30-year use restriction. However, the use of such DOE-conveyed land for a charter school was deemed prohibitive and inconsistent with the terms of the PBC. To resolve this matter, the campus will undergo a process of abrogating the original conveyance of land by the DOE and in turn effecting a new conveyance free of such restrictions. MBCS has agreed to cover the cost of abrogation which is based on the fair market value of the restricted land less the costs of improvements made by the campus over the years on the property. Once the land use restriction is removed, the campus will lease the six acres to the MBCS for \$1.00 per year.

Project Description

The MBCS project consists of developing a K-8 grade school, on the southeastern portion of the campus, to accommodate up to 508 students. The project will be completed in phases, with long-term development dependent upon available funding. Phase I will involve the construction of three kindergarten classrooms, 16 classrooms for double-tracking grades 1-8, classrooms for Handwork and Music, workrooms for administration, teachers, and custodial staff, resource and remedial instruction rooms, and storage. In all, Phase I buildings will total approximately 29,000 square feet and, at their highest, will reach two-stories tall. Project completion is scheduled for the second half of the 2017-2018 school year.

The MBCS will be responsible for financing, design, construction, and management of the property during the term of the lease. The MBCS plans to obtain private funds for this project. No campus or auxiliary funds will be committed to the project.

Summary Agreement Terms

Key terms of the proposed agreement with the MBCS are as follows:

- A 50-year lease term(no extension options).
- MBCS will finance and construct the school utilizing a Design/Build method of project delivery.
- The lease with MBCS will be “triple net,” with the charter school paying for all operating costs (including taxes, if any) maintenance, and repairs. In addition, the MBCS will fully reimburse CSU Monterey Bay for all costs associated with University Police Department services and periodic use of CSU Monterey Bay facilities.
- Base rent has been established at \$181,500.00 per year.
- Rent commences at 25 percent of base rent until start of construction. The rent will rise to 50 percent of base rent for the duration of construction through final occupancy, at which point the rent will be 100 percent of base rent.
- Rent payments will be escalated at the end of the fourth year based on cumulative changes in the Consumer Price Index. The rent will then be escalated every four years thereafter.

- The property reverts to CSU Monterey Bay upon expiration of the ground lease and any exercised option. The campus has, at its discretion, the option of accepting the improvements or having MBCS return the property to its initial unimproved condition.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the development of the Monterey Bay Charter School on the campus of California State University, Monterey Bay as described in Agenda Item 4 of the September 20-21, 2016 meeting of the Committee on Finance is approved, and that the chancellor, the executive vice chancellor and chief financial officer, and their designees are authorized to execute the agreements necessary to complete the transaction.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item provides the annual investment report for fiscal year 2015-2016 for funds under the California State University Investment Policy.

Background

Most CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT) investment portfolio, 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 Fargo Asset 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. In order to facilitate certain expenditures, the CSU maintains small amounts of funds with the State that might otherwise be invested in the SWIFT portfolio. The Local Agency Investment Fund (LAIF) is used by the State Treasurer to invest local agency funds. Since 2014-2015, the CSU has not invested funds in LAIF. The year-end results for these two funds are reported in Attachment A.

The California State University Investment Policy in effect during fiscal year 2015-2016 is included as Attachment B.

Market Summary

The financial markets provided many challenges over the last fiscal year, including plunging oil prices, considerable economic slowdown in China, a dramatic rally in the U.S. dollar, uncertainty regarding possible Federal Reserve (Fed) increases in interest rates, and Great Britain's vote to

leave the European Union. While short-term volatility is likely, improvement in the domestic economy, and signs of lower risk abroad would support movement towards market stability in the last half of 2016.

For the fiscal year ending June 30, 2016, U.S. Gross Domestic Product grew 1.2 percent with solid contributions from consumer spending offset by declines in private investment, particularly in the energy sector due to the significant decline in oil and gas prices. Employment conditions continued to strengthen as the unemployment rate fell from 5.3 percent at the end of June 2015 to 4.9 percent at the end of June 2016. Nonfarm payrolls added a healthy 2.5 million jobs in the fiscal year. Inflation remained below the Fed's 2 percent target range.

In December 2015, the Fed increased the federal funds rate of 0.25 percent to a target range of 0.25 - 0.50 percent, eight years to the month since it first lowered rates to the 0.0 - 0.25 percent range. The Fed continues to re-invest all principal proceeds from its investment portfolio in order to maintain the size of its balance sheet. The June 23, 2016 vote for Great Britain to leave the European Union convinced investors that global central banks would remain accommodative to support economic and financial market stability.

Credit market conditions were fairly volatile in the fiscal year, with significant credit spread widening in late 2015 through 2016, due to weak commodity/oil prices and instability in the energy and mining sectors. Companies continued to explore merger, acquisition, and share buyback strategies with less focus on using funds to invest in production activities. Servicing debt is a challenge as they leverage their balance sheets for the benefit of shareholders—all of which eroded credit quality. In general, market liquidity was adequate during the year, but has become more highly correlated with current financial conditions as the ability of Wall Street banks to be reliable market intermediaries is more limited due to regulatory changes.

Investment Account Performance

As of June 30, 2016, the outstanding balance in the SWIFT portfolio totaled \$3.53 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the California State University Investment Policy and state law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2016, the SWIFT portfolio's holdings by asset type were as follows:

US Treasuries	22.00%
US Government Agencies	31.89%
Corporate Securities—Long Term	16.86%
Corporate Securities—Short Term	<u>29.25%</u>
	100.00%

The SWIFT portfolio provided a return of 1.18 percent during the 12 months ended June 30, 2016. This return was greater than the benchmark for the portfolio, which is a treasury based index.

	<u>SWIFT</u> <u>Portfolio</u>	<u>SWIFT</u> <u>Benchmark</u> ¹	<u>LAIF</u> ²
1 Month Return	0.38%	0.44%	N/A
3 Months Return	0.42%	0.41%	0.14%
12 Months Return	1.18%	1.01%	0.43%
Annualized Return since SWIFT Inception	1.35%	1.76%	1.04%

For the year ended June 30, 2016, investment management and custodial fees totaled just under \$1.8 million, or about 0.048 percent (4.8 basis points) on average outstanding balances throughout the year.

Update on Proposed California State University Investment Authority Legislation

As previously presented to the board, staff has been working with key partners in the Assembly, the Senate, the Department of Finance, and the State Treasurer's Office to change the legislation that governs the CSU investments. Because fixed income securities have generated low returns for the CSU over a number of years, the goal of the legislation is to provide the CSU with more investment options and increase earnings on its existing base of funds. This potential for additional revenues would enhance the CSU's ability to address its deferred maintenance and critical infrastructure backlog.

The proposed legislation has received support from the State Treasurer, was approved by the Senate in May 2016, was approved by the Assembly in August 2016, and is now with the Governor pending possible approval.

¹ Bank of America Merrill Lynch 0-3 Year Treasury Index

² LAIF investment returns are provided for reference only

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 Certificates of Deposit and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of fiscal year ended (FYE) June 30, 2016, the amount of CSU funds invested in SMIF was approximately \$133 million.

SMIF Performance	Quarterly Apportionment Yield Rate
Apportionment Annualized Return	FYE 06/30/07 - FYE 06/30/16

FYE 06/30/16	0.42%	Average	1.44%
FYE 06/30/15	0.26%	High	5.24%
		Low	0.22%

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, 2016 there were no CSU funds invested in LAIF.

LAIF Performance	Quarterly Apportionment Yield Rate
Apportionment Annualized Return	FYE 06/30/07 - FYE 06/30/16

FYE 06/30/16	0.43%	Average	1.45%
FYE 06/30/15	0.27%	High	5.25%
		Low	0.23%

The California State University Investment Policy

The following investment guidelines have been developed for use when investing California State University (CSU) funds.

Investment Policy Statement

The objective of the investment policy of the 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 the chancellor and his designees with the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, the chancellor and his designees 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 CSU funds, the primary objective of the CSU shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the CSU. The third objective shall be to return an acceptable yield.

Investment Authority

The CSU 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;

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- 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 CSU 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 reverse repurchase agreements to unencumbered securities already held in the 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

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 the CSU, including market values.

(Approved by the CSU Board of Trustees in January 1997; and as amended in September 2011 and November 2013)

COMMITTEE ON FINANCE

Presentation on Debt Management at the California State University

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Summary

This item provides information to the California State University Board of Trustees regarding the management of debt at the California State University. Although the CSU has modest amounts of outstanding debt in the form of residual State Public Works Board Bonds, equipment financing, and one stand-alone auxiliary bond, this report shall focus on the Trustees of the California State University Systemwide Revenue Bond (SRB) program and its associated commercial paper (CP) and shorter term debt programs in making optimal use of the CSU's limited debt capacity at the lowest possible risk-adjusted cost of capital to meet the CSU's capital priorities.

Debt Policy

The board's CSU Policy on Financing Activities, RFIN/CPBG 11-14-01 included herein as Attachment A sets forth the authorities and principles that serve as the basis for the management of debt at the CSU. Key provisions of this policy are as follows:

- Delegates authority to the chancellor to establish procedures for the implementation of debt policy and the management of debt consistent with the board's objectives for the use of debt.
- Establishes that CSU and auxiliary projects shall be financed through a structure supported by a broad, systemwide, multi-source revenue pledge.
- States that the long term debt programs of the CSU shall be managed to credit rating standards in the "A" category, at minimum.
- Provides for the prudent use of variable rate debt or commercial paper to lower the overall cost of debt.

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In turn, the chancellor has established procedures for the implementation of debt policy and the management of debt through the issuance of Executive Order 994, included herein as Attachment B which defines the SRB program and the procedures and financial standards for its use in financing capital projects. This executive order is presently under review and pending possible revision, primarily in response to State legislation passed in July 2014 that has affected the CSU's capital financing programs and required new approaches to capital financing at the CSU. Key revisions to Executive 994 that are under consideration are as follows:

- Changes to the financial benchmarks used to evaluate the financial viability of a project and support presentation to the board for financing approval.

The current financial benchmarks were established for and focused on campus projects and programs that generate revenue (e.g. housing, parking, certain auxiliary projects) because historically the SRB program only financed those types of projects. However, with the passage of the capital financing legislation in 2014, the CSU is now responsible for utilizing operating funds and the SRB program to fund/finance deferred maintenance, critical infrastructure, and academic facilities. As such, the financial benchmarks used to evaluate the financial viability of a project may differ depending upon the type of project (i.e. revenue generating projects versus projects supported by operating funds allocated by the board) and may need to take into account the impact on all campus operations, as well as the system, particularly with respect to systemwide debt capacity.

- Requirement that all campuses contribute a minimum of 10 percent to the cost of a project.

By asking campuses to contribute cash to the cost of a capital project and moving away from 100 percent debt financing for projects, the CSU can make greater use of its limited debt capacity. The contribution can be in the form of cash reserves that have been built up specifically for the project or cash donated through fundraising efforts.

- Requirement that campuses annually plan for and reserve an amount at least equal to 10 percent of all annual campus and auxiliary debt service.

This reserve is designed to insulate campus operations from any unforeseen circumstances that might impact the ability to meet debt service payments during the year. If the reserve is not needed for this purpose during the year, then the funds can be utilized for one-time capital needs, or carried over to help meet the reserve requirement for the following year.

- Changes reflecting the addition of student tuition fee revenue to the SRB pledge that occurred with the refinancing of State Public Works Board bond debt in April 2016.

Existing Debt Management Structure and Key Characteristics

Systemwide Revenue Bond Program

The Systemwide Revenue Bond (SRB) program, under the provisions and authorities of The State University Revenue Bond Act of 1947 (Education Code Sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. The SRB program provides capital financing for projects of the CSU—student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the board. Revenues from these projects and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the bonds issued to finance the projects. Gross revenues from these projects and gross student tuition fee revenues are pledged on a consolidated basis to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

In April 2016, the CSU refinanced approximately \$773 million, or approximately 79 percent, of outstanding State Public Works Board bonds. As part of this transaction, the CSU issued \$250 million of three, five, and seven year notes to reduce the overall cost of the refinancing and diversify the debt instrument profile of the SRB program

As of June 30, 2016, the outstanding SRB debt of the CSU was approximately \$4.9 billion.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.68%
Weighted Average Maturity:	15.3 Years
Interest Rate Mix:	95% Long Term Fixed Rate 5% Short Term Fixed Rate

Commercial Paper Program

Since the inception of the SRB program, the CSU has issued CP as part of its overall debt management strategy. CP is comprised of short term notes that can be issued up to 270 days, although the CSU generally issues CP notes in the range of 30-90 days. Because of the short maturity of the notes, interest rates are lower than longer term debt and change with market conditions when the notes are reissued at maturity, thus the CP program is a form of variable rate debt. The CSU utilizes CP primarily as a bridge-financing mechanism to provide campuses with capital financing on projects until long term bonds are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by Bond Anticipation Notes (BANs), issued by the CSU. CP notes provide greater financing flexibility and lower short-term borrowing costs

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during project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

The CSU currently has a CP program in the amount of \$300 million, although both the board and the CSU Institute have authorized a CP program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in July 2017. As of September 1, 2016, outstanding CP was \$164 million at a weighted average interest rate of 0.55 percent.

Debt Capacity

Debt capacity—the amount of debt that the CSU may issue while still maintaining or pursuing certain strategic and organizational goals—continues to be a limited resource of the CSU. Debt capacity can be estimated based upon a number of quantitative factors (e.g. financial ratios) or qualitative factors (e.g. student demand), however, because of the number of variables and assumption involved, such calculation of debt capacity is only an estimate, and must be managed and monitored accordingly.

Based on the CSU's financial position as of June 30, 2015 and certain forward looking assumptions, staff estimates that the CSU has additional debt capacity of \$2.5 billion over the next five years thru 2021.

Potential Debt Management Options

While the CSU has utilized a CP program for many years to largely provide interim financing for projects until bonds are sold, historically, the CSU has issued almost exclusively long term, fully amortizing, fixed rate debt. This approach has served the CSU well, however, there are other debt instruments and structures that could potentially provide greater flexibility in managing debt and lowering the CSU's risk adjusted cost of capital.

Variable Rate or Shorter Term Debt

The primary benefit of issuing variable rate or shorter term debt is the lower cost of capital compared to long term, fixed rate debt. However, the use of variable rate debt and shorter term debt introduces interest rate risk or refinancing risk at the time of initial maturity, specifically, the possibility that interest rates may be higher than otherwise would have been the case had fixed rate debt been issued at the outset.

Generally, prudent use of variable rate or shorter term debt can reduce interest costs relative to long-term, fixed rates in exchange for a reasonable degree of interest rate risk. In order to balance this risk-reward trade-off, the amount of variable rate or shorter term debt within a debt portfolio is generally limited, and in fact, CSU policy limits the use of variable rate debt, including CP, to 25 percent of total debt. As of June 30, 2016, CSU variable rate and shorter debt was approximately 11 percent, assuming full use of the \$300 million CP program.

Long Term Fixed Rate, Interest Only Debt

The advantage of long term, fixed rate interest only debt is that the debt service is reduced over the life of the debt and no principal is paid until final maturity, which is generally up to thirty years, but in recent years has been as long as one hundred years in the case of a “century” bonds. By not amortizing principal, use of the debt proceeds can be structured in different ways to make a greater impact over time. For example, proceeds can be used to fund projects through internal system loans that are fully amortized over a medium term period such as ten years and then recycled to make more loans.

The disadvantage of this type of debt structure is that the principal all comes due at maturity and must be repaid or refinanced, requiring significant planning well in advance of maturity. It should also be noted that, in the case of the CSU, changes to state legislation would likely be required in order to take full advantage of these long term, fixed rate interest only structures.

Hedging Options

To date, the CSU has not utilized hedging products, such as interest rate swaps, and does not have a swap policy. However, these types of products, when used prudently, can provide flexibility in managing the cost of capital, especially in managing the potential impact of movements in interest rates. Risks associated with hedging products include market risk—changes in value based on interest rate movements—counterparty risk, collateral risk, and reputational risk. Investment balances can also be utilized as a natural hedge against interest rate risk on debt.

Other Structural Considerations

In structuring its SRB debt issuances over the years, the CSU has generally issued tax-exempt debt that cannot be called—that is, paid off—for ten years. This approach has helped reduce the CSU’s cost of capital, but has either added greater administration burden to comply with IRS regulations or reduced flexibility in refinancing debt. The CSU could issue more taxable debt or utilize different call structures, each with tradeoffs in flexibility and cost of capital.

Internal Loan Structure

Presently, the size and structure of SRB debt issuance is driven by the individual projects to be financed. In order to ensure financial viability, project financial plans are structured assuming long term, fully amortizing debt. When SRB debt is sold, projects are pooled together and assigned the rate of interest for the bond sale in which their projected is included. This approach can result in significant differences in interest rates charged to different projects in the system based upon market conditions at the time bonds for those particular projects were sold. This approach also limits the ability to take advantage of some of the debt instrument and structural options noted above.

An internal loan structure would establish an internal lending rate that would be charged to each project. Project financial plans would still need to demonstrate an ability to pay off the debt on a long term, fully amortizing basis, albeit at the established internal rate, in order to support financing approval by the board. The debt portfolio would then be managed to achieve a long term, total cost of capital below the internal lending rate, utilizing different debt instruments and structural options.

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN/CPBG 11-14-01

WHEREAS, The Board of Trustees of the California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework, the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings or restructurings; and

WHEREAS, The Board finds it appropriate to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of the California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the "CSU Bond Acts") provide the Board of Trustees with the ability to acquire,

construct, finance, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees' debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees' programs shall be designed to improve efficiency of access to the capital markets by consolidating bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities, and plan the issuance of all long-term debt consistent with the five-year capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Structure of the CSU's Debt Programs

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty, and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

2.2 The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added,

and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

2.3 The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.4 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the Trustees, to take any and all actions necessary to issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such financing transactions.

2.5 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible for, or are inappropriate for financing under the CSU Bond Acts. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing, if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the CSU Bond Acts financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the

Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1 The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supersedes RFIN 03-02-02 and shall take effect immediately.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

October 23, 2006

CHICO

DOMINGUEZ HILLS

EAST BAY

FRESNO

FULLERTON

HUMBOLDT

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

M E M O R A N D U M

TO: CSU Presidents

FROM: Charles B. Reed
Chancellor

SUBJECT: Financing and Debt Management Policy – Project Development and the Systemwide Revenue Bond Program Executive Order No 994

Attached is a copy of Executive Order No 994 relating to the CSU's Financing and Debt Management Policy.

In accordance with policy of the California State University, the campus president has the responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

If you have questions regarding this executive order, please contact Colleen Nickles, Senior Director, Financing & Treasury, at (562) 951-4570 or cnickles@calstate.edu.

CBR/rr

Attachment

cc: Vice Presidents for Business/Administration
Executive Staff, Office of the Chancellor

THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210
(562) 951-4570

Executive Order: 994
Effective Date: October 23, 2006
Supersedes: Executive Order No. 876
Title: Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program

Section 1: General Policies Regarding Financing Activities of the CSU

1.1 Authority: This policy statement provides information and procedures in connection with financing activities of campuses and auxiliary organizations. It is issued pursuant to Standing Orders of the Board of Trustees, Section 2, and the authority delegated to the Chancellor in the Trustees CSU Policy for Financing Activities, (RFIN 03-02-02; see Attachment B).

1.2 General Rule: Use of the capital markets to finance revenue-based, and in some limited cases, non-revenue-based non-state funded capital outlay projects of CSU campuses, auxiliaries, and other affiliated organizations shall be limited to the use of the Chancellor's Office tax-exempt or taxable commercial paper programs and the issuance of notes, bonds and other instruments, as approved by the Trustees, within the CSU Systemwide Revenue Bond Program as described below, hereafter referred to as the SRB Program. Additionally, the tax-exempt or taxable commercial paper program may also be used for the purpose of financing Chancellor's Office, campus, auxiliaries, and other affiliated organizations' personal property needs. The aspects of the Systemwide Revenue Bond Program and this policy are based on the fact that debt management is a dynamic undertaking, that evaluation of debt capacity and credit quality involves many different measures, and that the choice to use the specific criteria and measures in this policy may require change over time.

1.3 Types of Debt: The Trustees have traditionally issued variable-rate, short-term commercial paper for the construction period of a project, and fixed-rate, long-term debt for the permanent financing of a project. With the introduction of the commercial paper program use for personal property financing, the Trustees may not refinance these commercial paper issuances with long-term, fixed-rate debt, and the financed amounts will be amortized while the issuance remains in commercial paper.

Given this change in approach, the Trustees will establish a parameter that not more than 25% of its debt be unhedged variable rate debt, including commercial paper, to be consistent with rating agency expectations and market targets appropriate for the CSU's debt rating.

1.4 Alternative Financing Activities: An alternative financing structure to Section 1.2 above may be utilized if the Chancellor's Office or the campus is able to demonstrate significant benefits and if the Trustees approve the alternative structure. The Chancellor's Office or campus must not only demonstrate benefits for the use of an alternative structure, but must

also identify the detailed structure of the proposed financing. In reviewing the proposed structure, the Trustees shall evaluate such things as 1) impacts on the CSU's financial statements, 2) the extent to which the financing will be counted as a use of the Trustees' credit, 3) the relative cost of the proposed financing, 4) the proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB Program, and 5) any other short-term or long-term impacts to the Trustees' credit profile.

Section 2: Definitions

2.1 "Project": Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (example; one or more dormitories constructed with one construction contract). Project may also be defined as personal property with a dollar value greater than \$100,000.

2.2 "Stand-Alone Project": For a campus, a Stand-alone Project is a campus self-supporting activity supported by an Established CSU Fee that provides the source for repayment of debt for only one campus-related Project (e.g. the first campus-operated student housing facility). For an auxiliary organization a Stand-alone Project is a single Project operated by the auxiliary that is supported by the project-related revenue, or all of the auxiliary organization's available revenue (e.g. the first auxiliary-operated bookstore facility).

2.3 "Debt Program": For a campus, a Debt Program is a campus self-supporting activity funded by an Established CSU Fee that provides the source for repayment of debt for more than one campus-related Project (e.g. two or more separately financed campus-operated student housing facilities). For an auxiliary organization, a Debt Program is a program operated by the auxiliary that provides the source for repayment of debt for more than one auxiliary-operated Project (e.g. two separately financed auxiliary-operated food service facilities). Note that a general revenue pledge of all available auxiliary organization revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.

2.4 "Established CSU Fees": The following fee categories established in the Education Code have been pledged to the repayment of bonds issued by the SRB Program:

- Parking Fees (Education Code Section 89701)
- Student Body Center Fees (i.e., Student Union Fees) (Education Code Section 89304)
- Rental Housing Fees (Education Code Section 89703)
- Health Center Facility Fees (Education Code Section 89702)
- Continuing Education Revenue Fund Fees (Education Code Section 89704)

2.5 "Net Revenue Debt Service Coverage Ratios" (DSCR): A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the systemwide and campus level for decisions about new debt and the management of debt (See Section 4).

2.6 "Operating Expenses": For a Project or Program, Operating Expenses are defined as all costs related to providing a good or service, including regular maintenance charges, expenses of reasonable upkeep, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Project or Program, and all other expenses incident to the operation of the Project or Program, but excluding depreciation expense and

other non-cash charges, general administrative expenses of the Board or the State, Extraordinary Expenses and Major Maintenance and Repairs, and Debt Service.

2.7 "Extraordinary Expenses and Major Maintenance and Repairs": For a Project or Program, Extraordinary Expenses and Major Maintenance and Repairs will not be included in the DSCR, and the expenses are expected to be paid from Building Maintenance and Equipment Reserves or from Prior Year Fund Balances.

Note: Operating Expenses, as defined in the SRB indenture, include extraordinary repairs in the calculation of debt service coverage; the indenture requires the Board to set rates, charges, and fees for all Projects so that Net Income Available for Debt Service is at least equal to Aggregate Debt Service for all indebtedness. Sections 2.5, 2.6, and 2.7 are intended for internal operations purposes and shall not result in a conflict with indenture requirements. Campuses are expected to monitor their Programs to ensure overall compliance with the indenture requirements for annual DSCR tests.

Section 3: Systemwide Revenue Bond Program (SRB)

3.1 Trustee Approval: Each issuance of debt instruments under the SRB Program shall be approved by the Trustees.

3.2 Gross Revenue Pledge: Bonds issued under the SRB Program are secured by a gross revenue pledge of all Established CSU Fees.

3.2.1 Lawfully available revenue may be pledged from a campus, auxiliary, or other organization through a formal binding agreement if approved by the Trustees.

3.3 Commercial Paper Program: Within the capacity of the CSU Chancellor's Office commercial paper program, each non-state funded capital outlay or personal property project may receive acquisition or construction funding through the issuance of commercial paper.

3.4 Auxiliary Organization Projects: Except as indicated in Section 1.3, Projects of auxiliary or other organizations (special purpose governmental units, such as a joint powers authority) shall be financed through the SRB Program.

3.4.1 Each auxiliary or other organization SRB project financing shall be supported by the execution of a financing lease between the auxiliary organization and the CSU with a legal structure that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.

3.4.1.1 For auxiliary or other organizations with no existing debt obligations, the lease shall contain provisions that 1) pledge all available corporation revenue to the Trustees for payment of the lease obligations; 2) require deposit of all pledged revenues (i.e., all revenues) into a pledged "gross revenue fund" bank account; 3) establish criteria for issuance of additional bonds; and 4) covenant that the auxiliary or other organization will set rates or otherwise maintain pledged income that will generate the required net revenue (See Section 4.4).

3.4.1.2 For auxiliary or other organizations with existing debt obligations, the lease shall contain provisions that 1) require the corporation to abide by the criteria of existing bonds for the issuance of "parity" debt; 2) establish that Trustees share in

pledged revenue with all other bondholders on a parity basis; and 3) require that Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.

3.4.1.3 The financing lease shall be considered parity debt with all other, existing auxiliary or other organization debt.

3.4.1.4 The financing lease payment from the auxiliary or other organization to the CSU shall be calculated to include: 1) debt service associated with the bonds including the cost of participation in the commercial paper program, interest and principal on bonds issued to permanently finance the project and other debt management related costs of the CSU; and 2) any costs incurred by the auxiliary organization's campus for operation and maintenance for the financed facility. (See Executive Order No. 753)

3.4.2 At each campus the aggregate annual direct and indirect debt service for other third-party financings and for auxiliary or other financings that are either part of or separate from the SRB Program is limited to a maximum amount of 25% of the respective allocation of debt capacity to the respective campus (See Section 5).

3.5 Structure and Timing of Bond Transactions: The structure and timing of each issuance of SRB bonds shall be determined by the Chancellor's Office.

3.6 Allocation of Costs: Debt service and other debt management costs shall be allocated to campuses on the basis of a formula determined by the Chancellor's Office.

Section 4: DSCR Benchmarks

4.1 Systemwide (DSCR): For the system, the DSCR is computed using the total of the gross revenue of the Established CSU Fee plus any pledged revenue supporting SRB capital lease payments from auxiliary or other organizations. Operating expenses and debt service for the computation consist of the total operating expenses and debt service relating to these programs. The systemwide DSCR should be maintained at or above 1.45. If the SRB systemwide DSCR falls below 1.45, the campus benchmarks may be changed to strengthen the credit position of the Program. (See also Attachment A)

4.2 Combined Campus and Auxiliary Organizations (DSCR): At the combined campus and auxiliary organization level, the DSCR is similar to the systemwide DSCR test except that the amounts of pledged revenue, operating expenses, and debt service are related to the combined pledged revenues of the campus and auxiliary organizations' Established CSU Fees plus pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program. The minimum requirement of the DSCR for a Combined Campus and its Auxiliary Organizations is 1.35.

4.3 Campus Debt Program (DSCR): The DSCR for a campus Debt Program must be equal to a minimum of 1.10. The DSCR for a campus Stand-alone Project must be equal to a minimum of 1.10. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific Debt Program or the Stand-alone Project.

4.4 Auxiliary Organization Project and Debt Program (DSCR): The DSCR for a campus auxiliary organization Debt Program must be equal to a minimum of 1.25. The DSCR for a campus SRB auxiliary organization Stand-alone Project must equal a minimum of 1.25. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program or the Stand-alone Project.

4.5 DSCR and Effective Year: The chief financial officer of a campus is responsible to implement plans and budgets so that the required DSCRs for campus CSU Established Fee programs and campus auxiliary organizations be supportable and maintained at or above the minimum level for the first operating year, and at or above the minimum for all subsequent years of operation for Stand-alone or Debt Program Projects.

Section 5: Debt Capacity

5.1 General Rule: Financing shall not be recommended by the Chancellor's Office if the issuance of new bonds will cause the total amount of issued and outstanding SRB bonds to exceed the CSU's debt capacity as determined by the Trustees.

5.2 Calculation of the CSU's Debt Capacity: Debt service on all issued and outstanding SRB bonds shall not at any time exceed an amount that would cause the quality of the CSU's credit to fall below a minimum level as determined by the Trustees.

5.3 Allocation of Debt Capacity to Campuses: Capacity, as measured by debt service on campus debt, shall be allocated to CSU campuses as follows:

5.3.1 Campus general allocation: The aggregate debt service related to a campus' individual projects shall not exceed an amount computed from its net unrestricted expenditures times two-thirds (2/3) of the same ratio that the Trustees have recognized as appropriate for the system.

5.3.2 Chancellor's Office special allocation: With concurrence of the Trustees, the Chancellor's Office may allocate portions of up to an additional one-third (1/3) of the CSU's debt service capacity to individual campuses for special priority purposes.

Section 6: General Financial Planning Principles For Projects

6.1 Project Size: The CSU SRB Program is intended to provide a mechanism to finance revenue based, and in some limited cases, non-revenue-based non-state capital outlay projects pursuant to the State University Revenue Bond Act of 1947 and the issuance of debt to the public through a complex legal structure and financial marketing process. As such, the Program is suitable for projects of greater than \$3 million, and with a useful life of greater than ten years. For personal property financed through the commercial paper program, financings should be \$100,000 to \$5,000,000, with a useful life of 1-8 years. See Section 7 for program-related costs that should be funded through a reserve plan rather than through the issuance of debt.

6.2 Allocation of Debt Service: The plan of finance for SRB Projects shall assume level debt service and allocation of long-term debt over 25 or 30 years unless the useful life of the asset

financed is less. In some cases, the debt service may be structured to allow for accelerating debt service, bullet repayments of principal, shorter repayment terms, or other special arrangements as determined appropriate for a project. The Trustees will be notified in the Financing item at the time of approval if an alternative debt service repayment schedule will be utilized.

6.3 Timing of Bond Sale: The plan of finance shall assume the sale of long-term debt at the time of initiation of construction (i.e., including capitalized construction period interest) to meet net revenue debt coverage ratio tests.

6.4 Interest Rate Assumptions: The plan of finance for Projects shall incorporate a moderate interest rate contingency for unfavorable changes in interest rates between the time of the initial financial plan and the time long-term bonds will be sold.

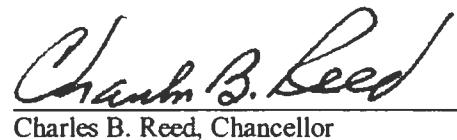
6.5 Consistency of Computations: Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

Section 7: Reserves

7.1 Reserve Development: The campus president and chief financial officer are responsible for developing and maintaining a campus policy to provide reserves from Project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum, should address the following needs:

- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. For Major Maintenance and Repair/Capital Renovation and Upgrade Reserves, the reviews should include formal studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the reserve-funding plan.



Charles B. Reed

Charles B. Reed, Chancellor

Date: October 23, 2006

Attachment A

CSU Systemwide Revenue Bond (SRB) Program Requirements

CSU Debt Capacity: = <.06

CSU System DS Coverage: = > 1.45

Debt Capacity, Combined Campus and Auxiliary

Organizations: = < .04

Coverage Requirements: = > 1.35

**Campus
PROGRAM DEBT SERVICE
COVERAGE
REQUIREMENT:
= > 1.10**

**Campus New Stand-Alone
Project
PROJECT DEBT SERVICE
COVERAGE
REQUIREMENT:
= > 1.10**

**Auxiliary Organization
PROGRAM DEBT SERVICE
COVERAGE REQUIREMENT:
= > 1.25**

**Auxiliary Org New Stand-Alone
Project
PROJECT DEBT SERVICE
COVERAGE REQUIREMENT:
= > 1.25**

**New SRB Funded PROJECT of
a Campus Auxiliary DEBT
Program: = > 1.10**

Attachment B

**CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN 03-02-02**

WHEREAS, The Board of Trustees of The California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the CSU and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

WHEREAS, The Board finds it appropriate to establish the lowest cost debt financing programs for the CSU, and to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of The California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A"e category.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

- 1.5** The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.
- 1.6** The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.
- 1.7** The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Program Structure of the CSU's Debt Program

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (see Section 3 below).

2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the Bond Act financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in

the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1. The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness

of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on an individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.