

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:15 p.m., Tuesday, July 13, 2010
Glenn S. Dumke Auditorium

William Hauck, Chair
Linda A. Lang, Vice Chair
Roberta Achtenberg
Nicole M. Anderson
Kenneth Fong
Margaret Fortune
Raymond W. Holdsworth
A. Robert Linscheid
Henry Mendoza
Glen O. Toney
C. C. Yin

Consent Item

Approval of Minutes of Meetings of May 11, 2010 and June 18, 2010

Discussion Items

1. Report on the 2010-2011 Support Budget, *Information*
2. Approval to Amend the Resolutions to Sell Bond Anticipation Notes and Bonds for Three Projects, *Action*

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

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

May 11, 2010

Members Present

Raymond W. Holdsworth, Vice Chair
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Linda A. Lang
A. Robert Linscheid
Henry Mendoza
Glen O. Toney

Approval of Minutes

The minutes of March 16, 2010, were approved by consent as submitted.

Report on the 2010-2011 Support Budget

Assistant Vice Chancellor for Budget Robert Turnage presented this informational item noting that the Governor's May Revise is expected in three days. Some positive and negative aspects to the release are anticipated. Despite the 2010-11 governor's budget identifying a shortfall over the next 14 months, the governor has stated that he will not sign any budget sent to him by the legislature if it lacks any of the funding increases that he has proposed for higher education. There are many indications, however, that the estimated budget gap could be larger than January's estimates. Actual income tax revenue collections fell over \$3 billion short of January projections and wiped out several incremental gains from earlier in the fiscal year.

Budget subcommittee hearings have started with much of the focus related only to some issues in the budget, including enrollment management, overall enrollment levels, and transfers—given several possible budget scenarios. Mr. Turnage explained how the CSU will continue to face some real challenges that will take a long time to play out.

Chancellor Reed added that the CSU and UC have been in discussions with the Department of Finance regarding covering payrolls. The chancellor explained that this year, the CSU covered two months of payroll (with no interest earned) at \$300 million a month. Beginning with the new fiscal year in July, Chancellor Reed expects that the CSU may be asked to do so again. He confirmed the CSU was reimbursed by the state for the two months of covered payroll.

Approval to Utilize an Alternative Financing Structure for Cal State L.A. University Auxiliary Services, Inc. to Acquire Property Adjacent to California State University, Los Angeles

Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian presented the action item; explaining that at the November 2009 Board meeting, the Board authorized California State University Los Angeles (CSULA) to purchase two parcels of land adjacent to the campus and owned by the Church of Jesus Christ of Latter-Day Saints. Initially, this transaction was going to use the processes of the State Public Works Board. Discovering that this would take an inordinate amount of time to complete, the campus ran the risk of losing the opportunity to purchase the facilities. Dr. Quillian pointed out that while the campus had been hoping to purchase the property for over 15 years, building comparable facilities would cost more than three times the purchase price. He acknowledged a recommendation to change the original plan of financing for this project and suggested that under the new structure, Cal State L.A. University Auxiliary Services, Inc. purchase the properties and lease the facilities to the campus.

University Auxiliary Services, Inc. (the "Corporation"), would obtain a commercial loan from the Cal State L.A. Federal Credit Union in a not-to-exceed amount of \$2,350,000. (The credit union is not formally affiliated with the campus, but includes campus employees as part of its membership.) The Board unanimously gave approval to utilize an alternative financing structure for Cal State L.A. University Auxiliary Services, Inc. to acquire property adjacent to California State University, Los Angeles (RFIN 05-10-02).

Revision to the California State University Student Fee Policy

This item was presented by Dr. Quillian and General Counsel Christine Helwick. The Trustees noted how in recent years the CSU has been forced into the position of deciding on fee increases for the next term while registration is already underway. This is due to delays resulting from a state budget that relies on a legislative calendar that does not mesh with the academic calendar.

Reminders have been posted in various locations that posted fees are only estimates and subject to change. Nevertheless, the CSU was sued last year because that fee disclaimer did not appear in the right location and/or with the right words.

In August 2009, uniform disclaimer language was added to CSU websites and student portal accounts to clarify that student fees are subject to change by the Board of Trustees up until instruction begins. While it is not legally necessary to amend the fee policy, this amendment would incorporate that same disclaimer language into the CSU Fee Policy to make express that fee changes are permissible when public funding is inadequate.

Chancellor Reed noted that the CSU has to be responsible to the court because of the recent suit brought against the CSU regarding fees. He discredited a rumor reported by the CSSA that fees would be increased at the very last minute prior to the first day of class. He continued to explain

that students start paying their fees in June, July and August. The CSU wants to be very clear that those fees are subject to change. The chancellor pledged to give as much advance notice to students as possible. Trustee Achtenberg reinforced the notion that due to the lateness of the budget and the delay in the legislative process, last year fees were raised so late. The Board unanimously gave approval to revise the California State University Student Fee Policy (RFIN 05-10-03).

Trustee Hauck adjourned the Committee on Finance.

**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**

June 18, 2010

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Abel Maldonado, Lieutenant Governor
Roberta Achtenberg
Herbert L. Carter
Margaret Fortune
A. Robert Linscheid
Henry Mendoza
Russel Statham
Charles B. Reed, Chancellor

Increase of State University Fee and Graduate Business Professional Fee

Seeking to increase the State University Fee and the Graduate Business Professional Fee effective fall 2010, Executive Vice Chancellor Benjamin F. Quillian and Assistant Vice Chancellor for Budget Robert Turnage presented background and analysis on the 2010-2011 support budget. Dr. Quillian noted that the CSU remains mindful of its mission and the need to remain accessible, but given the magnitude of recent cuts, the CSU finds it necessary to recommend a modest increase in fees—one that would still keep CSU fees among the lowest among comparable institutions. He described cost-saving measures implemented over the past year including curtailing new hires, condensing the university's workforce, and reducing both nonessential travel and purchases of non-critical goods. He explained that the Information Technology Advisory Group—the CSU's Chief Information Officers—have explored and implemented ways to increase technology to create cost-effective efficiencies and synergies among campuses. In addition, the Vice Presidents for Finance/Administration have formed a task force to reduce costs and generate revenues. Finally, he stated the CSU is exploring ways to collaborate with the UC to reduce costs.

Mr. Turnage further described how the analysis indicates that increased fee revenues (net of financial aid) of at least \$100 million are needed under a wide range of possible budget outcomes. He noted that of the three different plans proposed in Sacramento, all three plans at this early stage are generous to the university in terms of the fiscal situation. The plans provide similar amounts, but none of these plans would secure the two-thirds votes necessary to pass a budget act if put to a vote at this time and none have the full support of the legislature at this time

(including the governor's plan). All three plans have tremendous contingencies. This, along with the massive \$20 billion budget gap the state is facing, summarizes the problem. Because the CSU faces tremendous uncertainty over this, the university is in the middle of an emergency that requires painful steps noted Mr. Turnage. He described how today's recommendation dovetails the assembly's proposal during its budget deliberations, recognizing that despite the uncertainty associated with the final outcome, the legislative proposal would buy down part of the CSU fee increase. In other words, an additional \$50 to \$75 million in additional revenues would be provided to substitute for the revenue loss should a 5 percent increase (versus a 10 percent increase) be approved.

Trustee Hauck pointed out that the proposal referenced by Mr. Turnage is by the Assembly Democratic caucus—the Democratic majority—and not a proposal from the legislative body.

Chancellor Reed explained how the CSU is forced to make decisions in anticipation of what may or may not happen because the CSU calendar and the legislature's calendar do not coincide. In addition, Dr. Reed explained that regardless of what happens on July 1 regarding cash flow, the CSU will have to spend about \$137 million more in 2010-11, because of increased costs in healthcare, contracts, and power sources including electricity and gas. He stated that a 5 percent increase to the State University Fee and Graduate Business Professional Fee is recommended based on work with campus presidents and analysis of cash flow. Furthermore, he noted that the CSU was not recommending furloughs because they were very disruptive to all campuses, especially to students. He stated that the University of California made their fee decision last November. The UC would not impose furloughs this year because of the inefficiencies, and the CSU does not want to be in the position of serving as the only university system in California implementing furloughs. Negotiating furloughs for another 12 months and implementing next month seemed unlikely.

Lieutenant Governor Abel Maldonado described Sacramento's broken, dysfunctional system, which results in uncertainty. He stated he would be voting "no" on the fee increase because, although it wasn't the easiest thing to do, he hoped things would get better in Sacramento and he hoped that the economy continues to turnaround. He conceded that the decisions are difficult.

Student Trustee Russel Statham noted that while he did vote to raise fees this past year, he was reluctant this time. And while he understands the needs of the system, he expressed his concern for middle-class students who would be priced out (and where financial aid would not available to them). He stated that like lieutenant governor, he too, could not vote for the fee increase.

After a brief discussion by the Committee, Trustee Margaret Fortune stated that she was not prepared to increase fees at this time, but out of respect to her colleagues who believed this is the best route to balance a budget, she explained that she would withhold her "no" vote today and respectfully abstain. She requested that the university ensure that all options have been explored, including expanding enrollment through extended education. She asked that the Committee on

Education Policy seriously examine how the CSU can engage the extended education function to serve more students and asked for a full report to the Board by September.

Following further committee discussion, Trustee Statham proposed amending the fee increase to 10 percent so that proper notice could be made to students and to avoid proposing an additional fee increase later in the year, if necessary.

Trustee Hauck clarified that the recommendation to limit the student fee increase to 5 percent is based on the State Assembly budget committee proposal that provides additional state revenues.

After a vote, the amendment to the resolution to increase fees 10 percent failed. After a second vote, the Board gave approval to increase the State University Fee and Graduate Business Professional Fee (RFIN 06-10-04).

RESOLVED, By the Board of Trustees of the California State University, that the following academic year schedule of the State University Fee is approved effective fall term 2010 and until further amended:

State University Fees and Graduate Business Professional Fee

<u>Units Per Term</u>	<u>Undergraduate</u>	<u>Credential Program Participants</u>	<u>Graduate and Other Post-Bac Students</u>
6.1 or more	\$4,230	\$4,908	\$5,214
0 to 6.0	\$2,454	\$2,850	\$3,024

RESOLVED, further, that the supplemental Graduate Business Professional Fee be set at rates of \$220 per semester unit and \$147 per quarter unit.

The fees provided in the above table are for an academic year. The applicable per term fee schedules consistent with these academic year fees for campuses on semester, quarter and other calendars, for regular students (6.1 units or more per term) and part-time students (up to 6.0 units per term), and for the academic year and summer terms are provided on the Budget Office website:

<http://www.calstate.edu/budget/student-fees/mandatory-fees/index.shtml>

And, be it further

RESOLVED, That the chancellor may approve individual campus State University Fee rates that do not exceed the maximum fee rates established by this fee schedule, and be it further

Fin.

RESOLVED, That the Board of Trustees, at its November 2010 meeting, intends to review whether adequate resources have been provided to the university by the legislature and governor in the 2010-11 Budget Act and, on the basis of that review, whether additional fee actions merit consideration.

California State University Education Doctorate State University Fee for 2010-2011 Academic Year

Dr. Quillian presented the action item, explaining that although state law permits the Board to increase the CSU education doctorate program fee to the level adopted by the UC Regents for 2010-2011, which would be a permissible increase of over 18 percent, a moderate increase of 10 percent is recommended. This would increase the academic year total by \$870 to a total of \$9,546.

When prompted by Trustee Hauck for program details, Executive Vice Chancellor and Chief Academic Officer Jeri Echeverria stated that enrollments for 2010-2011 are projected at 690 students as compared to 574 students in 2009-10. Assistant Vice Chancellor for Teacher Education and Public Schools Programs Beverly Young explained that the Ed.D. program currently is offered at 11 campuses. Each campus receives approximately twice the number of applicants as they accept into the three-year program. A similar program offered at other private schools charge at least double what CSU students pay. In addition, Dr. Young noted that the other programs differ from the CSU in several other ways. The programs are not applied doctorates, meant for people who are working in schools and community colleges, but instead, are meant for researchers. Students are expected to be full-time students. The CSU program is designed for a working person to complete in three years, making the CSU program extremely affordable as well as accessible. For the first time this year, 125 students graduated systemwide.

After a vote, the Board gave approval to increase the California State University Education Doctorate State University Fee for 2010-2011 Academic Year (RFIN 06-10-05).

RESOLVED, by the Board of Trustees of the California State University, that the following academic year schedule of the California State University Education Doctorate State University Fee is approved effective fall term 2010 and until further amended:

Per Semester: \$4,773

Per Quarter: \$3,182

Per Academic Year: \$9,546

Nonresident Tuition—Eliminate Annual Cap

Dr. Quillian noted how currently nonresident students pay nonresident tuition in addition to mandatory fees. He explained that a task force formed by campus financial vice presidents to look at efficiencies and ways to improve services for students has recommended removing the cap in order to avoid inadvertent state subsidies of state resources for nonresident students taking

more than 30 semester units or 45 quarter units per academic year. Under the current practice of an annual cap, these nonresident students are able to take additional courses for free. Charging the per-unit tuition for these courses will curb this incentive to take excess units and will better ensure California resident students fair access to courses. The Board unanimously gave approval for Nonresident Tuition—Eliminate Annual Cap (RFIN 06-10-06).

RESOLVED, By the Board of Trustees of the California State University, that the Nonresident Tuition schedule for the 2010-2011 academic year, effective for all campuses with the fall 2010 term and until further amended, shall be as follows:

	Quarter Term	Semester Term
Nonresident Tuition Per Unit Charge:	\$248	\$372

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

And, be it further

RESOLVED, The chancellor is delegated authority to further amend the nonresident tuition if such action is required by the budget act approved for 2010-2011, and that such changes made by the chancellor are communicated promptly to the Trustees.

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2010-2011 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The May Revision of the 2010-11 governor's budget identifies a \$19.1 billion budget shortfall. The governor proposes closing this gap with a heavy emphasis on expenditure reductions and assumed new federal funds. Expenditure reductions are concentrated in health, welfare and transportation programs, as well as state employee compensation and, to some extent in adult and youth corrections programs. It is clear that many of the governor's proposals face a difficult reception in the legislature. It is also clear that there are no easy alternatives. Easy options for addressing the state's fiscal problems were exhausted two years ago.

Despite the state's fiscal condition, the governor has made higher education a central priority of his 2010-11 budget. The governor's budget provides similar treatment to the CSU and the University of California (UC). For each system, the budget (1) restores \$305 million of one-time cuts made in 2009-10 and (2) provides for 2.5 percent enrollment growth. In May, budget committees in each house of the legislature had approved the governor's proposed amounts. The senate committee, however, specified that the \$305 million restoration would be contingent on the enactment of additional tax revenues as part of the final budget package, while the assembly committee provided the funds from a one-time source that would depend on enactment of a complex borrowing and taxation proposal. From this one-time funding source, the assembly proposal also would provide funds to the CSU in order to limit the State University Fee increase to 5 percent. In June, the Board of Trustees approved a 5 percent fee increase, consistent with the assembly proposal, with the understanding that, in November, the board would review actions taken by the state on the 2010-11 CSU budget and any consequent need for additional fee revenues.

Finance
Agenda Item 1
July 13, 2010
Page 2 of 2

At the time of preparation of this agenda item, the legislature's budget conference committee was holding a rolling series of meetings to reconcile the differences between the assembly and senate budget plans—differences that are numerous and significant and that affect most State program areas. The Legislature's constitutional deadline of June 15 for passing the budget bill had been missed and there was no indication that a compromise budget plan that could secure the necessary two-thirds vote of each house, as well as the Governor's signature, was in sight.

Conclusion

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

COMMITTEE ON FINANCE

Approval to Amend the Resolutions to Sell Bond Anticipation Notes and Bonds for Three Projects

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This agenda item requests Board approval to amend the resolutions authorizing the sale of Bond Anticipation Notes (BANs) and Systemwide Revenue Bonds (Bonds) for three projects previously authorized by the Board in an aggregate not-to-exceed amount of \$35,660,000. The amendments will alter the language concerning the dates by which Bonds are to be sold, in effect making the language consistent with changes in state law and removing a three-year deadline by which Bonds must be sold. As part of this amendment, the aggregate not-to-exceed amount is being reduced to \$27,343,000 to reflect the retirement of debt since the projects were originally financed.

Background

Historically, when the Board has authorized the issuance of Systemwide Revenue Bonds and/or the issuance of BANs for interim financing under the CSU's commercial paper program, it has done so with a three-year time limit on the authorization to sell Bonds, consistent with State law, which had provided that BANs must mature within three-years. For the great majority of projects approved for Bond and/or BAN financing by the Board, this three-year time limit has not posed any significant time constraint because the CSU generally issues Bonds at least annually, thereby retiring BANs well in advance of the three-year time limit.

On occasion, the Board has authorized financing for projects that, because of their unique structures, are suitable candidates for financing with BANs/commercial paper, but are less suitable candidates for longer-term financing with Bonds. At present, the Board has authorized three such projects for financing with the expectation that they will remain in BANs/commercial paper until the debt is retired. All three projects were approved by the Board in 2007 and 2008, and the resolutions authorizing the sale of BANs and Bonds for these three projects all contained language that set a three-year expiration by which Bonds could be sold, consistent with the provisions of State law at the time of the approval. However, in 2008, state law was amended, allowing for BAN maturities to extend beyond three-years, and now providing that a maturity

date for the issuance of Bonds or BANs shall be determined by the Board and set forth in the appropriate resolutions.

Projects

The three projects currently authorized for financing with the expectation that they will remain in BANs/commercial paper until the debt is retired are:

1. University Enterprises, Inc. (Sacramento)—Broad Athletic Facility

At its March 2007 meeting, the Board approved the issuance of BANs and Bonds in a not-to-exceed amount of \$6,520,000 for the construction of the Broad Athletic Facility project by University Enterprises Incorporated, an auxiliary organization in good standing at California State University, Sacramento. The project was originally approved with the expectation that donor funds would allow for a full retirement of the debt over a five- to 10 year timeframe. Because of the downturn in the economy, the expected donor funds have not materialized at the levels originally expected and now repayment is expected to take place over a 13 year period (i.e. 10 years remaining), a term within with the Board's March 2007 approval.

The Board's authorization to sell Bonds for this project expired in March 2010. Even though there is no intent to sell Bonds for this project and state law no longer has a three-year limitation on BAN maturities, bond counsel has advised that the authorization to sell bonds should be renewed. In addition, the final maturity of the BAN authorization should be extended to June 1, 2020, a period consistent with the expected retirement of the debt. As part of this amendment, the not-to-exceed amount is being reduced from \$6,520,000 to \$3,826,000 to reflect the retirement of debt since the project was originally funded.

2. The University Corporation (Northridge)—Performing Arts Center Project

At its January 2008 meeting, the Board approved the issuance of BANs and Bonds in a not-to-exceed amount of \$12,210,000 for The University Corporation, an auxiliary organization in good standing at California State University, Northridge, to support the construction of the \$124.8 million Performing Arts Center (PAC) project at the Northridge campus. The PAC was to be financed largely through state and donor funds, and the BAN/Bond authorization was originally approved to secure a final construction contract in a favorable bidding climate with the expectation that future donor funds would provide the remaining funding and the BANs/Bonds would not be needed. However, because of the downturn in the economy, expected donor funds have not materialized at the levels originally expected, and BANs/commercial paper will be used to complete the construction of the project. Repayment is expected to take place over a six-year period, a term within the Board's January 2008 approval.

Currently, the Board's authorization to sell Bonds for this project will expire in January 2011. Based upon the recommendation of bond counsel, the authorization to sell bonds should be amended and the final maturity of the BAN authorization should be extended to June 1, 2017, a period consistent with the expected retirement of the debt. As part of this amendment, the not-to-exceed amount is being reduced from \$12,210,000 to \$8,000,000 to reflect the lower amount of debt that will need to be issued since the project was originally approved.

3. Auxiliary Services Corporation (Fullerton)—Faculty/Staff Housing Refinance Project

At its November 2008 meeting, the Board approved the issuance of BANs and Bonds in a not-to-exceed amount of \$16,930,000 to refinance two bank loans and finance other costs associated with two faculty/staff housing projects through Auxiliary Services Corporation, an auxiliary organization in good standing at California State University, Fullerton. The funds were to provide financing for 36 for-sale housing units until such time as the housing market recovered and the units could be sold at levels sufficient to repay the outstanding debt. Since the original financing approval, 10 units have been sold, and the debt has been reduced to approximately \$14.3 million. For purposes of the Board's November 2008 approval, the housing market was assumed to recover sufficiently by 2018 to fully retire the debt, and this assumption is unchanged.

Currently, the Board's authorization to sell Bonds for this project will expire in November 2011. Based upon the recommendation of bond counsel, the authorization to sell bonds should be amended and the final maturity of the BAN authorization should be extended to June 1, 2019, a period consistent with the expected retirement of the debt. As part of this amendment, the not-to-exceed amount is being reduced from \$16,930,000 to \$15,517,000 to reflect the retirement of debt since the project was originally funded.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a resolution to be presented at this meeting for the projects described in this agenda item that amends the Board's previous authorizations for interim and permanent financing. The proposed resolution will be distributed at the meeting and will achieve the following:

1. Amend previous authorizations for the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$27,343,000 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 Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.