AGENDA

COMMITTEE ON FINANCE

Meeting: **2:30 p.m., Tuesday, January 24, 2012**
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of November 16, 2011

Discussion Items

1. Report on the Support Budget 2011-2012 and 2012-2013 Fiscal Years, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project, *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

November 16, 2011

Members Present

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven M. Glazer
Hsing Kung
Bob Linscheid
Henry Mendoza
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of September 21, 2011 were approved by consent as submitted.

Trustee Hauck noted that for this meeting the board would reorder the agenda and start with items 5 through 8 and then return to the items of most interest to everyone in attendance, 1 through 4.

2012-2013 Lottery Revenue Budget

Robert Turnage, assistant vice chancellor for budget, stated that the lottery budget is stable based on estimates of statewide lottery receipts showing no indication of growth. The biggest change is the $5 million designated to financial aid for the campuses early start programs.

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

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

George Ashkar, assistant vice chancellor for financial services, requested board approval to authorize systemwide revenue bonds and the issuance of bond anticipation notes in the aggregate not to exceed $60,570,000 to provide support for the Sonoma University Center. The value of the proposed bonds is based on an estimated total project cost of $62 million with program reserve contributions of $8.97 million. The housing program will have primary responsibility for the project. The campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.27, which is below the CSU benchmark of 1.35.

Dr. Ruben Armiñana, president of Sonoma State University, added that the campus has been planning for this project for the last ten years. It will complete the student services part of the campus.

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

California State University, Los Angeles University Development Corporation – Auxiliary Organization Dissolution Approval

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, requested the board approve the dissolution of the auxiliary organization known as the California State University Los Angeles University Development Corporation (UDC). The functions originally established for the UDC have been assumed by other existing auxiliary organizations on campus. The UDC was never fully formed, therefore, has no assets and no liabilities.

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

Cal Poly Pomona University Educational Trust - Auxiliary Organization Dissolution

Dr. Quillian requested the board approve the dissolution of the auxiliary organization known as the Cal Poly Pomona University Educational Trust (UET) at California State Polytechnic University, Pomona. The UET was incorporated in 1994 and since July 2000 the sole purpose of the UET was the management of the university endowment funds. At present, the UET is a public charity because it receives broad support from the general public. In 2010, the UET was awarded a significant grant from the W.K. Kellogg Foundation (Kellogg Foundation). Due to the disproportionately large size of the grant, as compared to other grants received by the UET, it was determined that the grant would cause the UET to involuntarily be converted from a public charity to a private foundation, which could result in adverse tax consequences for the Kellogg Foundation, the UET and other current and potential donors.

In December 2010 the UET submitted an application to the IRS to change its status, and if approved would enable the UET to receive contributions from charities regardless of the size of the contribution, without adverse tax consequences. However, based on additional information requested by the IRS it appears unlikely that the application would be approved.

The university is in the midst of a comprehensive capital fund raising campaign with proposals for large gifts. The inability to change the status of the UET to accept large gifts without adverse tax consequences to potential donors would have a detrimental effect on the capital campaign.

Therefore, it has been decided to dissolve the UET and distribute assets to the Cal Poly Pomona Foundation, Inc. (CPPF). The CPPF had managed university endowment funds until it was transferred over to the UET in July 2000. The UET has no employees and all administrative services are provided through an agreement with the CPPF. Dissolution of the UET and the transfer of assets to CPPF will improve cost efficiency of campus auxiliary organizations.

Dr. Marten denBoer, provost and vice president for Academic Affairs, California State Polytechnic University, Pomona, concurred with the presentation and value of the dissolving the auxiliary since the campus had a successful comprehensive capital fund raising campaign including some very large gifts.

Trustee Hauck inquired about the Kellogg Foundation grant money.

Provost denBoer replied that the portion of the Kellogg Foundation grant money that the UET has received so far will be transferred to the CPPF. The balance of the money came in the form of pledges, which will convert into pledges to the CPPF.

Trustee Hauck asked why the UET was ever created when the CPPF already existed?

Provost denBoer responded that it was a way to establish relationships with donors and prospective donors to the university. Most of the donors are now on the CPPF or on the National Development Council.

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

Public Speakers

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

2011-2012 Student Fee Report

Robert Turnage, assistant vice chancellor for budget, stated that the 2011-2012 student fee report provides detail on how fees have changed from the prior year. The systemwide tuition fee increased in response to the $650 million cut from the state. The increased revenue did not offset this cut, resulting in an overall loss. The average campus-based mandatory fees increased by $97 (10%) from the prior year. This increase is mostly a result of improvements being made to student recreation centers or student union buildings and also the implementation of a mental health services fee at some campuses.

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

Report on the 2011-2012 Support Budget

Mr. Turnage stated that the CSU faces the very real possibility of an additional cut of up to $100 million (the “trigger”), to be determined by the Director of the Department of Finance in December 2011, based on whether, and to what extent, state revenues fall short of budget act assumptions. The LAO will be releasing its fiscal forecast today.

Trustee Glazer suggested a brief conversation on how the CSU was preparing to handle the potential $100 million “trigger” cut since not all trustees were in attendance when this was discussed last.

Chancellor Reed added that he has been working with the campus presidents in anticipation of the additional $100 million reduction and therefore there are no plans of raising tuition to cover this cut. The CSU is working with the Department of Finance and the Governor’s office to make this a one-time cut, and not an ongoing cut.

Trustee Hauck noted that the $100 million cut is in addition to the $650 million reduction, which is a total $750 million reduction.

Chancellor Reed commented that this is almost a 30% reduction of CSU’s operating budget for 2011-2012.

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

Approval of the 2012-2013 Support Budget and Tuition Fee Increases – 2012-2013 Academic Year

Dr. Quillian explained that to cope with these large reductions the CSU has cut costs by increasing use of technology, restricting travel, reductions in hiring, elimination of non-essential purchases of goods and services, organization restructuring and collaborative efforts across the campuses to reduce duplication of effort and increased efficiency. The CSU has also managed down enrollment and limited class offerings. CSU employees were furloughed and have gone without a compensation increase. The magnitude of cuts have resulted in structural deficits on campuses and all but eliminated any fiscal flexibility

The proposed budget will enable the CSU to provide affordable quality education to the citizens of California. The funds requested will allow the CSU to make sure students get the courses needed to complete their degrees in a timely manner; to invest in staff who are keeping campuses clean, functional and safe; to address urgent maintenance needs, mandatory costs, information technology infrastructure upgrades and the replacement of outdated instructional equipment. The budget proposal calls for a $333 million increase in general fund support, which will enable the CSU to address its most critical needs.

If the state funds the proposed budget, there will be no need for a tuition increase in 2012-2013. However, if the proposed budget is not funded, we have included a specific line item to show how much revenue would be needed for a tuition fee increase. The increased fee amount would be slightly less than $250 per semester, per student. It is prudent to let students and their families know of the possibility of an increase if the state does not fund the CSU adequately.

The CSU will continue to set aside one-third of the tuition fee increase for financial aid. The CSU is exploring options to increase grant aid for students from families with incomes that exceed $70,000. Students will also be encouraged to take advantage of the American Opportunity Tax Credit, which Mr. Turnage will provide additional information on.

Robert Turnage, assistant vice chancellor for budget, explained that he would be moving back and forth between the agenda item on budget, number 3, and the item on the tuition fee increase, number 4, because they are intimately intertwined with each other. He then reiterated that annual state funding is down and the tuition fee revenue does not make up for general fund losses. Mandatory costs are up approximately $135 million. Mandatory costs are an area that we have little or no control over. They include employee health care premium rates that are set under state law; newly constructed buildings for classroom and laboratory space that need to be operated and maintained; and energy price increases. There is also the general salary increase for faculty in 2008-2009, which is an unfunded impact of approximately $30 million annual on-going cost.

The net fiscal impact to the CSU—even with tuition fee increases approved since 2007-08-- is a negative $410 million (negative $510 million with the “trigger”) in annual resources to teach and serve students.

This budget is addresses student access and the CSU’s ability to supply courses, admission and services. CSU anticipates enrolling20,000 additional high school graduates and community college students. The graduation initiative requires resources to improve student success. Campuses are currently using one-time resources to cover what should be recurring costs, which is not a sustainable situation.

Trustee Monville asked if the 20,000 high school graduates and community college transfer estimate includes the wave of students expected as a result of SB 1440?

Mr. Turnage responded affirmatively. The CSU welcomes the opportunity to carry out this important state objective but is unable to do it without resources. He reminded the board about the report to the Committee on Campus Planning, Building and Grounds about the significant backlog of facility maintenance needs. The budget also proposes upgrades to the technology infrastructure to respond to demand from students for connectivity and technology services.

A study conducted by the Public Policy Institute of California identified that by 2025, under current trends, the state of California is going to be a million short of trained workers with bachelor degrees needed for the 21st century economy. The CSU generates half the bachelor degrees that are produced in the state. The state is going to suffer if the universities are not able to graduate students to meet that demand.

In putting the 2012-2013 budget together, the CSU is really running out of options on being able to hold the FTES level at the current state-supported level. A 10% reduction in the university's work force has reached a practical limit in terms of program quality and service to students.

Mr. Turnage then presented the array of financial aid options that allow the university to protect students from tuition fee increases. He noted in particular the $270 million of American Opportunity Tax Credits first created in 2009. A U.S. Treasury Department study for the 2009 tax year showed that one million California households claimed this credit and lowered taxes by $1.5 billion. An estimated 39% of CSU students and families take advantage of this credit.

He emphasized that it is important to provide as much notice as possible to students and families of the potential tuition level, allowing them time to plan. Campuses start making admissions decisions at the beginning of December, determining class schedules and ensuring faculty are available to teach those classes.

Dr. Ephraim Smith, executive vice chancellor and chief academic officer, stated that with the advent of the Early Start program, over 20,000 incoming freshmen will be starting at the end of June 2012, instead of August, which cuts two months off the admissions cycle. This is an additional pressure to make decisions now so those students and their families have adequate notice.

Trustee Mendoza asked if the budget includes the potential fee increase?

Mr. Turnage responded that it is included in the budget with the assumption that the state will provide revenue to fully cover the increase, thereby "buying out" the fee increase.

Trustee Glazer commented that no matter what decision is made or when it's made, it will be controversial and criticized that it could have been done a different way with less of an impact. It is clear that making these choices now helps with planning, but once the legislature and governor have signed the budget, what is the board's ability to revisit planning assumptions about enrollment that are being decided on at this meeting?

Chancellor Reed responded that the CSU has already made a decision to admit community college transfers in January 2012. After November 30, 2011, the CSU will begin, on a rolling basis, to admit first-time freshmen and additional community college transfers for August 2012. If this budget plan doesn't work out, the CSU would have to bring the budget to the board for decisions on what should be cut to make up about $200 million.

Trustee Glazer commented that if the enrollment issue is not addressed today and the board won't find out what the final budget amount is until June or July then the enrollment level would be an irreversible decision.

Chancellor Reed confirmed that it would be an irreversible decision. The timing of legislative action is not congruent with the timing of actions the university needs to make about the academic year. Students apply to multiple institutions, not just to the CSU, and they want to hear by December or January if they will be admitted to the CSU. There have been years when the academic year was well underway before we knew what our funding level was.

Trustee Glazer asked if that also applies to tuition? What are the consequences if a decision on a tuition increase is not made today and are there any alternative choices?

Chancellor Reed responded that, unfortunately, there are no alternatives. The CSU is here to provide access to California students and not to turn them away and deny them the opportunity of a great education. It is important that the CSU continue to graduate 98,000 students every Spring, who are prepared and ready for the work force. The only way to get out of this downward economic turn is to have the best and brightest work force in California.

Trustee Glazer inquired in regards to the timing issue for a tuition increase, and whether the board could make an adjustment to reduce the increase after more is known the state funding level?

Chancellor Reed responded that the tuition could be reduced if the legislature and governor buy out 100% or less of the tuition fee increase. Then the budget would be brought before the board to make an adjustment on a net basis.

Trustee Ruddell spoke in opposition to the proposed tuition increase for 2012-2013. She explained that the governor and legislature continue to cut higher education because of the belief that those funds can be covered by tuition increases, and the trustees should put an end to this vicious cycle.

Trustee Guzman reminded the trustees of her opposition to changing the terminology between fee and tuition, since she believes it is a fundamental change in the original intent of the Master Plan. She asked for clarification on the enrollment number included in the budget proposal.

Mr. Turnage confirmed that it is approximately an additional 20,000 students on top of the 331,000 FTES figure. In terms of FTES, it's an increment of about 16,500, for a total of 347,500 FTES, which is still less than the enrollment the CSU was serving three years ago.

Trustee Guzman asked if the CSU maintained the 331,000 FTES, what would be the expectation in terms of a tuition increase?

Mr. Turnage responded that denying the increase would force drastic actions in terms of admission.

Trustee Guzman inquired if there was a way to make these decisions a little later when more information is available?

Chancellor Reed responded that the organization can do whatever the board wants. However, it is very disruptive to students to tell them they must wait on legislative budget action in June, July or August to find out if they will be admitted to college. He reminded the board that the CSU is currently in court with a $70 million lawsuit for a decision on tuition fee increases that came late in the academic year cycle. It is important to make a decision as early as possible, provide as much notice as possible and ensure financial aid forms are completed on time so students are not turned away.

Trustee Guzman commented that she was not supporting the tuition fee increase because she believes the university and the state need to come together on the longer-range public policy objectives for higher education and get out of the current cycle.

Trustee Cheyne commented that it was not in the CSU's best interest to offer state officials a tuition increase option and demonstrate what a great value the CSU is, which would then provide them with a rationale for continuing to underfund the university.

Mr. Torlakson, superintendent of public instruction, stated that a reduction of 30% of the funding base of the CSU by the state is a crisis. It is unacceptable for the legislature to shift their failure to prioritize higher education funding onto the students. The public is becoming increasingly aware of the excruciating choices that have been made and are ready to fight for alternatives.

Trustee Linscheid shared his perspective about making difficult decisions and the timing of choices before the board. He mentioned that his conversations with parents demonstrate that they are most concerned with unpredictability and delays that make it more difficult for them to plan. Despite the terrible choices before them, he urged making a decision at this meeting.

Gavin Newsom, lieutenant governor, expressed his belief that the tuition increase is a tax on the middle class and a tax on the future. He expressed his belief that a stronger case should be made to the governor and the legislature regarding the severity of the situation for the CSU and that the university should maintain pressure on Sacramento. He urged sending a strong message to the governor and the legislature by rejecting a tuition fee increase. He stated that it is decisions, not circumstances, decisions, not conditions, that will determine the fate and future of this university system.

Chair Carter affirmed that he had heard the messages from his colleagues about both sending a message to elected officials in Sacramento as well as providing timely notice to parents and students. He reminded the board that the CSU is currently in court for not making a timely decision on when tuition should be raised,and this lawsuit already has cost the CSU an extraordinary amount of money in defense costs. He explained that if a decision on the tuition fee increase is not made today, it is still absolutely essential that a budget be sent to the governor by early to mid-December 2011 so that it can be included in the budget for the State of California. Clear direction must be given to staff today, either in this committee or plenary session.

Trustee Mendoza commented that the cycle of backfilling the lack of state funding with student tuition increases needs to stop. He reminded his colleagues that very time the state cuts the budget, the CSU raises tuition. He said that it seems counter intuitive to admit an additional 20,000 students if the budget is unable to support this number.

Trustee Mehas expressed his belief that elected officials in Sacramento already have heard the message but chosen to fund things other than the CSU. There have been disproportionate cuts to CSU when the prisons and prison guards have not been affected. He commented that the board has a fiduciary obligation to ensure the doors of this great institution, the people's institution, remain open. He expressed that he would support the increase and work equally as hard to carry the message about the importance of the institution to Sacramento, and hope their commitment to CSU is sincere.

Trustee Kung commented that he did not see any disagreement amongst the board as no one wants to raise tuition, but given the situation, tough decisions need to be made. He expressed that it is important to have a unanimous decision and move forward together to resolve this problem.

Trustee Cheyne suggested removing any option of a tuition fee increase when submitting the budget request.

Chair Carter asked if the option for a tuition fee increase is removed and the budget is passed in June or July, then would the position of the board be to limit or roll-back enrollment?

Trustee Guzman suggested the CSU submit a budget request that articulates what is needed to invest in the CSU system, then make a business decision later about how to manage the impacts of the funding level.

Trustee Monville commented that the CSU needs to maintain its mission of access. The critical issue is timing for notice to the 55% of students who will be affected by a tuition fee increase and need to plan and make choices. If a decision about the tuition rate is not made until June or July or August, then the CSU must be prepared for potential lawsuits about that late decision.

Trustee Achtenberg commented that given the choices before the legislature she does not believe they will provide adequate funding for the CSU. She said that she will support the tuition fee increase because the board has an obligation to ensure the institution is properly managed.

Trustee Glazer commented that the irreversible nature of the decisions that need to be made at this meeting was troubling. It doesn't seem prudent to keep growing the CSU's enrollment when resources most likely will not be available.

Chair Carter responded that the decision with respect to enrollment must be made by January 2012. The campuses have timelines in which they must make decisions on whether or not students will be accepted into their university.

Dr. John D. Welty, president of California State University, Fresno, confirmed that January is the deadline. Due to previous budget cuts, reserves have been exhausted so the campus needs to be very careful in managing enrollment.

Lieutenant Governor Newsom commented that other options have not been substantively explored. There is no access being advanced here for the middle class and working families. They are being denied access again due to cost increases. He concluded by saying that the issue of access should be broadened in terms of the discussion.

Trustee Hauck asked for further questions or comments and seeing none called for a motion on the resolution on the budget proposal. A roll call vote was taken as follows: **Ayes**: Roberta Achtenberg; William Hauck; Bob Linscheid; and Lou Monville. **Noes**: Steven Glazer; Hsing Kung; and Henry Mendoza. The resolution was approved.

Trustee Hauck then called for a motion on the resolutions regarding the student tuition fee increases in agenda item 4. A roll call vote was taken as follows: **Ayes**: Roberta Achtenberg; William Hauck; Bob Linscheid; and Lou Monville. **Noes**: Steven Glazer; Hsing Kung; and Henry Mendoza. The resolution was approved.

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

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

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

State Budget Overview

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

If the proposed tax initiative fails passage in the November election, the governor's budget proposes a new set of "trigger cuts" totaling $5.4 billion, including reductions of $200 million each to the CSU and the University of California.

CSU Support Budget

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

The governor's proposal would maintain this sharply reduced level of annual support in 2012-13, *provided the tax initiative is passed by the voters*. If the initiative fails, the budget proposes a mid-year trigger cut of $200 million, which would reduce annual state support to $1.8 billion. This is a funding level last seen in 1996-97, when the CSU was serving about 95,000 fewer students. If the full "trigger" reduction takes place, the two-year loss of state support would be $950 million, or almost 35 percent of the university's state funding, and total state support to the CSU.

Proposed Cal-Grant Changes

The budget proposes various changes in the Cal-Grant program that would save the state general fund over $300 million. One proposal—which would save an estimated $131 million in 2012-13—has important implications for students who are bound for the CSU. The budget proposes raising grade point average (GPA) requirements for new recipients of three types of Cal-Grants, as follows:

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

This proposal could affect thousands of newly enrolled CSU students in 2012-13. These numbers would grow in future years as new cohorts of students enroll. The proposal raises both policy and fiscal concerns. Since most affected students likely have financial need, the loss of Cal-Grant funding would put added pressures on finite university financial aid resources. Chancellor's Office staff are analyzing data to better define the potential impacts for the board.

Long-term Budget Plan for Higher Education

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

- Affordability—the plan would "curtail" tuition and fee increases in order to lessen the pressure for students to take out loans;

- Student Success—the plan would make annual general fund augmentations contingent upon each institution achieving the state administration's priorities, including improvements in specific accountability metrics such as graduation rates, time to completion, transfer students enrolled, and faculty teaching workload;
- State Funding—Under the proposed plan the state would increase its general fund support to each university's prior-year *general fund* base by a minimum of 4 percent per year, starting in 2013-14 and continuing through 2015-16. Including some proposed adjustments to what constitutes the "base" that would be grown each year, a 4 percent increase would translate into an estimated general fund increase of $88 million in 2013-14; and
- Fiscal Incentives—the state currently budgets separately for, and annually adjusts, retirement program contributions and debt service on state bonds for higher education capital outlay. The 2012-13 budget proposes to shift these appropriations into the university budgets. According to the budget summary, this would incentivize the universities to factor these costs into their overall fiscal outlook and decision-making processes.

This outlined plan, along with the budget itself, raises major short-term and long-run issues for the CSU that will require further analysis, as well as discussion within the university and discussion with the state administration and the legislature during the coming months.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the board to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of $18,585,000 to provide financing for a campus project. The board is being asked to approve resolutions related to the project. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue Bonds.

The project is as follows:

Maritime Dining Center Replacement

In September 2010, the board approved the amendment of the non-state capital outlay program and in July 2011 it approved the schematics for the Maritime dining center replacement project. The project will construct a 25,400 gross square foot dining center to replace the existing 1950s facility that has limited capacity. It will be constructed on three levels with a 280-seat main dining room on the first floor, a 130-seat dining space on the mezzanine level, and a 290-seat meeting room on the second level.

The not-to-exceed par value of the proposed bonds is $18,585,000 and is based on an estimated total project cost of $17,619,000 with program reserve contributions of $1.073 million. Additional net financing costs (estimated at $2,039,000) are to be funded from bond proceeds. At the time this agenda item was written the campus was developing a guaranteed maximum price for the project budget with bids expected to be finalized in February 2012. The campus anticipates a construction start of April 2012 with construction completion in August 2013.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$18,585,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$1,289,675
Projected debt service coverage including the new project: Net revenue – All Maritime pledged revenue programs: [1] Net revenue – Projected for the campus housing program[2]:	 1.07 1.11

1. Combines 2010-11 information for all campus' pledged revenue programs and projected 2014-15 operations of the project with expected full debt service.
2. The housing program will have primary responsibility for the project and its administration.

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 5.84%, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a program net revenue debt service coverage of 1.11 in the first full year of operations in 2014-15, which meets the CSU benchmark of 1.10. When combining the project with 2010-11 information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.07, which is below the CSU benchmark of 1.35. However, on a forecasted basis, all campus pledged revenue programs are expected to improve, with the campus' overall debt service coverage rising to 1.19 in 2014-15 and meeting the 1.35 benchmark in 2015-16, with improving coverages thereafter due to the anticipated performance of the housing program based on scheduled rate increases for dining, housing and to a lesser degree parking. The campus forecasts also have taken into account expected enrollment targets in the current budget environment.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in a not-to-exceed amount of $18,585,000 and certain actions relating thereto.

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

Approval of the financing resolutions for the project as described in this Agenda Item 2 of the Committee on Finance at the January 24-25, 2012, meeting of the CSU Board of Trustees is recommended for:

Maritime Dining Center Replacement